ANNUAL REPORT 2019

For the year ended
January 31, 2019

SEKISUI HOUSE, LTD.

Our Corporate Profile

The Sekisui House Group has been leading the housing industry, operating a business specializing in housing since its establishment in 1960. The Group has been building residential homes and rental housing, as well as selling houses built for sale and condominiums. It boasts a track record of 2.42 million dwellings built as of the end of January 2019. Moreover, we engage in the remodeling business, the administration of rental housing and real estate brokerage, mainly for properties that we have provided. We are expanding our business area into the urban redevelopment business including office building development and overseas businesses.
Going forward, we will make use of our techniques, expertise and track record to strive to provide high quality housing as common assets of society for sustainable growth.

Contents

Forward-Looking Statements

The information in this annual report contains forward-looking statements regarding the Company's plan, outlook, strategies and results for the future. All the forward-looking statements are based on the Company's judgments derived from information available at the time of publication.
Therefore, certain risks and uncertainties could cause the Company's actual results to differ materially from any projections presented here.

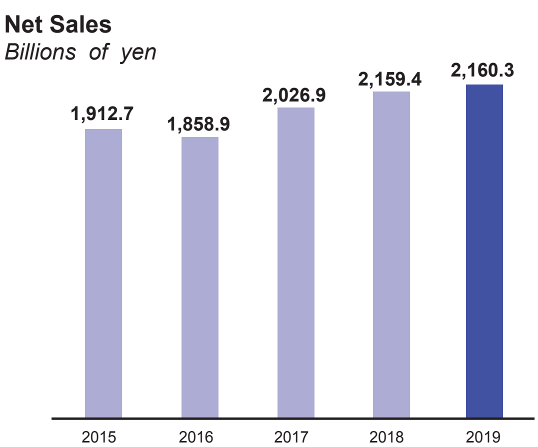
Financial Highlights

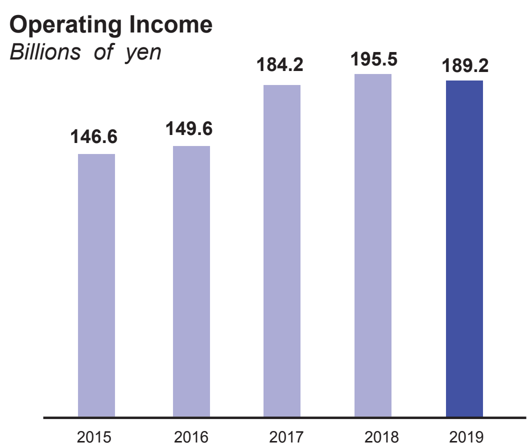
Sekisui House, Ltd. and Subsidiaries
For the year ended January 31

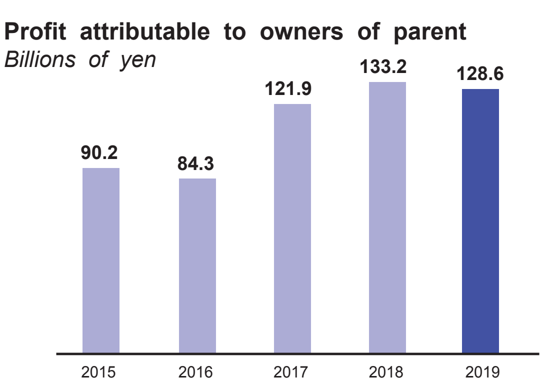
	Millions of yen					Thousands of U.S. dollars
	2019	2018	2017	2016	2015	**2019**
For the year:						
Net sales	**¥ 2,160,317**	¥ 2,159,364	¥ 2,026,932	¥ 1,858,879	¥ 1,912,722	**$ 19,826,698**
Operating income	**189,223**	195,540	184,165	149,645	146,596	**1,736,628**
Profit attributable to owners of parent	**128,583**	133,225	121,853	84,303	90,225	**1,180,094**
At year ended						
Total assets	**2,413,054**	2,419,013	2,184,895	2,029,794	1,929,410	**22,146,237**
Net assets	**1,196,924**	1,208,121	1,118,264	1,068,428	1,079,065	**10,984,986**

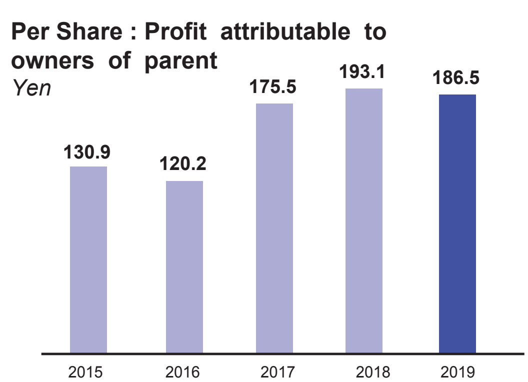
	Yen					U.S. dollars
	2019	2018	2017	2016	2015	**2019**
Per share:						
Profit attributable to owners of parent	**¥ 186.53**	¥ 193.06	¥ 175.48	¥ 120.16	¥ 130.91	**$ 1.71**
Net assets	**1,718.82**	1,731.60	1,598.90	1,508.81	1,527.52	**15.77**
Cash dividends applicable to the year	**79.00**	77.00	64.00	54.00	50.00	**0.73**

Note: U.S. dollar amounts above and elsewhere in this report represent translations of Japanese yen, for convenience only, at the approximate exchange rate of ¥108.96 = U.S. $1, effective at January 31, 2019.









To Our Shareholders and Investors

The NEXT Sekisui House is moving toward socially significant growth. It will actively advance, taking advantage of its solidarity and comprehensive power.

Yoshihiro Nakai
President &
Representative Director

Toshinori Abe
Chairman &
Representative Director

■Grasping a positive response from the current recovery of orders. Increasing competitiveness with the Group companies standing in unity.

In FY2018, Sekisui House recorded consolidated net sales of ¥2,160.3 billion and profit attributable to owners of parent of ¥128.6 billion. Operating income declined for the first time in nine years due to a range of factors, including changes in the lending attitude of financial institutions toward rental housing construction, which had been strong before. However, these are temporary effects, and we have grasped a positive response from the current recovery of orders for custom detached houses in response to the housing demand for quality and value. We are determined to actively advance in new business areas by continuing to develop innovations for the sustainable growth of profits in terms of the NEXT Sekisui House. We request your continued support.

In October 2018, we launched the Family Suite, a concept model for custom detached houses that will lead to innovations. It is well received because the large living room that makes a family happy has gained support from a broad range of customers.

The organizational reforms of the Custom Detached Houses Business and the Rental Housing Business to strengthen the expertise of sales staff achieved concrete results in one year. We will work to increase orders for large projects by focusing on proposals and CRE and PRE strategic solutions that will help enhance the asset value of corporate and public real estate, while further enhancing our expertise.

In February 2019, we established the Broking and Leasing Business Headquarters to preside over the businesses of Sekiwa Real Estate companies in the Sekisui House Group. This is a part of our initiatives to strengthen collaboration and increase the growth potential of the Supplied Housing Business, including the Remodeling Business, which has a solid customer base. There are some uncertain factors in the Overseas Business, such as the outlook for international politics, but we will seek well-balanced, stable growth in the medium- to long-term perspective, similar to Japan, taking advantage of housing and environmental technologies as well as knowhow on the production and construction cultivated in Japan and the track record of the Real Estate Management Fees Business. The business policy of having strong awareness of capital cost is the same for the Development Business in Japan.

The diverse power and the Group strength surpass other companies and multilaterally support the activities of these business models. We will strive to increase our comprehensive power and competitiveness by making the organization resilient through stronger unity.

■Business development that contributes to society and local communities. Creating houses that bring happiness.

Under these circumstances, the Fourth Mid-Term Management Plan with a basic policy of Building the foundation for the residential-related business toward BEYOND 2020, has marked its final year. We have steadily pursued a variety of measures toward 2020, which will be a major milestone when we celebrate the 60th anniversary of Sekisui House's founding, and we will move into the stage of showing results. These results will be meaningless unless they represent socially significant growth. The start of new business in the core businesses will become a driving force to achieve these results.

There was an era when housing manufacturers provided safety and security in housing. This transformed into the pursuit of comfort and environmental consciousness. Currently, we are entering an age of looking for happiness. Based on this view, we have announced the Platform House Concept that contributes to happiness in the era of the 100-year life by incorporating AI and IoT technologies. It aims to make home the happiest place in the world. As a first step, we will provide new value of houses that create health.

It will be possible to construct a residential environment that will serve for health maintenance and enhancement by controlling light, temperature, humidity and air. It will also be possible to check the health condition of residents with a range of sensor technologies, and if a change or an accident is detected, to report it. A study said that 79% of cerebral stroke incidents in Japan occur at home. Systems that lead to early detection will help reduce medical and other social costs. Our system was announced at CES 2019, the world's largest consumer electronics show, and attracted a great deal of attention internationally. We will research connections and scientific and logical studies as the elements of happiness and incorporate them in this homebuilding. The unique concept of realizing happiness has high commercial value and we believe that it will become a springboard to expand our business categories for Sekisui House to supply services as well as housing.

In the area of non-housing construction, a distinctive business has begun to progress - the Trip Base Michi-no-Eki Stations Project, a regional revitalization project established by Sekisui House. In cooperation with local governments across Japan and Marriot International, Inc., the world's largest company in the hotel industry, we will open hotels at Michi-no-Eki roadside rest stations with specialized accommodation at 15 locations from autumn 2020. Sekisui House will receive a contract for the construction and will provide high-quality accommodation facilities. This project is thought to contribute significantly to regional development and revitalization, both for human resources and economically, because it will attract customers to local stores for dining and shopping with roadside rest stations as the starting point. We will work to develop it nationwide.

■We aim to become a leading company in ESG management. Advancing toward new growth more openly and youthfully.

Sekisui House will aim to become a leading company in ESG management in Japan based on its growth strategies that focus on social significance.

In terms of the environment, we made a decarbonation proclamation in 2008 aimed at eliminating CO_2 emissions by 2050. At the 24th Conference of the Parties to the United Nations Framework Convention on Climate Change (COP24) held in Poland in 2018, we recognized the delays in Japan on measures against global warming. We believe that this is within the scope of our activities, where we have a business opportunity. Sekisui House is the first company in the Japanese construction industry to join the RE100 initiative, which aims to source 100% of electricity used for business activities from renewable energy, in addition to promoting the dissemination of net zero energy housing (ZEH). Specifically, we will launch a service known as Sekisui House Owner Denki, in which we will purchase the excess electricity generated by PV systems installed on owners' houses for use in Sekisui House Group's corporate activities, in November 2019, associated with the gradual expiration of Japan's Feed-In Tariff (FIT) scheme.

Governance reforms centered on integrity, a sincere and high-minded morality, are also making steady progress. Active discussions at meetings of the Board of Directors have resulted in stronger management and financial foundations, and we will continue to deepen governance reforms through Plan-Do - Check - Action (PDCA) activities.

Sekisui House is highly recognized for its efforts in diversity management and the active participation of women in the workforce. The promotion of complete acquisition of childcare leave for at least one month for male employees has also begun. We will take the initiative to do what is needed, instead of just doing the same as others.

The NEXT Sekisui House has begun to progress. We will actively foster an open organization culture with innovation & communication at the forefront and build a broad range of alliances with outside parties. Look forward to a Sekisui House that will openly and youthfully advance to a new growth stage toward BEYOND 2020, while enhancing its corporate value.

■Financial Analysis

During the consolidated fiscal year under review, the Japanese economy continued its moderate recovery, as reflected in developments such as corporate performance improvement and capital spending growth, supported by a steady improvement in employment conditions and observed moves toward a consumer spending pickup, although the potential impact of trade issues on the global economy and the effects of fluctuations in financial and capital markets required attention. In the housing market, the number of new housing starts decreased from the previous fiscal year with a decline in the construction of rental housing due mainly to a change in the attitude of financial institutions, in spite of a trend toward recovery observed in the construction of custom detached houses. In the meantime, demand remained firm in overseas housing markets, even though a phase of adjustment including a decrease in the number of supplied houses due to the change of the country's housing policy and other factors was observed in certain countries.

Under these circumstances, the Company stepped up efforts to strengthen housing and residential-related business and expand new business areas under the basic policy adopted in the Fourth Mid-Term Management Plan (2017-2019) of Building the foundations for residential-related businesses BEYOND 2020 in the second year of that Plan, while the Sekisui House Group overall pursued the value that housing can provide to the society.

Net sales in FY2018 amounted to ¥2,160,317 million, up 0.04% from the previous fiscal year, operating income amounted to ¥189,223 million (down 3.2%), and profit attributable to owners of parent to ¥128,583 million (down 3.5%).

Total assets decreased by ¥5,959 million to ¥2,413,054 million at the end of the fiscal year under review, primarily owing to the decrease in property, plant, and equipment. Liabilities increased ¥5,239 million, to ¥1,216,130 million, mainly due to an increase in loans payable. Net asset decreased ¥11,198 million to ¥1,196,924 million, mainly due to payments of dividends and a decrease in translation adjustment.

In the Japanese economy, corporate earnings, and employment and income conditions are expected to maintain a moderate improvement. However, future economic prospects, including the effects of the consumption tax hike scheduled for enforcement in October 2019, political risks in respective countries, trade issues and trends in monetary policies, remain unclear. In the housing market, a number of government policies are likely to alleviate the effects of the consumption tax increase, although it is difficult to be optimistic about the outlook. Trends in the housing market require attention. Moreover, demand is expected to remain firm for the custom detached houses with high added values on which the Company is focusing, as well as high quality rental housing centered on urban areas with diversifying housing needs in the background. In the meantime, changes in conditions surrounding housing are definitely advancing, as demonstrated by issues such as measures to counter global warming that will cause large-scale disasters, quality and technologies sought in houses in an aging society, approaches to expanding inbound tourist demand, and the development of houses that make the most of evolving information technologies.

In this business environment, the Company is working to lay the foundations for residential-related businesses based on the Fourth Mid-Term Management Plan. The Company will expand its market share by proactively proposing houses with high added value in which intangibles are supported by its technical strengths and other tangibles. In the meantime, the Company will further reinforce the cooperation within the group and expand such businesses as remodeling, real estate management fees, and brokerage to promote the formation of quality housing stock. Moreover, in the overseas business, the Company will keep investment and recovery in balance by promptly grasping market conditions in each country and steadily advancing development projects. Based on a hard look at the likely situation in 2020 and beyond, the Company will expand its business areas, including new services, to be a partner able to give residents a feeling of happiness based on safety, peace of mind and comfort. The Company will work to realize steady profit growth by strengthening its balanced earnings structure.

For the FY2019 ending January 31, 2020, the Company forecasts consolidated net sales of ¥2,367,000 million, consolidated operating income of ¥205,000 million, and profit attributable to owners of parent of ¥139,000 million.

■Basic Policy on profit distribution and dividend

The Company regards the maximization of shareholder value as one of the most important management issues. Accordingly, the Company will strive to enhance the shareholder return by increasing earnings per share through sustainable business growth and by improving asset efficiency. In doing so, it will take into comprehensive account the status of profits and cash flows in each fiscal year and future business development, among other factors, as well as making growth investments, implementing a shareholder return targeting a dividend payout ratio of 40% over the medium and long term, and acquiring and canceling its own shares in a timely manner.

For the year ended January 31, 2019, we paid an interim dividend of ¥39 and a year-end dividend of ¥40. For the next fiscal year ending January 31, 2020, we plan to pay out an interim dividend of ¥40 and a year-end dividend of ¥41.

Toshinori Abe

Toshinori Abe
Chairman & Representative Director

Yoshihiro Nakai

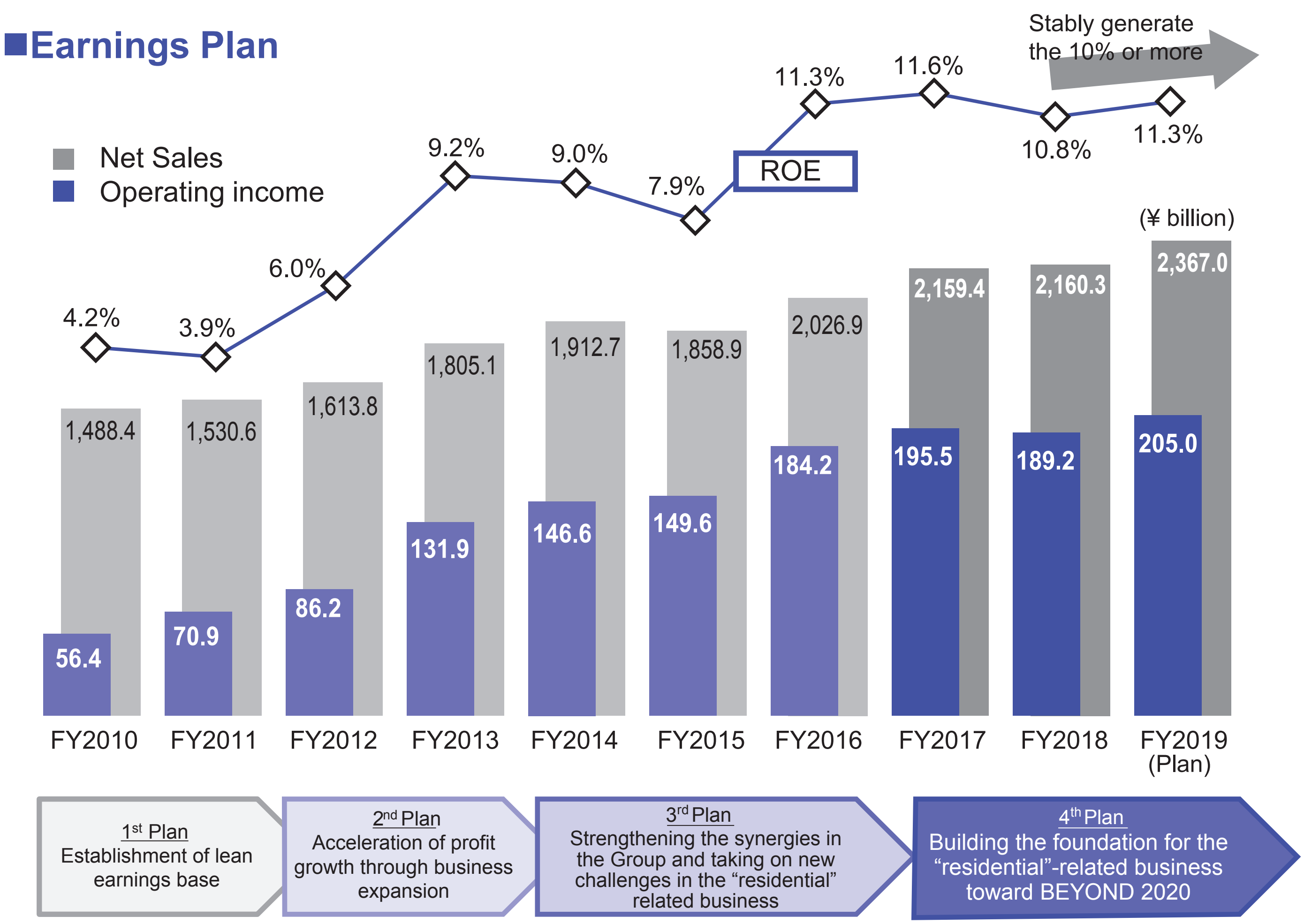
Yoshihiro Nakai
President & Representative Director

Progress of The Fourth Medium-term Management Plan (FY2017 through FY2019)

Aiming to achieve record sales and profits in the final fiscal year with improved orders from stronger organizational capabilities and Overseas Business growth

The second fiscal year under the Fourth Mid-Term Management Plan has ended. In FY2018, the Sekisui House Group achieved record net sales, but profits for the Group decreased for the first time in nine fiscal years given sales declines posted for the Built-to-Order Business and the Overseas Business. In the meantime, orders recovered on factors such as the sweeping organizational reforms executed in April 2018, the introduction of new custom detached houses in October 2018, and the promotion of medium- and high-end housing lines based on exhaustive area marketing. The Group aims to achieve record sales and profits in FY2018, the final fiscal year under the Fourth Mid-Term Management Plan, with the stable growth of the Supplied Housing Business and through initiatives including the sales of properties focused on those in the United States in the Overseas Business.

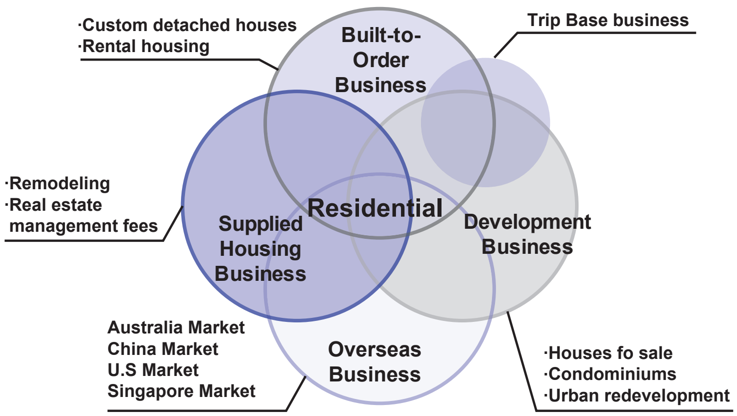
■Earnings Plan



■Shareholder Return

	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019 (Plan)
EPS (yen)	130.91	120.16	175.48	193.06	186.53	201.99
Dividends per share (yen)	50.00	54.00	64.00	77.00	79.00	81.00
Payout ratio	38.2%	44.9%	36.5%	39.9%	42.4%	40.1%

Achievements of Each Business Segment



[Built-to-Order Business]
Promote stable growth and work to create quality housing stock by supplying high-value-added houses.

[Supplied Housing Business]
Develop business for the purpose of increasing the asset value of quality housing stock created by the Built-to-Order Business.

[Development Business]
Promote the creation of quality towns through the environment creation-oriented development and promote stable growth by increasing the asset turnover ratio.

[Overseas Business]
Provide *Sekisuihouse Quality* globally based on the environmental technologies cultivated in Japan.

Built-to-Order Business

Orders for both custom detached houses and rental housing stayed favorable from August onward. The Group advanced sales of Green First Zero homes aimed at realizing a zero energy balance based on its strategy for selling high value-added houses. Family Suite, a new custom detached house, was well received, too.

In built-to-order rental housing operations, the Group worked to sell such housing in the non-housing segment by stepping up proposal capabilities for multiple purposes, such as houses for combined residential and commercial use taking advantage of the strengths of three- and four-story buildings using materials shipped from factories, hotels and day nurseries, in addition to implementing area marketing mainly in urban areas.

Future developments
- Promotion of housing that create happy
- Expansion of the sales of three- and four-story buildings through exhaustive area marketing
- Expansion of the non-housing segment including the Trip Base Michi-no-Eki Stations Project (for hotel construction)

Supplied Housing Business

The Group aimed to expand profits consistently by undertaking the business based on a customer base for 2.42 million dwellings supplied to day. In the Remodeling Business, orders remained strong, helped by an advanced shift from maintenance-oriented remodeling to proposal-based remodeling and eco-friendly remodeling.

In the Real Estate Management Fees Business, the provision of high-grade rental housing and remodeling proposals for maintaining and increasing rents led to high occupancy ratios, and also contributed to stable business growth. Collaboration within the Group advanced smoothly based on the shared customer base.

Future developments
- Expansion of proposal-based and eco-friendly remodeling making the most of the customer base
- Enhancement of the brokerage business and improvement of services to owners through the promotion of cooperation within the group

Development Business

In the Houses for Sale Business, the Group sought to promote sales through initiatives such as the promotion of the development of communities in high quality incorporating the idea of beauty that blooms with time. In the Condominiums Business, orders for properties focused on towers stayed strong, attributable to the exhaustive implementation of area strategies and brand strategies. In the Urban Redevelopment Business, Sekisui House sold a portion of the Ritz-Carlton Kyoto and rental condominiums to Sekisui House Reit, Inc., resulting in profits that exceeded forecasts.

Future developments
- Promotion of the development of high-grade office buildings, hotels and rental housing such as Kokusai Akasaka Building, W OSAKA and the Westin Yokohama

Overseas Business

Sales posted in FY2018 focused on the United States. In the United States, Woodside Homes, a housing sales company acquired in 2017, contributed to sales. In Australia, other condominiums in Central Park and were delivered to their buyers according to plan. In China, condominiums in Taicang sold out, and condominiums in Suzhou were handed over to their buyers smoothly. In Singapore, the Group planned a new project. Condominium sales there were satisfactory, too.

Example of homes provided by Woodside Homes

Future developments
- Steady property sales in the multifamily business in the United States and improving financial standing across the business

Segment Information

FY2018 Business results
Consolidated net sales: ¥2,160,317 million, Consolidated operating income: ¥189,223 million

Custom Detached Houses

Sales
¥ 357,945 million
(down 3.6% year-on-year)

Operating income
¥ 42,255 million
(down 12.0% year-on-year)

[Business details]

Design, construction, and contracting of built-to-order detached houses

[Summary]

Both sales and profit decreased given the impact on sluggish orders in the previous year. In the meantime, orders received increased 6.7% year-on-year, reflecting the effects of the corporate reorganization, the promotion of sales of high valued-added products and new products. Unit price per house continued to rise.

Built-to-Order Rental Housing

Sales
¥ 416,062 million
(down 6.0% year-on-year)

Operating income
¥ 50,377 million
(down 17.3% year-on-year)

[Business details]

Design, construction, and contracting of rental housing for sale, medical and nursing care facilities for sale, and other buildings

[Summary]

The Rental Housing Segment posted decreased sales, reflecting delay in the recognition of revenue associated with an increase in the scale of properties. Orders received are on the recovery path recently, as a result of thorough area marketing focusing on urban areas and attractive proposals that lead to

Remodeling

Sales
¥ 141,417 million
(up 3.3% year-on-year)

Operating income
¥ 21,109 million
(up 6.8% year-on-year)

[Business details]

Remodeling of residential properties

[Summary]

Both sales and profit grew, as the Company promoted its shift from maintenance-based remodeling to proposal-based remodeling and environment-based remodeling. Profitability also improved due to an increase in large-scale, high priced remodeling projects.

Real Estate Management Fees

Sales
¥ 514,036 million
(up 4.9% year-on-year)

Operating income
¥ 39,408 million
(up 18.9% year-on-year)

[Business details]

Sub-lease, management, operation and brokerage of real estate

[Summary]

The business continued to grow, given the number of rental housing units under management achieved solid growth through a group-based collaboration with Sekiwa Real Estate companies. Occupancy rates remained high, which was attributable to providing high-quality, diversified rental houses and conducting an exhaustive area marketing strategy.

Houses for Sale

Sales
¥ 148,880 million
(down 4.2% year-on-year)

Operating income
¥ 11,088 million
(down 17.6% year-on-year)

[Business details]
Sale of houses and lands and designing, construction, and contracting of houses on lands for sale

[Summary]
Sales and profit fell, although the Company continued to procure land actively for first-time buyers, and at the same time, the Company furthered events and other initiatives to promote sales.

Condominiums

Sales
¥ 89,581 million
(up 15.6% year-on-year)

Operating income
¥ 6,478 million
(down 29.8% year-on-year)

[Business details]
Sale of condominiums

[Summary]
Sales were boosted by a delivery of large-scale condominiums such as a high-rise condominium, while profit declined due to a valuation loss posted on some condominiums. Orders received progressed steadily.

Urban Redevelopment

Sales
¥ 173,392 million
(up 67.1% year-on-year)

Operating income
¥ 40,404 million
(up 137.7% year-on-year)

[Business details]
Development of office buildings and commercial facilities, and management and operation of owned properties

[Summary]
In the Urban Redevelopment segment, the Company achieved significant growth in both sales and profit thanks to the sale of properties, such as the Ritz-Carlton Kyoto (part of the stake) and Prime Maison Shirokanedai Tower, a rental condominium housing it had developed, to Sekisui House Reit, Inc.

Overseas Businesses

Sales
¥ 245,953 million
(down 19.8% year-on-year)

Operating income
¥ 16,340 million
(down 45.1% year-on-year)

[Business details]
Contracting of built-to-order detached houses, sale of houses and real estate, and development of facilities, including condominiums and commercial facilities, in overseas markets

Union Denver,a development project in the US

[Summary]
The condominium business in China and the homebuilding business for Woodside Homes, LLC. in the US remained as expected. Overall, the Overseas Business segment suffered a decline in both sales and profit, primarily reflecting no properties delivered in the multifamily business as well as a valuation loss in relation to the changes implemented to business plans for one of the project in Australia.

Other Businesses

[Business details] Mainly involving in exterior business, etc

Sales: ¥73,051 million (down 2.8% year-on-year), **Operating loss**: ¥44 million

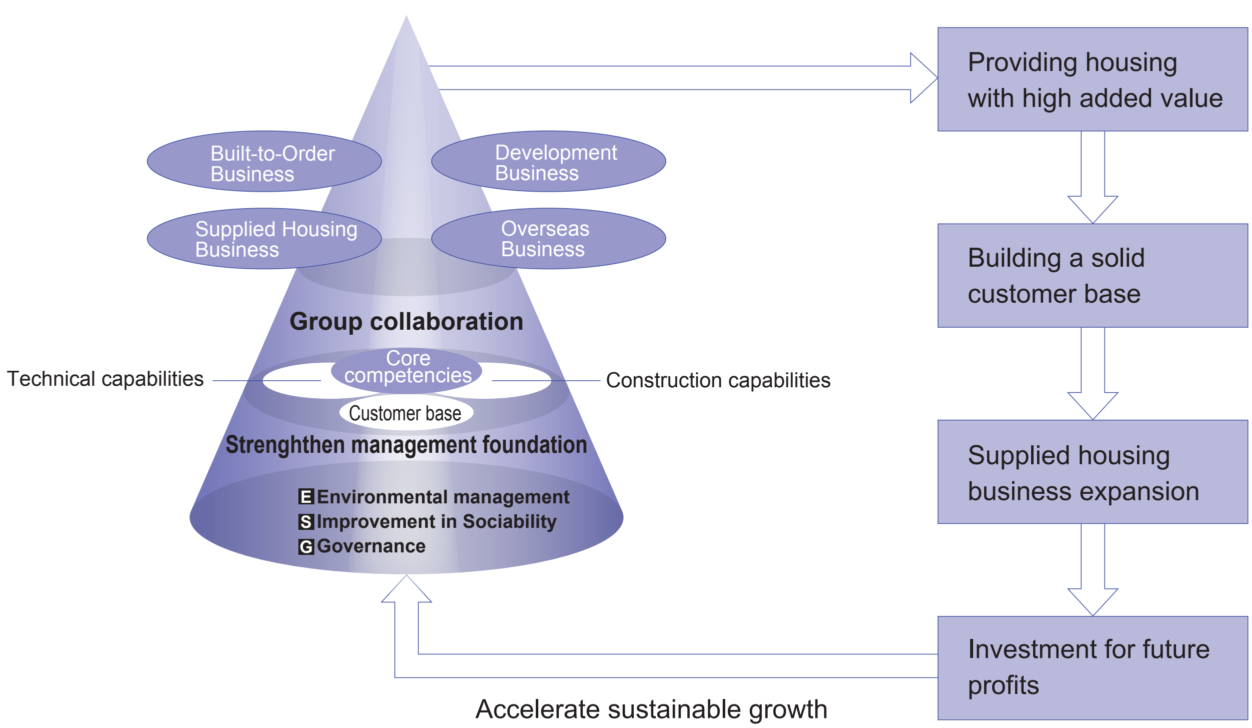
Non Financial Information regarding ESG

Sekisui House aims to transform itself into a leader in ESG management by developing new values based on its business strategies, placing the emphasis on social significance.

Sekisui House is promoting the supply of quality houses and buildings, the development of a solid customer base and the expansion of the supplied housing business, in that order, based on its core competencies of technical capabilities, construction capabilities and a customer base and cooperation within Sekisui House Group companies in order to develop value for stakeholders. The Company is also building value-creation processes to achieve investments aimed at its further growth in the future, including investments in IT technologies for the sake of personnel training, operational efficiency enhancement and cost reductions, in addition to investing realized profits in development and overseas businesses. The Company considers that it can sustain its development by improving this business model. Sekisui House is also addressing sustainable growth as a management foundation by setting ESG initiatives as priority management issues and integrating these initiatives into its medium-term management plan.

In 2008, Sekisui House made a switch to decarbonized management ahead of other companies and announced the 2050 Vision, which was aimed at completely eliminating CO_2 emissions from houses. Based on this Vision, in 2016 the Company formulated Sustainability Vision 2050, a long-term vision including concrete targets in broader business fields, to prepare for more environmental changes to come, including changes in social systems and technological innovations. Adopting leading the way to a decarbonized society, leading the way to a society in which humans and nature coexist, leading the way to a recycling-oriented society and leading the way to a society with advanced longevity and diversity as the goals set under the Vision, the Company is taking a range of actions to achieve the targets by 2050.

Value Creation Process of Sekisui House Group



■ Environment

Toward decarbonized society

As a responsible leader in the housing industry, Sekisui House is seeking to promote sustainable businesses while aiming to achieve a decarbonized society. In 2015, the Company declared its compliance with the Paris Agreement. To achieve its public commitment, Japan must reduce greenhouse gas emissions in the residential sector by as much as 39.3%.

In 2013, Sekisui House introduced Green First ZERO net zero energy housing (ZEH), which substantially reduces the energy consumed with high insulation and state-of-the-art energy-saving equipment and generates energy using solar cells and fuel cells. The Company is currently focusing on achieving its popularization. Green First ZERO accounted for 79% of all detached house orders received for April 2017 through March 2018, while the total number of orders received since we launched the scheme exceeded 44 thousand units. This result gives Sekisui House the clear lead in the industry, and we see it as evidence of our strengths, such as the high quality standard specifications of our housing and our sophisticated consulting proposals.

Furthermore, the Company proposes ideas for existing homes, including Green First Renovation, which account for a large portion of reductions in CO_2 emissions in the residential sector, in addition to making proposals for newly-built homes, in an attempt to improve comfort and energy-saving and -generating functions for occupants. In 2017, the Company also began promoting ZEH in the categories of newly-built rental housing and condominiums.

In 2017, Sekisui House has joined the RE100 international initiative, which is aimed at ensuring that the power used in business activities consists of 100% renewable energy, as the first Japanese construction firm to do so. In 2018, the targets set by the Company for reducing greenhouse gas emissions were recognized as levels with scientific grounds. They became the first SBT Initiative-certified targets in the housing industry.

Sekisui House has installed photovoltaic power generation systems totaling more than 700 MW in output capacity in its detached and rental housing to date. The Company aims to achieve a RE100 targets by launching the Sekisui House Owner Denki service in November 2019, through which it purchases surplus electricity from house owners and uses the electricity for the operations of Sekisui House Group companies.

Toward a recycling-oriented society where humans and nature coexist

Sekisui House proposes the planting of native species suitable for the local climate and vegetation at the time of constructing residential buildings or areas in accordance with our original guidelines. In so doing, we are promoting the *Gohon no ki* landscaping concept that helps to conserve eco-systems. The Company procures FairWood lumber and wood products in order to enable the use of sustainable lumber. It is studying the actual procurement conditions and managing progress based on the Wood Procurement Guidelines (established in 2007), which take not only legality but also the ecosystem and lifestyles in logging areas into consideration.

Sekisui House is also implementing initiatives for extending housing life through proper maintenance, for appropriately appraising superior housing stock and for creating a recycling business that facilitates circulation in collaboration with Sekisui Group companies as its responses to a recycling-oriented society. In additional steps, the Company is building appropriate Group-wide recycling systems, including original and proper waste disposal systems and cloud-based collection management systems with improved efficiency. We have achieved zero waste emissions at each stage from production, new home construction, and after-sales maintenance to remodeling.

■ Social

Pursuing customer satisfaction through value chains

In addition to environmental technologies, Sekisui House owns a large number of original technologies in fields including exterior walls, seismic response control systems and high-quality indoor air systems. Sekisui House is focusing on developing technologies that contribute to the enhancement of customer comfort. In 2018, the Company opened the Human Life R&D Institute as the first facility in Japan that studies happiness and proposes homes that increase the feeling of happiness over time. Sekisui House is promoting the development of housing that is safe, secure, comfortable, healthy and happy by integrating research and development on tangibles and intangibles.

In the area of construction, the Company has built a project accountability structure through the Sekisui House Association, which consists of Sekiwa Construction, its wholly owned subsidiary, 17 companies affiliated with the subsidiary and building contractor partners. Through this system, Sekisui House is working to manage quality comprehensively and secure the quality of construction. The Company is also linking residence information, such as customer data, the histories of maintenance and other works, design information and material information, with proposals anticipating customer demand and social changes using a centralized management system for the information it has established.

The formation of good quality stock also leads to businesses such as remodeling and rental housing management. Sekisui House has built 2.42 million dwellings to date. This customer base is a valuable asset for Sekisui House. Approximately 1,450 workers are in charge of after-sales services, comprising 10% of all Sekisui House employees. They are working to make housing last longer and to maintain and raise asset values by proposing appropriate maintenance and remodeling.

Diversity promotion and working style reforms

In 2006, Sekisui House issued its Declaration for Human Resource Sustainability. It contained three pillars for supporting the participation of women in the workforce, the use of diverse human resources, and support for many different work styles and work-life balance. In the same year, the company set up the Diversity Development Team to actively work to encourage women to play active roles. The Diversity and Inclusion Promotion Department that has been established at Sekisui House is currently advancing a range of initiatives with the aim of changing the Sekisui House Group into a group of sustainable companies that generate high added value while bringing out the potential of diverse personnel and respecting each other from the three perspectives of the promotion of women’s careers and support for work-life balance and working style reforms.

In the area of women’s empowerment, the Company offers training programs, including Sekisui House Women’s College for manager candidates, in an effort to train female managers in a planned manner. Sekisui House is also working to form female employees’ careers and build a network of personal contacts. Moreover, the Company is focusing on training and appointing female employees with responsibilities. In 2018, it has appointed one female executive officer, one female outside director and one female outside auditor. Sekisui House is encouraging women’s participation in management in order to reflect diverse opinions and values in its business administration.

In further steps, the Company encourages male employees to take full childcare leave for at least one month, and advanced various working style reforms, including support for work and childrearing, from September 2018. Through these measures, Sekisui House is working to achieve workplaces based on the concept of management grounded in health care where diverse employees can display their abilities on a basis of sound mental and physical health.

■ Governance

Strengthening corporate governance systems

Corporate governance is a structure that is required for enhancing corporate value in a sustained manner while winning the trust of all stakeholders. Sekisui House is advancing governance reforms based on its awareness that corporate governance is a critical business issue.

Implemented in FY2018

1. Introduction of a mandatory retirement age of 70 for representative directors
2. Appointment of women as outside officers
3. Transparency and activation of the operation of meetings of the Board of Directors
4. Establishment of the Management Meeting
5. Clarification of department under the control of directors
6. Evaluation of the effectiveness of the Board of Directors

New initiatives

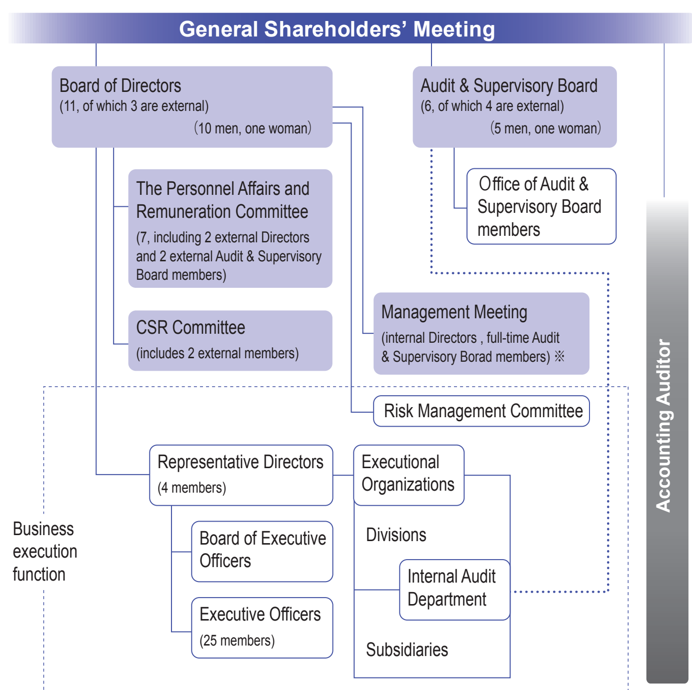
7. Ensuring independence and strengthening internal checks of chief managers in charge of general affairs in sales administration headquarters and branches
8. Improving the integrity of branch managers
9. Introduction of a stock remuneration plan with transfer restrictions
10. Elimination of the officer bonus system for outside directors

Matters to Be Considered in the Future

11. Consider revising the term of directors from two years to one year
12. Fundamental revision to executive remuneration
13. Appointment and dismissal of management members

In FY2018, the Company bolstered governance by setting up a Management Meeting where important investment projects and other matters are deliberated, reorganizing systems for sharing risk information and facilitating interdivisional cooperation, and reforming the system of submitting draft proposals for endorsement by designated officials to have both drafting and examining divisions analyze risk factors exhaustively. The Company also took steps to develop a more robust corporate culture, including the appointment of female outside directors and reforms to the Board of Directors to make decisions through transparent and active discussions based on the principle of assigning the role of the chairman of the Board of Directors and the role of the convener to different directors.

Corporate Governance Structure(as of April 2019)



Regarding an executive succession plan, Sekisui House introduced the system of mandatory retirement at the age of 70 for its representative director(s) in order to build systems that take into account the encouragement to change generations among executive team members and training enhancement for executive candidates. In addition, the Company is improving the integrity of branch managers through training for building knowledge, personality, management capabilities and leadership introduced to train, rate and select candidates for next-generation branch managers.

In further steps, Sekisui House discontinued the previous system of stock compensation-type stock options and introduced a transfer-restricted stock compensation system in fiscal 2019 in order to share greater value with shareholders. The Company also placed outside directors outside the scope of performance-based remuneration to seek supervisory and monitoring functions from the Board of Directors. The Company plans to continue discussing reviews of the directors' remuneration system as a whole, weights distributed to bonuses and remuneration based on medium- and long-term performance, key performance indicators (KPIs) for performance-based remuneration, and processes for determining remuneration amounts, mainly at the Personnel Affairs and Remuneration Committee.

Composition of Board of Directors
(As of April 25, 2019)

Directors	Of which are external officers
11 people (ten men, one woman)	3 people (two men, one woman)

Composition of Audit & Supervisory Board
(As of April 25, 2019)

Audit & Supervisory Board members	Of which are external officers
6 people (five men, one woman)	4 people (three men, one woman)

In addition, Sekisui House was chosen for the Dow Jones Sustainability World Index (DJSI World), one of the leading stock indexes for ESG investments that rates companies not only in financial terms but also from the environmental and social aspects, and for the Silver Class in the Home Building category of the SAM Sustainability Award 2019 sponsored by RobecoSAM, a global survey and rating company in the field of SRI, based on the high evaluations received by the above initiatives.

Information on these and other ESG related initiatives for FY2018 will be released in our Sustainable Report 2019 and on our website.

Management's Discussion and Analysis

Results of Operations

For the year ended January 31

	Millions of yen					Thousands of U.S. dollars
	2019	2018	2017	2016	2015	**2019**
Net sales	**¥ 2,160,317**	¥ 2,159,364	¥ 2,026,932	¥ 1,858,879	¥ 1,912,722	**$ 19,826,698**
Gross profit	**444,597**	445,082	418,298	373,868	368,447	**4,080,369**
Operating income	**189,223**	195,540	184,165	149,645	146,596	**1,736,628**
Profit attributable to owners of parent	**128,583**	133,225	121,853	84,303	90,225	**1,180,094**

Segment Information (Note 20)
Sales by each segment

	Millions of yen					Thousands of U.S. dollars
	2019	2018	2017	2016	2015	**2019**
Custom detached houses	**¥ 357,945**	¥ 371,172	¥ 383,129	¥ 393,787	¥ 427,044	**$ 3,285,104**
Rental housing	**416,062**	442,846	440,313	400,601	398,483	**3,818,484**
Remodeling	**141,417**	136,844	133,499	134,459	134,167	**1,297,880**
Real estate management fees	**514,036**	489,891	469,133	448,751	428,227	**4,717,658**
Houses for sale	**148,880**	155,481	142,015	137,485	118,731	**1,366,373**
Condominiums	**89,581**	77,498	66,126	81,470	56,699	**822,146**
Urban redevelopment	**173,392**	103,777	130,491	93,038	178,345	**1,591,336**
Overseas Business	**245,953**	306,717	182,127	89,523	79,835	**2,257,278**
Other	**73,051**	75,138	80,099	79,765	91,191	**670,439**
Consolidated	**2,160,317**	2,159,364	2,026,932	1,858,879	1,912,722	**19,826,698**

Amounts per share (Note 17)	Yen					U.S. dollars
	2019	2018	2017	2016	2015	**2019**
Profit attributable to owners of parent :						
Basic	**¥ 186.53**	¥ 193.06	¥ 175.48	¥ 120.16	¥ 130.91	**$ 1.71**
Diluted	**186.29**	192.82	175.22	119.41	125.22	**1.71**
Net assets	**1,718.82**	1,731.60	1,598.90	1,508.81	1,527.52	**15.77**
Dividends	**79.00**	77.00	64.00	54.00	50.00	**0.73**

Ratios	**2019**	2018	2017	2016	2015
Equity capital ratio*	**49.02%**	49.40%	50.50%	52.11%	55.38%
Return on assets (ROA)*	**8.32%**	9.03%	9.38%	8.25%	8.40%
Return on equity (ROE)	**10.82%**	11.59%	11.28%	7.93%	9.03%
D/E ratio	**54.07%**	52.06%	44.50%	40.28%	32.92%

* Equity capital shows the amount of the net assets excluding non-controlling interests and stock subscription rights.

* ROA = (Operating income + Interest and dividend income + Equity in earnings of affiliates) / Total assets

Consolidated Balance Sheet

Sekisui House, Ltd. and Subsidiaries
January 31, 2019

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2019	2018	2019
Assets			
Current assets:			
Cash and cash equivalents *(Note 18)*	¥ 342,899	¥ 324,693	$ 3,147,017
Short-term investments *(Notes 3, 9 and 18)*	460	1,731	4,222
Notes and accounts receivable :			
Affiliates	744	668	6,828
Trade *(Note 18)*	42,504	45,715	390,088
Other	35,679	33,036	327,451
Less allowance for doubtful accounts	(1,440)	(1,270)	(13,216)
	77,487	78,149	711,151
Inventories *(Notes 4 and 9)*	1,100,188	1,095,161	10,097,173
Deferred income taxes *(Note 10)*	24,807	29,076	227,671
Other current assets	48,284	43,860	443,135
Total current assets	1,594,125	1,572,670	14,630,369
Property, plant and equipment, at cost:			
Land *(Notes 4,5,7 and 9)*	304,371	322,503	2,793,420
Buildings and structures *(Notes 4,5,7 and 9)*	346,776	348,783	3,182,599
Machinery, equipment and other *(Note 5)*	99,077	96,193	909,297
Construction in progress	21,889	26,117	200,890
	772,113	793,596	7,086,206
Less accumulated depreciation	(241,718)	(240,782)	(2,218,410)
Property, plant and equipment, net	530,395	552,814	4,867,796
Investments and other assets:			
Long-term loans receivable	24,157	25,342	221,705
Less allowance for doubtful accounts	(218)	(431)	(2,001)
	23,939	24,911	219,704
Investments in securities *(Notes 3, 9 and 18)*	90,642	112,487	831,883
Investments in affiliates *(Notes 6 and 18)*	66,317	61,315	608,636
Goodwill *(Note 20)*	4,586	6,167	42,089
Intangible assets	15,981	15,850	146,669
Deferred income taxes *(Note 10)*	12,939	3,080	118,750
Asset for retirement benefits *(Note 11)*	383	14,725	3,515
Other assets *(Note 9)*	73,747	54,994	676,826
Total investments and other assets	288,534	293,529	2,648,072
	¥ 2,413,054	¥ 2,419,013	$22,146,237

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2019	2018	**2019**
Liabilities and net assets			
Current liabilities:			
Short-term loans *(Notes 7, 9 and 18)*	**¥ 239,472**	¥ 209,708	**$ 2,197,797**
Short-term bonds *(Notes 8 and 18)*	**20,000**	15,000	**183,554**
Current portion of long-term debt and lease obligation *(Notes 8,9 and 18)*	**64,781**	2,761	**594,539**
Notes and accounts payable *(Note 18)* :			
Affiliates	**5,062**	4,235	**46,457**
Trade	**142,367**	168,580	**1,306,599**
Accrued income taxes *(Note 10)*	**33,009**	32,200	**302,946**
Advances received on construction projects in progress *(Note 21)*	**156,606**	142,691	**1,437,280**
Accrued employees' bonuses	**25,527**	28,901	**234,279**
Accrued directors' and corporate auditors' bonuses	**1,477**	1,560	**13,555**
Provision for warranties for completed construction	**2,788**	2,980	**25,587**
Other current liabilities	**90,229**	98,282	**828,093**
Total current liabilities	**781,318**	706,898	**7,170,686**
Long-term liabilities:			
Long-term debt and lease obligation *(Notes 8, 9 and 18)*	**315,257**	394,616	**2,893,328**
Guarantee deposits received *(Note 9)*	**60,701**	60,508	**557,094**
Accrued retirement benefits for directors and corporate auditors	**1,061**	1,338	**9,737**
Liability for retirement benefits *(Note 11)*	**49,989**	21,505	**458,783**
Deferred income taxes *(Note 10)*	**1,108**	12,500	**10,169**
Other liabilities *(Note 12)*	**6,696**	13,527	**61,454**
Total long-term liabilities	**434,812**	503,994	**3,990,565**
Contingent liabilities *(Notes 9 and 13)*			
Net assets:			
Shareholders' equity *(Notes 14 and 23)*:			
Common stock:			
Authorized: 1,978,281,000 shares			
Issued: 690,683,466 shares in 2019 and 2018	**202,591**	202,591	**1,859,315**
Capital surplus	**251,563**	251,563	**2,308,765**
Retained earnings	**700,951**	626,961	**6,433,104**
Less treasury stock, at cost	**(4,216)**	(948)	**(38,693)**
Total shareholders' equity	**1,150,889**	1,080,167	**10,562,491**
Accumulated other comprehensive income:			
Net unrealized holding gain on securities	**33,147**	48,033	**304,213**
Deferred loss on hedges	**(56)**	(69)	**(514)**
Translation adjustments	**21,270**	50,678	**195,209**
Retirement benefits liability adjustments	**(22,441)**	16,166	**(205,956)**
Total accumulated other comprehensive income	**31,920**	114,808	**292,952**
Stock subscription rights *(Note 14)*	**803**	762	**7,370**
Non-controlling interests	**13,312**	12,384	**122,173**
Total net assets	**1,196,924**	1,208,121	**10,984,986**
	¥ 2,413,054	¥ 2,419,013	**$22,146,237**

∗See notes to consolidated financial statements.

Consolidated Statement of Income

Sekisui House, Ltd. and Subsidiaries
Year ended January 31, 2019

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2019	2018	**2019**
Net sales *(Notes 7,20 and 21)*	**¥ 2,160,317**	¥ 2,159,364	**$19,826,698**
Cost of sales *(Notes 4,7 and 14)*	**1,715,720**	1,714,282	**15,746,329**
Gross profit	**444,597**	445,082	**4,080,369**
Selling, general and administrative expenses *(Notes14 and 15)*	**255,374**	249,542	**2,343,741**
Operating income	**189,223**	195,540	**1,736,628**
Other income (expenses):			
Interest and dividend income	**4,028**	4,037	**36,968**
Interest expense	**(4,722)**	(3,733)	**(43,337)**
Loss on disposal or sales of fixed assets	**(1,607)**	(1,938)	**(14,749)**
Equity in earnings of affiliates	**7,751**	8,184	**71,136**
Gain on sales of shares of subsidiaries and affiliates	**181**	10,478	**1,661**
Foreign exchange (loss) gain, net	**(554)**	1,091	**(5,084)**
Loss on impairment of fixed assets *(Notes 5 and 20)*	**(9,393)**	(7,791)	**(86,206)**
Gain on sales of investments in securities (Note 3)	**3,094**	1	**28,396**
Loss on sales of investments in securities (Note 3)	**(72)**	–	**(661)**
Loss on revaluation of investments in securities *(Note 3)*	**(2)**	(2,880)	**(18)**
Bad debt loss	**–**	(5,559)	**–**
Other, net	**(535)**	(1,441)	**(4,910)**
Profit before income taxes	**187,392**	195,989	**1,719,824**
Income taxes *(Note 10)*:			
Current	**51,301**	51,611	**470,824**
Deferred	**6,473**	5,186	**59,407**
	57,774	56,797	**530,231**
Profit	**129,618**	139,192	**1,189,593**
Profit attributable to :			
Non-controlling interests	**1,035**	(5,967)	**9,499**
Owners of parent	**¥ 128,583**	¥ 133,225	**$ 1,180,094**

*See notes to consolidated financial statements.

Consolidated Statement of Comprehensive Income

Sekisui House, Ltd. and Subsidiaries
Year ended January 31, 2019

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2019	2018	**2019**
Profit	**¥ 129,618**	¥ 139,192	**$ 1,189,593**
Other comprehensive (loss) income *(Note 22)*:			
Net unrealized holding (loss) gain on securities	**(15,001)**	9,673	**(137,674)**
Translation adjustments	**(28,303)**	2,594	**(259,756)**
Retirement benefits liability adjustments	**(38,656)**	(5,931)	**(354,773)**
Share of other comprehensive (loss) income of affiliates accounted for by the equity method	**(966)**	1,694	**(8,866)**
Total other comprehensive (loss) income	**(82,926)**	8,030	**(761,069)**
Comprehensive income	**¥ 46,692**	¥ 147,222	**$ 428,524**
Total comprehensive income attributable to:			
Owners of parent	**¥ 45,694**	¥ 141,239	**$ 419,365**
Non-controlling interests	**998**	5,983	**9,159**

∗See notes to consolidated financial statements.

Consolidated Statement of Changes in Net Assets

Sekisui House, Ltd. and Subsidiaries
Year ended January 31, 2019

	Millions of yen											
						Accumulated other comprehensive income						
	Number of shares in issue	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Net unrealized holding gain on securities	Deferred (loss) gain on hedges	Translation adjustments	Retirement benefits liability adjustments	Stock subscription rights	Non-controlling interests	Total net assets
Balance at February 1, 2017	**709,683,466**	**¥202,591**	**¥253,559**	**¥577,663**	**¥(37,248)**	**¥ 37,840**	**¥ 20**	**¥ 46,975**	**¥ 21,959**	**¥ 694**	**¥ 14,211**	**¥1,118,264**
Profit attributable to owners of parent for the year	-	-	-	133,225	-	-	-	-	-	-	-	133,225
Cash dividends	-	-	-	(47,628)	-	-	-	-	-	-	-	(47,628)
Purchases of treasury stock	-	-	-	-	(22)	-	-	-	-	-	-	(22)
Sales of treasury stock	-	-	-	(46)	69	-	-	-	-	-	-	23
Retirement of treasury stock	(19,000,000)	-	-	(36,253)	36,253	-	-	-	-	-	-	-
Purchases of shares of consolidated subsidiaries	-	-	(1,996)	-	-	-	-	-	-	-	-	(1,996)
Other changes	-	-	-	-	-	10,193	(89)	3,703	(5,793)	68	(1,827)	6,255
Balance at February 1, 2018	**690,683,466**	**¥202,591**	**¥251,563**	**¥626,961**	**¥ (948)**	**¥ 48,033**	**¥ (69)**	**¥ 50,678**	**¥ 16,166**	**¥ 762**	**¥ 12,384**	**¥1,208,121**
Profit attributable to owners of parent for the year	-	-	-	128,583	-	-	-	-	-	-	-	128,583
Cash dividends	-	-	-	(54,532)	-	-	-	-	-	-	-	(54,532)
Purchases of treasury stock	-	-	-	-	(3,377)	-	-	-	-	-	-	(3,377)
Sales of treasury stock	-	-	-	(61)	109	-	-	-	-	-	-	48
Other changes	-	-	-	-	-	(14,886)	13	(29,408)	(38,607)	41	928	(81,919)
Balance at January 31, 2019	**690,683,466**	**¥202,591**	**¥251,563**	**¥700,951**	**¥ (4,216)**	**¥ 33,147**	**¥ (56)**	**¥ 21,270**	**¥(22,441)**	**¥ 803**	**¥ 13,312**	**¥1,196,924**

	Thousands of U.S. dollars (Note 1)										
					Accumulated other comprehensive income						
	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Net unrealized holding gain on securities	Deferred (loss) gain on hedges	Translation adjustments	Retirement benefits liability adjustments	Stock subscription rights	Non-controlling interests	Total net assets
Balance at February 1, 2018	**$1,859,315**	**$2,308,765**	**$5,754,047**	**$ (8,700)**	**$ 440,832**	**$ (633)**	**$ 465,106**	**$ 148,366**	**$ 6,994**	**$ 113,656**	**$11,087,748**
Profit attributable to owners of parent for the year	-	-	1,180,094	-	-	-	-	-	-	-	1,180,094
Cash dividends	-	-	(500,477)	-	-	-	-	-	-	-	(500,477)
Purchases of treasury stock	-	-	-	(30,993)	-	-	-	-	-	-	(30,993)
Sales of treasury stock	-	-	(560)	1,000	-	-	-	-	-	-	440
Other changes	-	-	-	-	(136,619)	119	(269,897)	(354,322)	376	8,517	(751,826)
Balance at January 31, 2019	**$1,859,315**	**$ 2,308,765**	**$6,433,104**	**$(38,693)**	**$304,213**	**$ (514)**	**$195,209**	**$ (205,956)**	**$ 7,370**	**$ 122,173**	**$ 10,984,986**

∗See notes to consolidated financial statements.

Consolidated Statement of Cash Flows

Sekisui House, Ltd. and Subsidiaries
Year ended January 31, 2019

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2019	2018	**2019**
Cash flows from operating activities			
Profit before income taxes	**¥ 187,392**	¥ 195,989	**$ 1,719,824**
Adjustments for:			
Depreciation and amortization	**22,155**	21,983	**203,332**
Loss on impairment of fixed assets	**9,393**	7,791	**86,206**
(Decrease) increase in liability for retirement benefits	**(9,410)**	376	**(86,362)**
Increase in asset for retirement benefits	**(3,383)**	(14,281)	**(31,048)**
Interest and dividend income	**(4,028)**	(4,037)	**(36,968)**
Interest expense	**4,722**	3,733	**43,337**
Equity in earnings of affiliates	**(7,751)**	(8,184)	**(71,136)**
Gain on sales of investments in securities	**(3,022)**	(1)	**(27,735)**
Loss on revaluation of investments in securities, net	**2**	2,880	**18**
Gain on sales of shares of subsidiaries and affiliates	**(181)**	(10,478)	**(1,661)**
Decrease in notes and accounts receivable	**3,159**	4,407	**28,992**
Decrease in inventories	**4,851**	19,107	**44,521**
Decrease in notes and accounts payable	**(29,518)**	(13,242)	**(270,907)**
Increase in advances received on construction projects in progress	**14,818**	12,260	**135,995**
Other	**(15,864)**	308	**(145,595)**
Subtotal	**173,335**	218,611	**1,590,813**
Interest and dividends received	**8,769**	6,547	**80,479**
Interest paid	**(6,523)**	(5,336)	**(59,866)**
Income taxes paid	**(50,493)**	(54,467)	**(463,409)**
Net cash provided by operating activities	**125,088**	165,355	**1,148,017**
Cash flows from investing activities			
Proceeds from sales of short-term investments	**590**	1,400	**5,415**
Purchases of property, plant and equipment	**(53,878)**	(62,900)	**(494,475)**
Proceeds from sales of property, plant and equipment	**4,468**	2,832	**41,006**
Purchases of investments in securities	**(5,966)**	(5,467)	**(54,754)**
Proceeds from sales and redemption of investments in securities	**5,832**	2,886	**53,524**
Purchases of shares of a subsidiary resulting in change in scope of consolidation	**–**	(47,788)	**–**
Proceeds from sales of shares of subsidiaries resulting in change in scope of consolidation	**–**	18,109	**–**
Increase in loans receivable	**(220)**	(262)	**(2,019)**
Collection of loans receivable	**1,431**	14,732	**13,133**
Other	**(22,441)**	307	**(205,956)**
Net cash used in investing activities	**(70,184)**	(76,151)	**(644,126)**
Cash flows from financing activities			
Proceeds from issuance of short-term bonds	**–**	(35,000)	**–**
Increase in short-term loans, net	**44,222**	55,537	**405,855**
Proceeds from long-term debt	**48,690**	59,385	**446,861**
Repayment of long-term debt	**(50,807)**	(36,384)	**(466,290)**
Proceeds from issuance of bonds	**–**	120,000	**–**
Redemption of bonds	**(15,000)**	(76,015)	**(137,665)**
Cash dividends paid	**(54,532)**	(47,628)	**(500,477)**
Purchases of treasury stock	**(3,375)**	(19)	**(30,975)**
Purchases of shares of a subsidiary that do not result in change in scope of consolidation	**–**	(2,220)	**–**
Other	**(228)**	(7,501)	**(2,092)**
Net cash (used in) provided by financing activities	**(31,030)**	30,155	**(284,783)**
Effect of exchange rate changes on cash and cash equivalents	**(5,668)**	633	**(52,019)**
Net increase in cash and cash equivalents	**18,206**	119,992	**167,089**
Cash and cash equivalents at beginning of period	**324,693**	204,701	**2,979,928**
Cash and cash equivalents at end of period	**¥ 342,899**	¥ 324,693	**$ 3,147,017**

*See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Sekisui House, Ltd. and Subsidiaries
January 31, 2019

1. Basis of Preparation

The accompanying consolidated financial statements of Sekisui House, Ltd. (the "Company") and its subsidiaries (collectively, the "Group") have been compiled from the consolidated financial statements prepared by the Company as required by the Financial Instruments and Exchange Act of Japan. In preparing the accompanying consolidated financial statements, certain reclassifications and rearrangements have been made to present them in a form which is familiar to readers outside Japan. In addition, the notes to the accompanying consolidated financial statements include information which is not required under accounting principles generally accepted in Japan but is presented herein as additional information.
Certain reclassifications of previously reported amounts have been made to conform the accompanying consolidated financial statements for the year ended January 31, 2018 to the 2019 presentation. Such reclassifications had no effect on consolidated profit or cash flow.
The translation of Japanese yen amounts into U.S. dollars is included solely for the convenience of the readers and has been made at ¥108.96 = U.S.$1.00, the approximate rate of exchange in effect on January 31, 2019. This translation should not be construed as a representation that the Japanese yen amounts have been, could have been, or could in the future be, converted into U.S. dollar amounts at the above or any other rate.

2. Summary of Significant Accounting Policies

(a) Principles of consolidation
The accompanying consolidated financial statements include the accounts of the Company and all subsidiaries over which substantial control is exerted through either majority ownership of voting stock and/or by other means. All significant intercompany transactions and accounts have been eliminated in consolidation.
Investments in affiliates (companies over which the Company has the ability to exercise significant influence) are accounted for by the equity method.
For consolidation purposes, the financial statements of the subsidiaries whose balance sheet dates are either March 31, May 31 or November 30 were prepared as of and for the year ended January 31, 2019.
The balance sheet date of overseas subsidiaries and certain domestic subsidiaries is December 31. Any significant differences in intercompany accounts and transactions arising from intervening intercompany transactions during the period from January 1 through January 31 have been adjusted, if necessary.

(b) Foreign currency translation
All monetary assets and liabilities denominated in foreign currencies are translated into yen at the rates of exchange in effect at the balance sheet date, except that receivables and payables hedged by qualified forward foreign exchange contracts are translated at the corresponding forward foreign exchange contract rates. Gain or loss on each translation is credited or charged to income.
All assets and liabilities of overseas subsidiaries are translated into yen at the rate of exchange in effect at the balance sheet date except that the components of net assets are translated at their historical exchange rates. The income statement accounts are translated at the average exchange rate during the year. Differences arising from the translations are included in "Translation adjustments" and "Non-controlling interests" in the accompanying consolidated balance sheets.

(c) Cash and cash equivalents
Cash and cash equivalents consist of cash in hand, deposits held at call with banks, net of overdrafts, and all highly liquid investments with maturities of three months or less.

(d) Short-term investments and investments in securities
Securities other than those of affiliates are classified into three categories: trading securities, held-to-maturity debt securities and other securities. Trading securities, consisting of debt and marketable equity securities, are stated at fair value. Gain or loss, both realized and unrealized, is credited or charged to income. Held-to-maturity debt securities are stated at amortized cost. Marketable securities classified as other securities are carried at fair value with any changes in unrealized holding gain or loss, net of the applicable income taxes, reported as a separate component of accumulated other comprehensive income. Cost of securities sold is determined by the moving average method. Non-marketable securities classified as other securities are carried at cost determined by the moving average method.
Under the Corporation Law of Japan (the "Law"), unrealized holding gain on other securities, net of the related taxes, is not available for distribution as dividends.

(e) Inventories
Land held for sale, land held for development, construction for sale, including projects under construction and contracts in process are stated at the lower of cost or net selling value, cost being determined by the individual cost method. Other inventories are stated at the lower of cost or net selling value, cost being determined by the moving average method.

(f) Property, plant and equipment (except for leased assets)
Depreciation of buildings (except for structures attached to the buildings acquired prior to April 1, 2016) and structures attached to the buildings and structures acquired on or after April 1, 2016 is computed by the straight-line method over the estimated useful lives of the respective assets. Depreciation of other property, plant and equipment is computed by the declining-balance method over the estimated useful lives of the respective assets.

(g) Goodwill
Goodwill is amortized using the straight-line method over the respective determinable useful lives or a period of 5 years if the useful lives are indeterminable. Goodwill is charged to income in the year of acquisition if immaterial.

(h) Intangible assets (except for leased assets)
Amortization of intangible assets is calculated by the straight-line method over the estimated useful lives of the respective assets.

(i) Leases
Leased assets under finance lease transactions which do not transfer ownership to the lessee are capitalized and depreciated or amortized over the respective lease terms to a nil residual value by the straight-line method.

(j) Income taxes
Income taxes are calculated based on taxable income and are determined in accordance with the applicable tax laws and charged to income on an accrual basis. The Group recognizes the tax effect of the temporary differences between assets and liabilities for financial reporting purposes and for income tax purposes.

(k) Consumption taxes
Transactions subject to consumption taxes are recorded at amounts exclusive of consumption taxes.
Consumption taxes paid not offset by consumption taxes received in accordance with the Consumption Tax Act of Japan are charged to income when incurred. In certain subsidiaries, which are mainly engaged in the real estate leasing business, consumption taxes paid not offset by consumption taxes received in accordance with the Consumption Tax Act of Japan that arise from the purchases of tangible fixed assets are recorded as "Other assets" and amortized over 5 years by the straight-line method.

(l) Allowance for doubtful accounts
The allowance for doubtful accounts is provided based on the actual historical percentage of bad debts and an estimate of uncollectible amounts determined by an assessment of individual receivables.

(m) Accrued employees' bonuses
Accrued employees' bonuses is provided at the estimated amount of bonuses to be paid to the employees in the following year which has been allocated to the current fiscal year.

(n) Accrued directors' and corporate auditors' bonuses
Accrued directors' and corporate auditors' bonuses are provided for payments of bonuses to directors and corporate auditors based on an estimated amount.

(o) Provision for warranties for completed construction
Provision for warranties for completed construction is provided for anticipated future costs based on past experience arising from warranties on completed construction and sold houses.

(p) Retirement benefits
The retirement benefit is attributed to each period by the benefit formula method over the estimated years of service of the eligible employees.
Actuarial gain or loss is amortized from the year following the year in which such gain or loss is recognized principally by the straight-line method over a period of 5 years.
Prior service cost is amortized by the straight-line method over a period of 5 years.
Directors and corporate auditors of certain domestic subsidiaries are customarily entitled to lump-sum payments under an unfunded retirement benefit plan. The accrued retirement benefits for these officers have been made at an estimated amount based on each subsidiary's internal regulations.

(q) Recognition of revenues and costs of construction contracts
Revenues and costs of construction contracts are recognized by the percentage-of-completion method when the progress toward completion, revenues and costs can be estimated reliably. The percentage of completion is measured by comparing costs incurred to date with the most recent estimate of the total costs required to complete the contract (cost-to-cost basis.) The completed-contract method has been applied to those construction contracts not accounted for by the percentage-of-completion method.

(r) Recognition of revenue derived from finance lease transactions as a lessor
Revenue from finance lease transactions and its related cost are recognized upon receipt of lease payments.

(s) Research and development cost
Research and development cost is charged to income as incurred.

(t) Capitalization of interest expenses
Interest expenses incurred for real estate development projects conducted by certain overseas subsidiaries have been capitalized as a part of the development cost of such projects.
For the years ended January 31, 2019 and 2018, interest expenses that were capitalized and included in inventories as part of "Construction for sale, including projects under construction," "Land held for sale" and "Land held for development" were ¥9,174 million ($84,196 thousand) and ¥8,433 million, ¥8,018 million ($73,587 thousand) and ¥6,398 million, and ¥734 million ($6,736 thousand) and ¥918 million, respectively.

(u) Derivative transactions and hedge accounting
Derivative positions are carried at fair value with any changes in unrealized gain or loss charged or credited to income, except for those which meet the criteria for deferral hedge accounting under which unrealized gain or loss is deferred as an asset or a liability.
When forward foreign exchange contracts meet certain criteria, receivables and payables covered by the contract are translated at the contracted rates ("allocation method").

The Hedging instruments and the hedged items are as follows:

(i)	Hedging instruments	Foreign exchange contracts
	Hedged items	Foreign currency trade receivables and payables and forecasted transactions
(ii)	Hedging instruments	Interest rate swap contracts
	Hedged items	Bank loans

Such derivative transactions are entered into to reduce the foreign currency exchange risk or interest rate fluctuation risk. Notional amounts related to forward foreign exchange contracts are set within the amounts of import transactions denominated in the foreign currencies. Notional amounts related to interest rate swap contracts are set within the amounts of underlying borrowings.
The Company also formally assesses, at the hedge's inception, whether the derivatives used in the hedging transactions are highly effective in offsetting any changes in fair values or cash flows of the hedged items so that the actual fluctuations of each hedge are within the acceptable range of approximately 80% to 125%. However, an evaluation of effectiveness of forward foreign exchange contracts was omitted because the significant terms related to the hedged items and hedging instruments are the same and cash flows are also fixed.

(Accounting standards issued but not yet effective)

Implementation Guidance on Tax Effect Accounting and Implementation Guidance on Recoverability of Deferred Tax Assets

(1) Overview
On February 16, 2018, the Accounting Standards Board of Japan ("ASBJ") issued "Revised Implementation Guidance on Tax Effect Accounting" (ASBJ Guidance No.28) and "Revised Implementation Guidance on Recoverability of Deferred Tax Assets"(ASBJ Guidance No.26). These revisions were due to the timing of transferring "Practical Guidelines on Accounting Standards for Tax Effect Accounting" issued by the Japanese Institute of Certified Public Accountants to the ASBJ that made the following necessary revisions while adhering fundamentally to the framework outlined in the above practical guidelines.

(Major revised accounting treatments)
- Accounting treatment of taxable temporary differences related to investments in subsidiaries, etc. when an entity prepares separate financial statements
- Accounting treatment related to the recoverability of deferred tax assets in entities that qualify as Category 1, that is, the Company has recorded sufficient taxable income to exceed the amount of the deductible temporary differences in the current and prior three years

(2) Scheduled date of adoption
The Company and its domestic subsidiaries plan to adopt the guidance effective from February 1, 2019.

(3) Impact of the adoption of implementation guidance
The Company is currently evaluating the effect of adopting this revised implementation guidance on its consolidated financial statements.

Accounting Standard and Implementation Guidance for Revenue Recognition.

(1) Overview

On March 30, 2018, the ASBJ issued “Accounting Standard for Revenue Recognition” (ASBJ Statement No. 29) and “Implementation Guidance on Accounting Standard for Revenue Recognition” (ASBJ Guidance No. 30). The International Accounting Standards Board (“IASB”) and the Financial Accounting Standards Board (“FASB”) in the United States co-developed comprehensive accounting standards for revenue recognition and issued “Revenue from Contracts with Customers” (issued as IFRS 15 by the IASB and Topic 606 by the FASB) in May 2014. The ASBJ developed comprehensive accounting standards on revenue recognition and issued them in conjunction with the implementation guidance based on the fact that IFRS 15 will be applied from fiscal years starting on or after January 1, 2018 and Topic 606 will be applied from fiscal years starting after December 15, 2017. As the basic policy of the ASBJ in developing accounting standards for revenue recognition, the ASBJ defined the accounting standard starting with incorporating the basic principle of IFRS 15 from a standpoint of comparability between financial statements, which is one benefit of ensuring consistency with IFRS 15. Furthermore, the ASBJ added alternative accounting treatment without impairing comparability when there are matters to be considered related to common accounting practices in Japan, etc.

(2) Scheduled date of adoption

The Company and its domestic subsidiaries plan to adopt the accounting standard and implementation guidance effective from February 1, 2022.

(3) Impact of the adoption of accounting standard and implementation guidance.

The Company is currently evaluating the effect of adopting the accounting standard and implementation guidance on its consolidated financial statements.

3. Short-Term Investments and Investments in Securities

Information on held-to-maturity debt securities with determinable market value at January 31, 2018 was as follows:

	Millions of yen		
	Held-to-maturity debt securities		
	2018		
	Carrying value	Unrealized gain	Estimated fair value
Market value determinable: National Bonds	¥ 589	¥ 1	¥ 590

There were no held-to-maturity debt securities at January 31, 2019.

Information on other securities with determinable market value at January 31, 2019 and 2018 was as follows:

	Millions of yen							
	Other securities							
	2019				2018			
	Acquisition cost	Gross unrealized gain	Gross unrealized loss	Carrying value (estimated fair value)	Acquisition cost	Gross unrealized gain	Gross unrealized loss	Carrying value (estimated fair value)
Market value determinable: Equity securities	¥35,223	¥46,070	¥ (470)	¥ 80,823	¥ 37,453	¥66,962	¥ (46)	¥104,369

	Thousands of U.S. dollars			
	Other securities			
	2019			
	Acquisition cost	Gross unrealized gain	Gross unrealized loss	Carrying value (estimated fair value)
Market value determinable: Equity securities	$323,265	$422,816	$ (4,313)	$741,768

Sales of other securities for the years ended January 31, 2019 and 2018 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	**2019**
Proceeds from sales	**¥ 5,279**	¥ 144	**$48,449**
Gross realized gain	**3,094**	1	**28,396**
Gross realized loss	**(72)**	–	**(661)**

The Group has recognized loss on revaluation of investments in securities classified as other securities of ¥2 million ($18 thousand) and ¥2,880 million for the years ended January 31, 2019 and 2018, respectively.

4. Inventories

Inventories at January 31, 2019 and 2018 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	**2019**
Land held for sale	**¥579,001**	¥ 599,515	**$5,313,886**
Land held for development	**106,934**	109,480	**981,406**
Construction for sale, including projects under construction	**393,538**	369,124	**3,611,766**
Contracts in process	**12,169**	9,415	**111,683**
Other	**8,546**	7,627	**78,432**
	¥1,100,188	¥1,095,161	**$10,097,173**

Loss on devaluation of inventories included in cost of sales for the years ended January 31, 2019 and 2018 amounted to ¥11,982 million ($109,967 thousand) and ¥6,512 million, respectively.

Due to changes in holding purpose, ¥463 million ($4,249 thousand) and ¥1,136 million of inventories, which were mainly included in “Construction for sale, including projects under construction” and “Land held for sale”, were principally reclassified to “Buildings and structures” and “Land” at January 31, 2019 and 2018, respectively. In addition, ¥43,047 million ($395,072 thousand) and ¥44,638 million of investment real estate and land for internal use, which were mainly included in “Buildings and structures” and “Land”, were reclassified to “Construction for sale, including projects under construction” and “Land held for sale”, classified as inventories in the accompanying consolidated balance sheets at January 31, 2019 and 2018, respectively.

5. Impairment of Fixed Assets

The Company and its subsidiaries group their investment real estate by individual asset and group other fixed assets by business unit, within which operations can be reasonably managed.

For the years ended January 31, 2019 and 2018, the Group has written down certain real estate for lease and certain assets to their respective net recoverable values.

Consequently, the Group recorded losses on impairment of fixed assets of ¥9,393 million ($86,206 thousand) and ¥7,791 million in the accompanying consolidated statements of income for the years ended January 31, 2019 and 2018, respectively.

The losses on impairment of fixed assets for the years ended January 31, 2019 and 2018 are outlined as follows:

2019				
Location	Use	Classification	Millions of yen	Thousands of U.S. dollars
Nakamura-ku, Nagoya City etc.	Real estate for lease etc.	Buildings and structures	¥ 1,072	$ 9,838
		Machinery, equipment and other	416	3,818
		Land	7,874	72,265
		Other	31	285
			¥ 9,393	$ 86,206

2018			
Location	Use	Classification	Millions of yen
Hodogaya-ku, Yokohama City etc.	Real estate for lease etc.	Buildings and structures	¥ 2,486
		Machinery, equipment and other	332
		Land	4,468
		Other	505
			¥ 7,791

The recoverable value of the above impaired fixed assets was mainly measured at estimated value in use or net selling value. The net selling value amount is measured considering appraisals conducted by real estate appraisers.

6. Investments in Affiliates

Investments in affiliates at January 31, 2019 and 2018 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	**2019**
Investments in capital stock, at cost	**¥ 31,746**	¥ 29,524	**$ 291,354**
Equity in undistributed earnings since acquisition, net	**34,571**	31,791	**317,282**
	¥ 66,317	¥ 61,315	**$ 608,636**

7. Investment and Rental Properties

The Company and certain subsidiaries have apartment houses, office buildings and others as rental properties mainly in Tokyo Prefecture and other areas.

For the years ended January 31, 2019 and 2018, rental profit and loss on impairment of these rental properties amounted to ¥7,451 million ($68,383 thousand) and ¥8,883 million and ¥8,970 million ($82,324 thousand) and ¥6,308 million, respectively.

Rental income is included in net sales and related costs are included in the cost of sales.

The carrying value in the accompanying consolidated balance sheets as of January 31, 2019 and 2018 and corresponding fair value of those properties are as follows:

Millions of yen			
Carrying value			Fair value
January 31, 2018	Net change	January 31, 2019	January 31, 2019
¥ 468,213	¥ (24,476)	¥ 443,737	¥ 547,840

Millions of yen			
Carrying value			Fair value
January 31, 2017	Net change	January 31, 2018	January 31, 2018
¥ 475,235	¥ (7,022)	¥ 468,213	¥ 546,091

Thousands of U.S. dollars			
Carrying value			Fair value
January 31, 2018	Net change	January 31, 2019	January 31, 2019
$ 4,297,109	$ (224,633)	$ 4,072,476	$ 5,027,900

Notes:

1.The carrying value represents the acquisition cost less accumulated depreciation and impairment losses.

2.For the years ended January 31, 2019 and 2018, the main components of net change in carrying value are the increase of ¥43,086 million ($395,430 thousand) and ¥54,302 million in acquisitions of real estate and the decreases of ¥42,528 million ($390,308 thousand) and ¥43,684 million in transfer to inventories, ¥9,431 million ($86,555 thousand) and ¥8,852 million in depreciation and ¥8,970 million ($82,324 thousand) and ¥6,308 million in loss on impairment of the rental properties, respectively.

3.The fair value of main real estate is computed based on appraisal amounts valued by real estate appraisers. The fair value of the others is computed by the Group in accordance with “Real Estate Appraisal Standards.”

8. Short-Term Loans, Short-Term Bonds and Long-Term Debt

Short-term loans consist of unsecured bank loans. The average interest rates on the short-term loans outstanding at January 31, 2019 and 2018 were 3.39% and 2.41%, respectively.

Long-term debt at January 31, 2019 and 2018 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	**2019**
Unsecured loans from banks and insurance companies at interest rates ranging from 0.13% to 7.00%, due from 2019 to 2024	**¥ 117,096**	¥ 110,787	**$ 1,074,670**
Nonrecourse bank loans at interest rates ranging from 2.91% to 6.00%, due from 2019 to 2023	**41,215**	45,845	**378,258**
Unsecured bonds denominated in yen at an interest rate 0.13% due 2018	**–**	15,000	**–**
Unsecured bonds denominated in yen at an interest rate of 0.18%, due 2019	**20,000**	20,000	**183,554**
Unsecured bonds denominated in yen at an interest rate of 0.22%, due 2020	**15,000**	15,000	**137,665**
Unsecured bonds denominated in yen at an interest rate of 0.04%, due 2021	**30,000**	30,000	**275,330**
Unsecured bonds denominated in yen at an interest rate of 0.11%, due 2023	**30,000**	30,000	**275,330**
Unsecured bonds denominated in yen at an interest rate of 0.20%, due 2026	**20,000**	20,000	**183,554**
Deferrable and early redeemable subordinated unsecured bonds denominated in yen at an interest rate of 0.81%,due 2077	**120,000**	120,000	**1,101,322**
Lease obligations	**6,727**	5,745	**61,738**
	400,038	412,377	**3,671,421**
Less current portion	**(84,781)**	(17,761)	**(778,093)**
	¥ 315,257	¥ 394,616	**$ 2,893,328**

The aggregate annual maturities of long-term debt subsequent to January 31, 2019 are summarized as follows:

Year ending January 31,	Millions of yen	Thousands of U.S. dollars
2020	¥ 84,781	$ 778,093
2021	36,169	331,948
2022	47,203	433,214
2023	47,059	431,892
2024 and thereafter	184,826	1,696,274
	¥400,038	$3,671,421

In order to achieve more efficient and flexible financing, the Company has concluded line-of-credit agreements with certain financial institutions. The status of these lines of credit at January 31, 2019 and 2018 is as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	**2019**
Lines of credit	**¥ 467,940**	¥ 361,721	**$ 4,294,603**
Credit utilized	**208,748**	167,585	**1,915,822**
Available credit	**¥ 259,192**	¥ 194,136	**$ 2,378,781**

9. Mortgaged and Pledged Assets

At January 31, 2019 and 2018, the following assets were either mortgaged or pledged for guarantees of a third party bank loan, guarantee deposits received and long-term bank loan, including current portion and totaled ¥42,439 million ($389,492 thousand) and ¥47,233 million, respectively.

	Millions of yen		Thousands of U.S. dollars
	2019	2018	**2019**
Inventories	**¥ 107,143**	¥ 85,907	**$ 983,324**
Land	**2,650**	2,868	**24,321**
Buildings and structures	**478**	494	**4,387**
Investments in securities	**321**	515	**2,946**
	¥ 110,592	¥ 89,784	**$ 1,014,978**

Investments in securities are mortgaged for guarantees of liabilities of investees.

As of January 31, 2019 and 2018, ¥107,097 million ($982,902 thousand) and ¥85,862 million of inventories were pledged as collateral for nonrecourse liabilities of short-term and long-term debt, including current portion and totaled ¥41,215 million ($378,258 thousand) and ¥45,845 million, respectively. These nonrecourse liabilities and corresponding assets are included in the above table.

In addition, for the purpose of covering warranty obligations for latent defects on certain housing, nil and ¥586 million of short-term investments, and ¥7,743 million ($71,063 thousand) and ¥6,694 million of other assets were deposited in accordance with relevant laws at January 31, 2019 and 2018, respectively.

10. Income Taxes

The Company and its domestic subsidiaries are subject to several taxes based on income which, in the aggregate, resulted in a statutory tax rate of approximately 30.7% for the year ended January 31, 2018. Overseas subsidiaries are subject to the income taxes of the countries in which they operate.

The reconciliation of the difference between the statutory tax rate and the effective tax rate for the year ended January 31, 2019 was omitted because such difference is less than 5% of the statutory tax rate.

The effective tax rate reflected in the accompanying consolidated statement of income for the year ended January 31, 2018 differs from the above statutory tax rate for the following reasons:

	2018
Statutory tax rate	**30.7%**
Non-deductible entertainment expenses	**0.6**
Non-taxable dividend income	**(0.1)**
Inhabitants' per capita taxes	**0.3**
Valuation allowance	**(0.9)**
Equity in earnings of affiliates	**(1.3)**
Decrease in deferred tax assets resulting from change in the federal corporate income tax rate in the U.S.	**0.7**
Tax rate differences with the overseas subsidiaries	**0.5**
Tax credit	**(1.1)**
Other	**(0.4)**
Effective tax rate	**29.0%**

The significant components of the Group's deferred tax assets (liabilities) at January 31, 2019 and 2018 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	**2019**
Loss on revaluation of real estate held for sale	**¥ 16,276**	¥ 16,665	**$ 149,376**
Liability for retirement benefits	**15,437**	6,743	**141,676**
Accumulated losses on impairment of fixed assets	**8,825**	6,213	**80,993**
Accrued employees' bonuses	**7,944**	9,075	**72,907**
Unrealized gain on fixed assets	**4,577**	4,758	**42,006**
Tax loss carryforwards	**3,970**	3,631	**36,435**
Loss on revaluation of securities	**1,551**	1,551	**14,235**
Net unrealized holding gain on securities	**(12,840)**	(19,153)	**(117,841)**
Other, net	**7,349**	4,434	**67,447**
Less valuation allowance	**(16,451)**	(14,261)	**(150,982)**
Net deferred tax assets	**¥ 36,638**	¥ 19,656	**$ 336,252**

The valuation allowance mainly consists of deferred tax assets arising from non-schedulable temporary differences on loss on revaluation of securities and accumulated losses on impairment of fixed assets.

11. Retirement Benefit Plans

The Company and its subsidiaries have defined benefit plans, which consist of corporate pension funds and lump-sum payment retirement plan and defined contribution pension plans.

Certain domestic subsidiaries have calculated their retirement benefit obligation and retirement benefit expenses based on the amount which would be payable at the year end if all eligible employees terminated their services voluntarily (the "Simplified Method").

In certain cases, special retirement benefits may be paid to employees.

Defined benefit plans

The changes in the retirement benefit obligations, including those for which the Simplified Method is applied, during the years ended January 31, 2019 and 2018 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	**2019**
Retirement benefit obligations at the beginning of the year	**¥ 269,101**	¥ 258,935	**$ 2,469,723**
Service cost	**10,407**	9,974	**95,512**
Interest cost	**3,757**	3,615	**34,480**
Actuarial loss	**29,093**	3,539	**267,006**
Retirement benefit paid	**(7,735)**	(6,962)	**(70,989)**
Retirement benefit obligations at the end of the year	**¥ 304,623**	¥ 269,101	**$ 2,795,732**

The changes in plan assets, including those for which the Simplified Method is applied, during the years ended January 31, 2019 and 2018 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	**2019**
Plan assets at the beginning of the year	**¥ 262,321**	¥ 246,786	**$ 2,407,498**
Expected return on plan assets	**6,529**	6,143	**59,921**
Actuarial (loss) gain	**(14,780)**	7,950	**(135,646)**
Contributions paid by the Company	**7,855**	7,753	**72,091**
Retirement benefits paid	**(6,908)**	(6,311)	**(63,400)**
Plan assets at the end of the year	**¥ 255,017**	¥ 262,321	**$ 2,340,464**

The following table sets forth the funded status of the plan assets and the amounts recognized in the consolidated balance sheets as of January 31, 2019 and 2018 for the Company's and domestic subsidiaries' defined benefit plans, including those for which the Simplified Method is applied:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Funded retirement benefit obligation	¥ 280,572	¥ 247,596	$ 2,575,000
Plan assets at fair value	(255,017)	(262,321)	(2,340,464)
	25,555	(14,725)	234,536
Unfunded retirement benefit obligation	24,051	21,505	220,732
Net liability for retirement benefits in the balance sheets	¥ 49,606	¥ 6,780	$ 455,268
Liability for retirement benefits	¥ 49,989	¥ 21,505	$ 458,783
Asset for retirement benefits	(383)	(14,725)	(3,515)
Net liability for retirement benefits in the balance sheet	¥ 49,606	¥ 6,780	$ 455,268

The components of retirement benefit expenses for the years ended January 31, 2019 and 2018 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Service cost	¥10,407	¥ 9,974	$ 95,512
Interest cost	3,757	3,615	34,481
Expected return on plan assets	(6,528)	(6,143)	(59,912)
Amortization of actuarial gain	(6,061)	(7,261)	(55,626)
Amortization of prior service cost	(5,686)	(5,684)	(52,184)
Other	524	502	4,809
Retirement benefit expenses	¥ (3,587)	¥ (4,997)	$ (32,920)

(Note)
Retirement benefit expenses of certain subsidiaries adopting the Simplified Method are included in "service cost."
"Other" mainly consists of special retirement benefits paid to employees.

The components of retirement benefits liability adjustments included in other comprehensive income (before tax effect) for the years ended January 31, 2019 and 2018 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Prior service cost	¥ (5,686)	¥ (5,684)	$ (52,184)
Actuarial gain	(49,934)	(2,850)	(458,279)
Total	¥ (55,620)	¥ (8,534)	$ (510,463)

The components of retirement benefits liability adjustments included in accumulated other comprehensive income (before tax effect) as of January 31, 2019 and 2018 are as follows:
:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Unrecognized prior service cost	¥ 4,724	¥ 10,410	$ 43,356
Unrecognized actuarial (loss) gain	(37,228)	12,706	(341,667)
Total	¥ (32,504)	¥ 23,116	$ (298,311)

The fair values of plan assets, by major category, as a percentage of total plan assets as of January 31, 2019 and 2018 are as follows:

	2019	2018
Debt securities	31%	30%
Equity securities	24	29
Hedge fund	18	18
General accounts at insurance companies	14	13
Cash and deposits	2	2
Other	11	8
Total	100%	100%

The expected rate of return on plan assets has been estimated considering the anticipated allocation to each asset class and the expected long-term rates of returns on various components of pension assets in each category.
The assumptions used in accounting for the above retirement benefit plans for the years ended January 31, 2019 and 2018 are as follows:

	2019	2018
Discount rate	0.8%	1.4%
Expected long-term rate of return on plan assets	2.5%	2.5%
Expected rate of salary increase	4.5%	4.5%

The expected rate of salary increase is calculated based on a pay point system.

Defined contribution pension plans

Total contributions paid by the subsidiaries to the defined contribution plan for the years ended January 31, 2019 and 2018 were ¥110 million ($1,010 thousand) and ¥80 million, respectively.

12. Asset Retirement Obligations

In accordance with exhibition contracts at housing exhibition sites, tenancy contracts for offices and real estate for investment, the Company and certain subsidiaries are obligated to remove leasehold improvements attached to these housing exhibitions, offices and real estate and return the property to its original state after vacating the premises.
The asset retirement obligations included in other liabilities are determined and discounted to their present value using a risk-free rate at the beginning of the year and the anticipated future useful lives for each housing exhibition, office or real estate.
The changes in asset retirement obligations for the years ended January 31, 2019 and 2018 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Balance at the beginning of the year	¥ 2,723	¥ 2,439	$ 24,991
Liabilities incurred for assets acquired	154	397	1,413
Accretion expense	18	18	165
Liabilities settled	(148)	(131)	(1,358)
Balance at the end of the year	¥ 2,747	¥ 2,723	$ 25,211

13. Contingent Liabilities

The Group had the following contingent liabilities at January 31, 2019:

	Millions of yen	Thousands of U.S. dollars
Guarantees of housing loans to 3,503 customers	¥ 103,207	$ 947,201
Guarantees of bank loan of a third party	129	1,184
Guarantees of bank loan of a third party with mortgaged assets	89	817

14. Shareholders' Equity

The Companies Act of Japan (the "Act") requires the Company to transfer an amount equal to 10% of the amount to be disbursed as distributions of capital surplus (other than the capital reserve) and retained earnings (other than the legal reserve) to the capital reserve and the legal reserve, respectively, until the sum of the capital reserve and the legal reserve equals 25% of the capital stock account. Such distributions can be made at any time by resolution of the shareholders, or by the Board of Directors if certain conditions are met.

The Company's legal reserve included in retained earnings at January 31, 2019 and 2018 amounted to ¥23,129 million ($212,271 thousand).

Under the Act, upon the issuance and sales of new shares of common stock, the entire amount of the proceeds is required to be accounted for as common stock, although a company may, by resolution of the Board of Directors, account for an amount not exceeding one-half of the proceeds of the sale of new shares as capital surplus.

Stock option plan

Stock option expenses per accounts for the years ended January 31, 2019 and 2018 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	**2019**
Cost of sales	**¥ 2**	¥ 2	**$ 18**
Selling, general and administrative expenses	**86**	89	**789**

Description of each stock option plan as of January 31, 2019 is as follows:

Stock option plans	Plan approved on April 27, 2006 (the 2006 plan)	Plan approved on May 17, 2007 (the 2007 plan)	Plan approved on May 15, 2008 (the 2008 plan)
Individuals covered by the plan	Total 27 Directors and Executive Officers	Total 26 Directors and Executive Officers	Total 32 Directors and Executive Officers
Type and number of shares to be issued upon the exercise of the share subscription rights	48,000 shares of common stock	55,000 shares of common stock	108,000 shares of common stock
Grant date	April 27, 2006	June 7, 2007	June 6, 2008
Vesting period	No applicable period of service is specified	No applicable period of service is specified	No applicable period of service is specified
Exercise period	From April 28, 2006 to April 27, 2026	From June 8, 2007 to June 7, 2027	From June 7, 2008 to June 6, 2028

	Plan approved on May 21, 2009 (the 2009 plan)	Plan approved on May 20, 2010 (the 2010 plan)	Plan approved on May 19, 2011 (the 2011 plan)
Individuals covered by the plan	Total 30 Directors and Executive Officers	Total 30 Directors and Executive Officers	Total 28 Directors and Executive Officers
Type and number of shares to be issued upon the exercise of the share subscription rights	106,000 shares of common stock	105,000 shares of common stock	130,000 shares of common stock
Grant date	June 9, 2009	June 16, 2010	June 14, 2011
Vesting period	No applicable period of service is specified	No applicable period of service is specified	No applicable period of service is specified
Exercise period	From June 10, 2009 to June 9, 2029	From June 17, 2010 to June 16, 2030	From June 15, 2011 to June 14, 2031

	Plan approved on May 17, 2012 (the 2012 plan)	Plan approved on May 16, 2013 (the 2013 plan)	Plan approved on May 15, 2014 (the 2014 plan)
Individuals covered by the plan	Total 33 Directors and Executive Officers	Total 32 Directors and Executive Officers	Total 34 Directors and Executive Officers
Type and number of shares to be issued upon the exercise of the share subscription rights	147,000 shares of common stock	68,000 shares of common stock	100,000 shares of common stock
Grant date	June 13, 2012	June 13, 2013	June 13, 2014
Vesting period	No applicable period of service is specified	No applicable period of service is specified	No applicable period of service is specified
Exercise period	From June 14, 2012 to June 13, 2032	From June 14, 2013 to June 13, 2033	From June 14, 2014 to June 13, 2034

	Plan approved on May 21, 2015 (the 2015 plan)	Plan approved on May 19, 2016 (the 2016 plan)	Plan approved on May 18, 2017 (the 2017 plan)
Individuals covered by the plan	Total 34 Directors and Executive Officers	Total 35 Directors and Executive Officers	Total 35 Directors and Executive Officers
Type and number of shares to be issued upon the exercise of the share subscription rights	63,000 shares of common stock	66,000 shares of common stock	64,000 shares of common stock
Grant date	June 12, 2015	June 14, 2016	June 14, 2017
Vesting period	No applicable period of service is specified	No applicable period of service is specified	No applicable period of service is specified
Exercise period	From June 13, 2015 to June 12, 2035	From June 15, 2016 to June 14, 2036	From June 15, 2017 to June 14, 2037

	Plan approved on May 17, 2018 (the 2018 plan)
Individuals covered by the plan	Total 32 Directors and Executive Officers
Type and number of shares to be issued upon the exercise of the share subscription rights	69,000 shares of common stock
Grant date	June 14, 2018
Vesting period	No applicable period of service is specified
Exercise period	From June 15, 2018 to June 14, 2038

Information regarding the Company's stock option plans is summarized as follows:

	The 2006 plan	The 2007 plan	The 2008 plan	The 2009 plan	The 2010 plan	The 2011 plan	The 2012 plan	The 2013 plan	The 2014 plan	The 2015 plan	The 2016 plan	The 2017 plan	The 2018 plan
Number of stock options:													
Non-vested													
Outstanding at February 1, 2018	21,000	24,000	55,000	59,000	80,000	98,000	127,000	58,000	95,000	59,000	64,000	63,000	–
Granted	–	–	–	–	–	–	–	–	–	–	–	–	69,000
Forfeited	–	–	–	–	–	–	–	–	–	–	–	–	–
Vested	15,000	17,000	32,000	33,000	43,000	50,000	54,000	23,000	26,000	18,000	14,000	16,000	–
Outstanding at Janyuary 31, 2019	6,000	7,000	23,000	26,000	37,000	48,000	73,000	35,000	69,000	41,000	50,000	47,000	69,000
Vested													
Outstanding at February 1, 2018	7,000	8,000	7,000	4,000	5,000	6,000	14,000	6,000	5,000	4,000	2,000	1,000	–
Vested	15,000	17,000	32,000	33,000	43,000	50,000	54,000	23,000	26,000	18,000	14,000	16,000	–
Exercised	11,000	13,000	10,000	11,000	6,000	4,000	6,000	1,000	–	–	–	–	–
Forfeited	–	–	–	–	–	–	–	–	–	–	–	–	–
Outstanding at January 31, 2019	11,000	12,000	29,000	26,000	42,000	52,000	62,000	28,000	31,000	22,000	16,000	17,000	–
Exercise price	¥ 1	¥1	¥1	¥1	¥1	¥1	¥1	¥1	¥1	¥1	¥1	¥1	¥1
Average stock price at exercise	¥1,789	¥1,762	¥1,649	¥1,654	¥1,641	¥1,640	¥1,709	¥1,644	¥ –	¥ –	¥ –	¥ –	¥ –
Fair value price at grant date	¥ – (*)	¥1,571	¥876	¥681	¥717	¥592	¥495	¥1,071	¥974	¥1,507	¥1,356	¥1,415	¥1,283
Exercise price	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
Average stock price at exercise	$16	$16	$15	$15	$15	$15	$ 16	$15	$ –	$ –	$ –	$ –	$ –
Fair value price at grant date	$ –	$14	$ 8	$ 6	$ 7	$ 5	$ 5	$ 10	$ 9	$14	$12	$13	$12

(*) The fair value of stock options is omitted since they had been issued before the date of enactment of the Act.

The fair value as of the grant date for stock options which were issued during the year ended January 31, 2019 was estimated using the Black-Scholes Option Pricing Model with the following assumptions:

	Note	The 2018 plan
Expected volatility	*1	24.021%
Expected remaining period	*2	10 years
Estimated dividend per share	*3	¥77 ($1)
Risk-free rate	*4	0.050%

*1 Expected volatility was computed by the actual prices of the Company during the period from June 2008 to May 2018.

*2 Expected remaining period was estimated based on the assumption that the options are exercised in the middle of the exercise period.

*3 The estimated dividend per share was calculated at the actual amount for the year ended January 31, 2018.

*4 The risk-free rate was the yield on Japanese government bonds for the period that corresponds to the expected remaining period.

Because it is difficult to reasonably estimate the number of options that will be forfeited in the future, the number of options that have actually forfeited was reflected to the estimation.

Treasury stock

Movements in treasury stock during the years ended January 31, 2019 and 2018 are summarized as follows:

	Number of shares			
	2019			
	January 31, 2018	Increase	Decrease	January 31, 2019
Treasury stock	586,249	2,007,885	62,173	2,531,961

The increase in treasury stock consists of 2,000,000 shares resulting from the repurchasing based on the article of incorporation of the Company under Article 165 (2) of the Act, 6,873 shares resulting from the purchase of shares less than one unit by the Company, and 1,012 shares of treasury stock attributable to the Company resulting from the purchase by an affiliate for the year ended January 31, 2019.
The decrease in treasury stock consists of 173 shares resulting from sale of shares less than one unit by the Company, and 62,000 shares resulting from the exercise of stock option plans for the year ended January 31, 2019.

	Number of shares			
	2018			
	January 31, 2017	Increase	Decrease	January 31, 2018
Treasury stock	19,610,876	11,469	19,036,096	586,249

The increase in treasury stock consists of 9,912 shares resulting from the purchase of shares less than one unit by the Company, and 1,557 shares of treasury stock attributable to the Company resulting from the purchase by an affiliate for the year ended January 31, 2018.
The decrease in treasury stock consists of 19,000,000 shares resulting from the cancellation based on the article of incorporation of the Company under Article 178 of the Act, 96 shares resulting from sale of shares less than one unit by the Company, and 36,000 shares resulting from the exercise of stock option plans for the year ended January 31, 2018.

15. Research and Development Cost

Research and development cost included in selling, general and administrative expenses amounted to ¥6,041 million ($55,442 thousand) and ¥5,181 million for the years ended January 31, 2019 and 2018, respectively.

16. Leases

(Lessee)

The Company has leased assets under finance lease transactions which do not transfer ownership to the lessee, mainly consisting of business-use servers, vehicles and software.

Regarding the depreciation method of leased assets under finance lease transactions which do not transfer ownership to the lessee, please refer to Note 2 (i).

Future minimum lease payments subsequent to January 31, 2019 under non-cancellable operating leases are summarized as follows:

Year ending January 31,	Millions of yen	Thousands of U.S. dollars
2020	¥ 10,617	$ 97,439
2021 and thereafter	51,857	475,927
	¥ 62,474	$ 573,366

(Lessor)

Lease receivables from finance lease transactions in which the ownership of the leased assets is not transferred to the lessee as of January 31, 2019 and 2018 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	**2019**
Current assets:			
Gross lease receivables	**¥ 8,695**	¥ 9,053	**$ 79,800**
Less unearned interest income	**(2,369)**	(2,493)	**(21,742)**
Net lease receivables	**¥ 6,326**	¥ 6,560	**$ 58,058**

Contractual maturities of lease receivables from finance lease transactions subsequent to January 31, 2019 in which the ownership of the leased assets is transferred to the lessee are as follows:

Year ending January 31,	Millions of yen	Thousands of U.S. dollars
2020	¥ 201	$ 1,845
2021	201	1,845
2022	201	1,845
2023	201	1,845
2024	201	1,845
2025 and thereafter	3,948	36,232
	¥ 4,953	$ 45,457

Contractual maturities of the above gross lease receivables subsequent to January 31, 2019 in which the ownership of the leased assets is not transferred to the lessee are as follows:

Year ending January 31,	Millions of yen	Thousands of U.S. dollars
2020	¥ 319	$ 2,928
2021	326	2,992
2022	326	2,992
2023	327	3,001
2024	327	3,001
2025 and thereafter	7,070	64,886
	¥ 8,695	$ 79,800

Future minimum lease receipts subsequent to January 31, 2019 under non-cancellable operating leases are summarized as follows:

Year ending January 31,	Millions of yen	Thousands of U.S. dollars
2020	¥ 10,501	$ 96,375
2021 and thereafter	23,243	213,317
	¥ 33,744	$ 309,692

Lease receivables and lease obligations in which the ownership of the leased assets is not transferred to the lessee as of January 31, 2019 and 2018 under sub-lease transactions are as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	**2019**
Lease receivables:			
Current	**¥ 4,166**	¥ 4,349	**$ 38,234**
Lease obligations:			
Current	**187**	187	**1,716**
Non-current	**4,180**	4,368	**38,363**

17. Amounts per Share

Per share amounts as of and for the years ended January 31, 2019 and 2018 are as follows:

	Yen		U.S. dollars
	2019	2018	**2019**
Profit attributable to owners of parent:			
Basic	**¥ 186.53**	¥ 193.06	**$ 1.71**
Diluted	**186.29**	192.82	**1.71**
Net assets	**1,718.82**	1,731.60	**15.77**
Cash dividends	**79.00**	77.00	**0.73**

Basic profit per share has been computed based on the profit attributable to common stock holders and the weighted-average number of shares of common stock outstanding during the year.

Diluted profit per share is computed based on the profit available for distribution to shareholders and the weighted-average number of shares of common stock outstanding during each year after giving effect to the dilutive potential of shares of common stock to be issued upon the exercise of stock options.

Amounts per share of net assets have been computed based on the net assets available for distribution to the shareholders and the number of shares of common stock outstanding at the year end.

Cash dividends per share of the Company represent the cash dividends declared as applicable to the respective years together with the interim cash dividends paid.

Financial data for the computation of basic and diluted profit per share for the years ended January 31, 2019 and 2018 in the table above is summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	**2019**
Information on basic profit per share:			
Profit	**¥ 128,583**	¥ 133,225	**$1,180,094**
Profit not attributable to common stockholders	**–**	–	**–**
Adjusted profit attributable to common stockholders	**¥ 128,583**	¥ 133,225	**$1,180,094**

	Thousands of shares	
	2019	2018
Weighted-average number of shares of common stock outstanding during the year	**689,337**	690,083

	Millions of yen		Thousands of U.S. dollars
	2019	2018	**2019**
Information on diluted profit per share for the years ended January 31, 2019 and 2018 in the table above is summarized as follows:			
Adjustments to profit attributable to common stockholders	**–**	–	**–**

	Thousands of shares	
	2019	2018
Increase in common stock:		
Stock subscription rights	**895**	863

Financial data for the computation of net assets per share at January 31, 2019 and 2018 in the table above is summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	**2019**
Total net assets	**¥1,196,924**	¥1,208,121	**$ 10,984,986**
Deductions from total net assets:			
Stock subscription rights	**(803)**	(762)	**(7,370)**
Non-controlling interests	**(13,312)**	(12,384)	**(122,173)**
Total net assets attributable to common stockholders	**¥1,182,809**	¥1,194,975	**$ 10,855,443**

	Thousands of shares	
	2019	2018
Number of shares of common stock used in the calculation of net assets per share	**688,152**	690,097

18. Financial Instruments and Related Disclosures

The Group manages cash surpluses mainly through low-risk financial assets. The Group raises funds mainly through bank loans and direct finance such as issuance of bonds. The Group enters into derivative transactions for the purpose of reducing risks and does not enter into derivative transactions for speculative or trading purposes.

Notes and accounts receivable, trade are exposed to credit risk in relation to customers. Short-term investments and investments in securities, which primarily consist of equity securities, held-to-maturity debt securities, certificates of deposits and investments in partnerships, are exposed to credit risk in relation to issuers and fluctuation risk of market price. Substantially all notes and accounts payable, trade have payment due dates within one year. Bank loans and bonds are utilized principally for working capital and capital investments. Bank loans are utilized with variable interest rates and are exposed to interest rate fluctuation risk.

Regarding derivative transactions, the Group enters into forward foreign exchange contracts and currency swap contracts to reduce the foreign currency exchange risk arising from trade receivables, payables, investments and loan receivables denominated in foreign currencies.

The Group also enters into interest rate swap contracts to reduce the interest rate fluctuation risk. Further information regarding the method of hedge accounting, hedging instruments and hedged items, hedging policy, and the assessment of the effectiveness of hedging activities can be found in Note 2 (u).

For managing credit risk arising from receivables, each related accounting and management division of the Group monitors the collection, due dates and outstanding balances by customer. In addition, the Group makes efforts to identify at earliest and mitigate risks of bad debts from customers experiencing financial difficulties.

The Group executes and manages derivative transactions in accordance with internal rules. The Group enters into derivative transactions dispersedly with financial institutions with high credit ratings to mitigate the credit risks.

For short-term investments and investments in securities, the Group periodically reviews the fair values of such financial instruments and the financial conditions of the issuers.

Based on reports from each division of the Group, the Company prepares and updates their cash flow plans on a timely basis and maintains appropriate liquidity levels to manage liquidity risk. The Company also has multiple methods of stable financing, such as entering into commitment line contracts or providing the bond issuance limits. In addition, the Group has funding systems, such as the cash management system, to supply funds to the subsidiaries flexibly.

The fair value of financial instruments is determined based on their quoted market price, if available. When there is no available quoted market price, fair value is reasonably estimated. Since a number of variable factors are reflected in estimating the fair value, different factors could result in different fair values. In addition, the notional amounts of derivative transactions in the following table are not necessarily indicative of the actual market risk involved in the derivative transactions.

The carrying values of financial instruments on the accompanying consolidated balance sheets as of January 31, 2019 and 2018 and their estimated fair values are shown in the following table. The following table does not include financial instruments for which it is extremely difficult to determine the fair value.

	Millions of yen			Thousands of U.S. dollars		
	2019			2019		
	Carrying value	Estimated fair value	Difference	Carrying value	Estimated fair value	Difference
Cash and cash equivalents	¥ 342,899	¥342,899	¥ –	$ 3,147,017	$ 3,147,017	$ –
Notes and accounts receivable - trade	42,504			390,088		
Less allowance for doubtful accounts	(403)			(3,698)		
Sub total	42,101	42,101	–	386,390	386,390	–
Short-term investments and investments in securities and affiliates:						
Held-to-maturity debt securities	–	–	–	–	–	–
Investments in affiliates	3,213	1,687	(1,526)	29,488	15,483	(14,005)
Other securities	81,283	81,283	–	745,989	745,989	–
Total	469,496	467,970	(1,526)	4,308,884	4,294,879	(14,005)
Notes and accounts payable	147,429	147,429	–	1,353,056	1,353,056	–
Short-term loans	239,472	239,472	–	2,197,797	2,197,797	–
Bonds	235,000	236,429	1,429	2,156,755	2,169,870	13,115
Long-term loans including current portion	158,311	157,844	(467)	1,452,928	1,448,642	(4,286)
Total	¥ 780,212	¥ 781,174	¥ 962	$ 7,160,536	$ 7,169,365	$ 8,829
Derivative transactions	¥ –	¥ –	¥ –	$ –	$ –	$ –

	Millions of yen		
	2018		
	Carrying value	Estimated fair value	Difference
Cash and cash equivalents	¥ 324,693	¥ 324,693	¥ —
Notes and accounts receivable - trade	45,877		
Less allowance for doubtful accounts	(324)		
Sub total	45,553	45,553	—
Short-term investments and investments in securities and affiliates:			
Held-to-maturity debt securities	589	590	1
Investments in affiliates	3,444	2,548	(896)
Other securities	105,512	105,512	—
Total	479,791	478,896	(895)
Notes and accounts payable	172,815	172,815	—
Short-term loans	209,708	209,708	—
Bonds	250,000	250,198	198
Long-term loans including current portion	156,632	156,490	(142)
Total	¥ 789,155	¥ 789,211	¥ 56
Derivative transactions (*)	¥ 204	¥ 204	¥ —

(*) The value of assets and liabilities arising from derivatives is shown at net value, and the amounts in parentheses represent net liability position.

The fair values of cash and cash equivalents and notes and accounts receivable – trade approximate their carrying values since these items are settled in a short period of time.
The fair values of short-term investments and investments in securities are determined based on quoted market prices. The fair value of debt securities is based on either quoted market price or the price provided by the counterparty financial institutions.
For further information of fair values of short-term investments and investments in securities by holding purposes, please refer to Note 3 “Short-Term Investments and Investments in Securities.”
The fair values of notes and accounts payable and short-term loans approximate their carrying value since these items are settled in a short period of time.
The fair values of bonds are determined based on market prices.
The fair value of long-term loans including the current portion with variable interest rates approximates the carrying value. The fair value of long-term loans including the current portion with fixed interest rates is determined based on the discounted present value of the principal and interest payments using the corresponding fixed interest rate for new loans with the same terms and conditions.
Regarding derivative transactions, refer to Note 19 “Derivative Transactions and Hedging Activities.”

Financial instruments for which it is extremely difficult to determine the fair value as of January 31, 2019 and 2018 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	**2019**
Unlisted stocks	**¥ 62,191**	¥ 58,198	**$ 570,770**
Investments in special purpose entities	**7,710**	4,850	**70,760**
Investments in silent partnership	**1,472**	1,656	**13,510**
Preferred stocks	**999**	999	**9,169**
Investments in investment limited liability partnerships	**429**	165	**3,937**
Unlisted bonds	**120**	120	**1,101**

Because no quoted market price is available and it is assumed that significant costs are involved in estimating the future cash flows, it is extremely difficult to determine the fair value.
The redemption schedules for cash and cash equivalents, notes and accounts receivable and short-term investments and investments in securities with maturities at January 31, 2019 are as follows:

	2019			
	Millions of yen			
	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
Cash and cash equivalents	¥ 342,899	¥ —	¥ —	¥ —
Notes and accounts receivable	42,409	48	47	—
Short-term investments and investments in securities:				
Held-to-maturity debt securities (Corporate bonds)	—	—	—	120
Other securities with maturities (Time deposit with a maturity in excess of three months)	460	—	—	—
Total	¥ 385,768	¥ 48	¥ 47	¥ 120

	2019			
	Thousands of U.S. dollars			
	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
Cash and cash equivalents	$ 3,147,017	$ —	$ —	$ —
Notes and accounts receivable	389,216	441	431	—
Short-term investments and investments in securities:				
Held-to-maturity debt securities (National goverment bonds)	—	—	—	1,101
Other securities with maturities (Time deposit with a maturity in excess of three months)	4,222	—	—	—
Total	$3,540,455	$ 441	$ 431	$ 1,101

The redemption schedules for long-term debt are disclosed in Note 8 “Short-Term Loans, Short-Term Bonds and Long-Term Debt.”

19. Derivative Transactions and Hedging Activities

The contract value (notional principal amount) and the estimated fair value of the derivative instruments outstanding which did not qualify for deferral hedge accounting at January 31, 2018 were as follows:

Currency-related transactions

		2018			
		Millions of yen			
Classification	Description of transaction	Contract value (notional principal amount)	Contract value (notional principal amount) (over 1 year)	Estimated fair value	Unrealized gain
Over-the-counter transactions	Currency swap contracts	¥ 1,915	¥ 1,915	¥ 204	¥ 204

The fair value of the above derivative transactions is determined based on the prices provided by counterparty financial institutions.
There were no derivative instruments outstanding which did not qualify for deferral hedge accounting at January 31, 2019.

20. Segment Information

Reportable segments of the Company are components for which separate financial information is available and whose operating results are regularly reviewed by the management to determine the allocation of management resources and assess the business performance. The Group engages in comprehensive housing businesses as a positive generator of comfortable living environment. The Company establishes business domains, plans separate business strategies for each business domain and conducts business to achieve sustainable growth through the optimization of business resources.

The Company’s business segments are classified by different products and services based on their business domains. The Company’s business segments, excluding the other businesses segment, consist of the following reportable segments: custom detached houses, rental housing, remodeling, real estate management fees, houses for sale, condominiums, urban redevelopment and overseas.

Details of the reportable segments are as follows:

Custom detached houses:	Design, construction, and contracting of built-to-order detached houses
Rental housing:	Design, construction, and contracting of built-to-order properties for lease, medical and nursing care facilities, and other buildings
Remodeling:	Remodeling of residential properties
Real estate management fees:	Sub-lease, management, operation and brokerage of real estate
Houses for sale:	Sale of houses and lands and designing, construction, and contracting of houses on lands for sale
Condominiums:	Sale of condominiums
Urban redevelopment:	Development of office buildings and commercial facilities, and management and operation of owned properties
Overseas:	Contracting of built-to-order detached houses, sale of houses and real estate, and development and sale of facilities, including condominiums and commercial facilities, in overseas markets

The accounting policies of the reportable segments are identical to those described in Note 2.

Information on net sales, income or loss, assets and other items by each reportable segment for the years ended January 31, 2019 and 2018 is outlined as follows:

	Millions of yen					
	2019					
	Reportable segments					
	Custom detached houses	Rental housing	Remodeling	Real estate management fees	Houses for sale	Condominiums
Sales to third parties	¥ 357,945	¥ 416,062	¥ 141,417	¥ 514,036	¥ 148,880	¥ 89,581
Intersegment sales and transfers	–	3,217	178	3,208	–	–
Net sales	357,945	419,279	141,595	517,244	148,880	89,581
Segment income (loss)	¥ 42,255	¥ 50,377	¥ 21,109	¥ 39,408	¥ 11,088	¥ 6,478
Segment assets	¥ 57,419	¥ 47,313	¥ 16,850	¥ 138,004	¥ 141,447	¥ 173,103
Other items:						
Depreciation and amortization	3,900	2,463	117	757	1,109	14
Increase in property, plant and equipment and intangible assets	3,734	1,194	22	1,395	789	25

	Millions of yen						
	2019						
	Reportable segments						
	Urban redevelopment	Overseas	Sub Total	Other	Total	Adjustments	Consolidated
Sales to third parties	¥ 173,392	¥ 245,953	¥ 2,087,266	¥ 73,051	¥ 2,160,317	¥ –	¥ 2,160,317
Intersegment sales and transfers	106	–	6,709	5,799	12,508	(12,508)	–
Net sales	173,498	245,953	2,093,975	78,850	2,172,825	(12,508)	2,160,317
Segment income (loss)	¥ 40,404	¥ 16,340	¥ 227,459	¥ (44)	¥ 227,415	¥ (38,192)	¥ 189,223
Segment assets	¥539,328	¥943,696	¥ 2,057,160	¥ 15,190	¥ 2,072,350	¥ 340,704	¥ 2,413,054
Other items:							
Depreciation and amortization	8,420	1,848	18,628	769	19,397	2,758	22,155
Increase in property, plant and equipment and intangible assets	45,603	922	53,684	175	53,859	4,821	58,680

	Millions of yen					
	2018					
	Reportable segments					
	Custom detached houses	Rental housing	Remodeling	Real estate management fees	Houses for sale	Condominiums
Sales to third parties	¥ 371,172	¥ 442,846	¥ 136,844	¥ 489,891	¥ 155,481	¥ 77,498
Intersegment sales and transfers	–	8,192	247	3,370	–	–
Net sales	371,172	451,038	137,091	493,261	155,481	77,498
Segment income	¥ 48,043	¥ 60,884	¥ 19,760	¥ 33,133	¥ 13,461	¥ 9,229
Segment assets	¥ 55,617	¥ 46,372	¥ 15,517	¥ 112,273	¥ 142,904	¥ 176,860
Other items:						
Depreciation and amortization	3,942	2,589	112	979	1,161	32
Increase in property, plant and equipment and intangible assets	3,325	930	199	1,254	842	3

	Millions of yen						
	2018						
	Reportable segments						
	Urban redevelopment	Overseas	Sub Total	Other	Total	Adjustments	Consolidated
Sales to third parties	¥ 103,777	¥ 306,717	¥ 2,084,226	¥ 75,138	¥ 2,159,364	¥ –	¥ 2,159,364
Intersegment sales and transfers	91	–	11,900	5,574	17,474	(17,474)	–
Net sales	103,868	306,717	2,096,126	80,712	2,176,838	(17,474)	2,159,364
Segment income	¥ 16,994	¥ 29,762	¥ 231,266	¥ 1,234	¥ 232,500	¥ (36,960)	¥ 195,540
Segment assets	¥582,974	¥929,307	¥ 2,061,824	¥ 15,085	¥ 2,076,909	¥ 342,104	¥ 2,419,013
Other items:							
Depreciation and amortization	8,907	863	18,585	777	19,362	2,621	21,983
Increase in property, plant and equipment and intangible assets	52,742	5,474	64,769	63	64,832	3,967	68,799

	Thousands of U.S. dollars					
	2019					
	Reportable segments					
	Custom detached houses	Rental housing	Remodeling	Real estate management fees	Houses for sale	Condominiums
Sales to third parties	$3,285,104	$3,818,484	$1,297,880	$4,717,658	$1,366,373	$ 822,146
Intersegment sales and transfers	–	29,524	1,634	29,442	–	–
Net sales	3,285,104	3,848,008	1,299,514	4,747,100	1,366,373	822,146
Segment income (loss)	$ 387,803	$ 462,344	$ 193,732	$ 361,674	$ 101,762	$ 59,453
Segment assets	$ 526,973	$ 434,224	$ 154,644	$1,266,556	$1,298,155	$1,588,684
Other items:						
Depreciation and amortization	35,793	22,605	1,074	6,948	10,178	128
Increase in property, plant and equipment and intangible assets	34,270	10,958	202	12,803	7,241	229

	Thousands of U.S. dollars						
	2019						
	Reportable segments						
	Urban redevelopment	Overseas	Sub Total	Other	Total	Adjustments	Consolidated
Sales to third parties	$ 1,591,336	$ 2,257,278	$19,156,259	$ 670,439	$19,826,698	$ –	$19,826,698
Intersegment sales and transfers	973	–	61,573	53,221	114,794	(114,794)	–
Net sales	1,592,309	2,257,278	19,217,832	723,660	19,941,492	(114,794)	19,826,698
Segment income (loss)	$ 370,815	$ 149,963	$ 2,087,546	$ (404)	$ 2,087,142	$ (350,514)	$ 1,736,628
Segment assets	$4,949,780	$ 8,660,940	$18,879,956	$ 139,409	$19,019,365	$3,126,872	$22,146,237
Other items:							
Depreciation and amortization	77,276	16,960	170,962	7,057	178,019	25,312	203,331
Increase in property, plant and equipment and intangible assets	418,530	8,462	492,695	1,606	494,301	44,245	538,546

"Other" in the above tables represents a segment other than the reportable segments, which includes the exterior business.

Adjustments in the above tables:

The adjustments of segment income in the amounts of ¥38,192 million ($350,514 thousand) and ¥36,960 million for the years ended January 31, 2019 and 2018 include eliminations of intersegment transactions of ¥3,114 million ($28,579 thousand) and ¥3,274 million and corporate expenses of ¥35,078 million ($321,935 thousand) and ¥33,686 million, respectively. The corporate expenses were mainly related to administration expenses and research and development costs.

The adjustments of segment assets in the amounts of ¥340,704 million ($3,126,872 thousand) and ¥342,104 million at January 31, 2019 and 2018, respectively, include corporate assets consisting of surplus funds held by the Company (cash and short-term investments), long-term investments (investments in securities) and assets of administration departments.

The adjustments of depreciation and amortization in the amounts of ¥2,758 million ($25,312 thousand) and ¥2,621 million for the years ended January 31, 2019 and 2018, respectively, consist of depreciation and amortization arising from corporate assets.

The adjustments of increase in property, plant and equipment and intangible assets in the amounts of ¥4,821 million ($44,245 thousand) and ¥3,967 million for the years ended January 31, 2019 and 2018, respectively, consist of the purchases of equipment by the Company.

The total amount of segment income (loss) in the above tables is adjusted to operating income of the accompanying consolidated statements of income for the years ended January 31, 2019 and 2018.

Related Information

Information on each product and service for the years ended January 31, 2019 and 2018 was omitted because it was identical to that of the reportable segment information.

Geographical information on net sales for the years ended January 31, 2019 and 2018 was as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	**2018**	**2019**
Japan	¥ 1,914,363	¥ 1,852,647	$ 17,569,411
Overseas	245,954	306,717	2,257,287
Total	¥ 2,160,317	¥ 2,159,364	$ 19,826,698

Geographical information on property, plant and equipment for the years ended January 31, 2019 and 2018 was omitted because there were no items that meet the disclosure criteria.

Sales information by major customer for the years ended January 31, 2019 and 2018 was omitted because there were no items that meet the disclosure criteria.

Information on loss on impairment of fixed assets by reportable segment for the years ended January 31, 2019 and 2018 was as follows:

	Millions of yen					
	Year ended January 31, 2019					
	Custom detached houses	Rental housing	Remodeling	Real estate management fees	Houses for sale	Condominiums
Loss on impairment of fixed assets	¥ –	¥ –	¥ –	¥ –	¥ –	¥ –

	Millions of yen					
	Year ended January 31, 2019					
	Urban redevelopment	Overseas	Other	Total	Eliminations and other	Consolidated
Loss on impairment of fixed assets	¥8,970	¥ 318	¥ 105	¥9,393	¥ –	¥9,393

	Millions of yen					
	Year ended January 31, 2018					
	Custom detached houses	Rental housing	Remodeling	Real estate management fees	Houses for sale	Condominiums
Loss on impairment of fixed assets	¥ –	¥ –	¥ –	¥ –	¥ –	¥ –

	Millions of yen					
	Year ended January 31, 2018					
	Urban redevelopment	Overseas	Other	Total	Eliminations and other	Consolidated
Loss on impairment of fixed assets	¥ 6,308	¥ 1,437	¥ 46	¥ 7,791	¥ –	¥ 7,791

	Thousands of U.S. dollars					
	Year ended January 31, 2019					
	Custom detached houses	Rental housing	Remodeling	Real estate management fees	Houses for sale	Condominiums
Loss on impairment of fixed assets	$ –	$ –	$ –	$ –	$ –	$ –

	Thousands of U.S. dollars					
	Year ended January 31, 2019					
	Urban redevelopment	Overseas	Other	Total	Eliminations and other	Consolidated
Loss on impairment of fixed assets	$ 82,324	$ 2,918	$ 964	$ 86,206	$ –	$ 86,206

Information on amortization of goodwill and the remaining balance by reportable segment as of and for the years ended January 31, 2019 and 2018 was as follows:

	Millions of yen					
	As of and for the year ended January 31, 2019					
	Custom detached houses	Rental housing	Remodeling	Real estate management fees	Houses for sale	Condominiums
Amortization of goodwill	¥ –	¥ –	¥ –	¥ –	¥ –	¥ –
Remaining balance	–	–	–	–	–	–

	Millions of yen					
	As of and for the year ended January 31, 2019					
	Urban redevelopment	Overseas	Other	Total	Eliminations and other	Consolidated
Amortization of goodwill	–	¥ 1,467	¥ –	¥ 1,467	¥ –	¥ 1,467
Remaining balance	–	4,586	–	4,586	–	4,586

	Millions of yen					
	As of and for the year ended January 31, 2018					
	Custom detached houses	Rental housing	Remodeling	Real estate management fees	Houses for sale	Condominiums
Amortization of goodwill	¥ –	¥ –	¥ –	¥ –	¥ –	¥ –
Remaining balance	–	–	–	–	–	–

	Millions of yen					
	As of and for the year ended January 31, 2018					
	Urban redevelopment	Overseas	Other	Total	Eliminations and other	Consolidated
Amortization of goodwill	¥ –	¥ 1,246	¥ –	¥ 1,246	¥ –	¥ 1,246
Remaining balance	–	6,167	–	6,167	–	6,167

	Thousands of U.S. dollars					
	As of and for the year ended January 31, 2019					
	Custom detached houses	Rental housing	Remodeling	Real estate management fees	Houses for sale	Condominiums
Amortization of goodwill	$ –	$ –	$ –	$ –	$ –	$ –
Remaining balance	–	–	–	–	–	–

	Thousands of U.S. dollars					
	As of and for the year ended January 31, 2019					
	Urban redevelopment	Overseas	Other	Total	Eliminations and other	Consolidated
Amortization of goodwill	$ –	$ 13,464	$ –	$ 13,464	$ –	$ 13,464
Remaining balance	–	42,089	–	42,089	–	42,089

There was no information on gain on bargain purchase for the years ended January 31, 2019 and 2018.

21. Related Party Transactions

Principal transactions and balances between the Company and its related parties as of and for during the year ended January 31, 2019 and 2018 are summarized as follows:

		Transaction amount		Balances		
		2019		2019		
Names of related parties	Description	Millions of yen	Thousands of U.S. dollars	Account name	Millions of yen	Thousands of U.S. dollars
Isami Wada former Advisor and Director	Sales of condominium	¥ 150	$ 1,377	Advances received	¥ –	$ –

		Transaction amount	Balances	
		2018	2018	
Names of related parties	Description	Millions of yen	Account name	Millions of yen
Isami Wada Chairman, Representative Director & CEO	Sales of condominium	¥ –	Advances received	¥ 16

The prices for the transactions were determined using the same method as for third party transactions.

Isami Wada was appointed as an advisor and director on February 1, 2018. Subsequently, on April 26, 2018, he resigned from the position of advisor and director and was appointed as an advisor. The above transaction relates to his tenure period during the fiscal year.

22. Other Comprehensive Income

The following table presents an analysis of other comprehensive (loss) income for the years ended January 31, 2019 and 2018.

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Net unrealized holding (loss) gain on securities:			
Amount arising during the year	¥ (18,295)	¥ 13,806	$ (167,906)
Reclassification adjustments for loss included in profit	(3,022)	–	(27,735)
Before tax effect	(21,317)	13,806	(195,641)
Tax effect	6,316	(4,133)	57,967
Net unrealized holding (loss) gain on securities	(15,001)	9,673	(137,674)
Translation adjustments:			
Amount arising during the year	(28,169)	6,265	(258,526)
Reclassification adjustments for loss included in profit	(134)	(3,671)	(1,230)
Translation adjustment	(28,303)	2,594	(259,756)
Retirement benefits liability adjustments:			
Amount arising during the year	(43,873)	4,411	(402,653)
Reclassification adjustments for loss included in profit	(11,747)	(12,945)	(107,810)
Before tax effect	(55,620)	(8,534)	(510,463)
Tax effect	16,964	2,603	155,690
Retirement benefits liability adjustments	(38,656)	(5,931)	(354,773)
Share of other comprehensive (loss) gain of affiliates accounted for by the equity method:			
Amount arising during the year	(986)	1,652	(9,049)
Reclassification adjustments for gain included in profit	20	42	183
Share of other comprehensive (loss) gain of affiliates accounted for by the equity method	(966)	1,694	(8,866)
Total other comprehensive (loss) income	¥ (82,926)	¥ 8,030	$ (761,069)

23. Subsequent Events

1. Cash dividends

The following distribution of retained earnings of the Company, which has not been reflected in the accompanying consolidated financial statements for the year ended January 31, 2019, was approved at a shareholders' meeting held on April 25, 2019:

	Millions of yen	Thousands of U.S. dollars
Cash dividends (¥ 40 = U.S.$ 0.37 per share)	¥ 27,533	$ 252,689

2. Purchase of shares of an equity method affiliate to make it a consolidated subsidiary

At a meeting of the Board of Directors held on March 7, 2019, the Company decided to convert Otori Holdings, Co., Ltd. ("Otori Holdings"), which is an affiliate accounted for by the equity method, into a subsidiary.

The Company currently owns Class A Preferred Shares issued by Otori Holdings. Such Class A Preferred Shares include options to convert the preferred shares into common stock effective from October 1, 2019. Exercising all of the options, the Company will be able to raise its percentage of voting rights from 33.3% to 45.7%.

The Company will convert Otori Holdings into a subsidiary by exercising all of the options after the Company acquires common stock of Otori Holdings from other shareholders until its percentage of voting rights exceeds 50%.

Note: Otori Holdings is a holding company that owns all of the issued shares of Konoike Construction Co., Ltd. ("Konoike Construction").

(1) Reason for consolidation

The Group has been making consistent efforts with the aim of building the foundation for the residential-related business toward BEYOND 2020, a basic policy for the fourth mid-term management plan which covers the period up to fiscal year ending January 31, 2020, in view of business developments that are expected to unfold in the years beyond 2020.

Konoike Construction is a well-established general contractor that will mark its 150th year in business in 2021, and has shown consistent growth in business leveraging its advanced technology that has been developed over a number of years. Konoike Construction is taking forward-looking steps based on the customer trust and achievements that have been accumulated to date.

After the commencement of a business alliance with Konoike Construction announced on November 19, 2015, the Company has succeeded in producing synergies in a number of collaborative areas, including joint ventures in condominium and hotel development projects and acquisition of subcontractor contracts by sharing market intelligence, leveraging the combination of the Company's operating resources related to the residential-related business and that of Konoike Construction related to construction and civil engineering business. The Company will step up its collaborative initiatives with Konoike Construction,seeking to respond quickly to business opportunities in the coming years.The initiatives will include not only the Development-oriented projects that have played a primary part of the partnership business, but also our Built-to-Order-oriented projects seeking to grow the CRE/PRE strategic solution business, helping to further bolster the value of real estate assets owned by corporations and public organizations.

Given this situation, the Company has decided to consolidate Otori Holdings (and its subsidiary Konoike Construction), believing that it will be necessary for the Company to strengthen the existing business partnership in order to develop and expand the collaborative relationship between the two companies.

With the consolidation, the Company aims to achieve further enhancement in the partnership with Konoike Construction in pursuit of further growth of the Group, promoting group-wide initiatives aimed at producing synergistic results in business along with streamlining measures.

(2) Name, business description and scale of affiliate

(a) Name: Otori Holdings, Co., Ltd.

(b) Business description: Holding company which owns all of the issued shares of Konoike Construction Co., Ltd.

(c) Scale: Consolidated net assets amounted to ¥80,669 million and consolidated total assets amounted to ¥210,061 million as of September 30, 2018.

3. Introduction of a remuneration plan involving shares with restriction on transfer

At a meeting of the Board of Directors held on March 7, 2019, the Company revised its executive remuneration plans and decided to introduce a remuneration plan (the "Plan") involving shares with restriction on transfer. The plan was approved at the 68th annual general meeting of shareholders held on April 25, 2019.

Under the approved plan, the Company abolished its existing stock-based compensation stock option plans, excluding already issued stock acquisition rights. As a result, additional stock acquisition rights will not be allotted to directors under the plan.

(1) Purpose of the plan implementation

The Company proposed to introduce a remuneration plan through which shares with restriction on transfer will be allotted to directors excluding outside directors (the "Directors"), in order to give them incentives to strive to increase the corporate value of the Company continuously, at the same time as sharing it with the Company's shareholders.

(2) Overview of the plan

Common stock will be allotted to the Directors by issuing new shares or disposal of treasury stock after the Directors provide all of monetary compensation receivables which the Company shall provide under the plan, as a contribution in kind. In addition, the monetary compensation receivables for directors shall not exceed ¥90 million per year under the plan. However, the number of shares to be allotted to each director and the timing of compensation given and allotment shall be determined at the meeting of the board of directors. Furthermore, the total number of shares to be allotted to the Directors shall be up to 90,000 shares. Notwithstanding the foregoing, if a share split (including an allotment of the common shares of the Company without contribution) or share consolidation of the common shares of the Company is conducted after the 68th annual general meeting of shareholders, the total number of shares shall be adjusted based on the ratio of the share split or the share consolidation within a reasonable range as required after the effective date.

The amount to be paid in per share will be the closing price of the common shares of the Company quoted on the Tokyo Stock Exchange as of the business day immediately preceding the date of resolution of meeting of the Board of Directors concerning issuance or disposal of treasury stock (if no transaction is executed on such date, then the closing price quoted as of the immediately preceding trading day).

(a) Terms and details of restriction on transfer

The Directors who have received an allotment of shares with restriction on transfer may not assign, provide as pledge or collateral, make a gift or bequest or dispose of such shares with restriction on transfer to a third party for a period, which is beforehand designated, from 3 to 30 years after the date of allotment, at a meeting of the board of directors (“Restriction period”).

(b) Treatment upon resignation

If any director who has received an allotment of shares with restriction on transfer resigns from the post of both director and executive officer of the Company prior to the expiry of the Restriction period, the Company shall automatically acquire shares with restriction on transfer allotted to such director (“Allotted Shares”) without consideration, except for the case of expiry of term of office, death or where there is any other reason deemed justifiable by the board of directors.

(c) Removal of restriction on transfer

On condition that directors who have received an allotment of shares with restriction on transfer continue to be in the office of either director or executive officer of the Company during the Restriction Period, the Company shall remove the restriction on transfer in respect of all of the Allotted Shares as at the time of the expiry of the Restriction Period.

Notwithstanding the foregoing, if the relevant director resigns from the post of both director and executive officer of the Company prior to the expiry of the Restriction period due to expiry of term of office, death or where there is any other reason deemed justifiable by the board of directors, the number of the Allotted Shares subject to removal of restriction on transfer and the timing of removal of restriction on transfer shall be adjusted in a reasonable manner and as required.

Under the rule mentioned as above, the Company shall automatically acquire Allotted Shares not subject to removal of restriction on transfer without consideration at the time of removal of restriction on transfer.

(d) Treatment at the time of business combination or the like

If a proposal concerning a merger agreement where the Company becomes the absorbed company, share exchange agreement or share transfer plan where the Company becomes the wholly-owned subsidiary, or any other proposal regarding a business combination or the like is passed at a Company’s general meeting of shareholders (or at a meeting of the board of directors, where such business combination or the like does not require approval of the Company’s general meeting of shareholders) during the Restriction Period, the Company shall, prior to the effective date of such business combination or the like, remove the restriction on transfer for the number of the Allotted Shares reasonably determined considering the period from date of commencement of the Restriction Period until the date of approval of such business combination or the like, pursuant to the resolution of the meeting of the board of directors.

Under the rule mentioned as above, the Company shall automatically acquire Allotted Shares not subject to removal of restriction on transfer without consideration at the time of removal of restriction on transfer.

(e) Other provisions

Other matters concerning the Plan shall be determined at the meeting of the board of directors.

Note: The Company also plans to introduce a plan which shall be equivalent to the Plan, for the Company’s Executive Officers (excluding Executive Officers who concurrently serve as Directors) instead of abolishing stock based compensation stock options.

Independent Auditor's Report

The Board of Directors
Sekisui House, Ltd.

We have audited the accompanying consolidated financial statements of Sekisui House, Ltd. and subsidiaries, which comprise the consolidated balance sheet as at January 31, 2019, and the consolidated statements of income, comprehensive income, changes in net assets, and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

Management's Responsibility for the Consolidated Financial Statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for designing and operating such internal control as management determines is necessary to enable the preparation and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. The purpose of an audit of the consolidated financial statements is not to express an opinion on the effectiveness of the entity's internal control, but in making these risk assessments the auditor considers internal controls relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Sekisui House, Ltd. and subsidiaries as at January 31, 2019, and their consolidated financial performance and cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

Convenience Translation
We have reviewed the translation of these consolidated financial statements into U.S. dollars, presented for the convenience of readers, and, in our opinion, the accompanying consolidated financial statements have been properly translated on the basis described in Note 1.

April 25, 2019
Osaka, Japan

Ernst & Young ShinNihon LLC

Ernst & Young ShinNihon LLC

Corporate Data

Outline of the Company

(As of January 31, 2019)

Established
August 1, 1960

Capital Stock Issued
¥202,591 million

Employees
24,775 (Consolidated)

Head Office
Tower East Umeda Sky Building
1-88 Oyodonaka 1-chome Kita-ku Osaka
531-0076 Japan
Phone: 81-6-6440-3111
Facsimile: 81-6-6440-3369

Factories
Ibaraki, Shizuoka, Yamaguchi, Miyagi and Hyogo

Laboratory
Comprehensive Housing R & D Institute (Kyoto)

Major Subsidiaries and Affiliates
Sekiwa Real Estate, Ltd.
Sekisui House Remodeling Central, Ltd.
Sekiwa Construction Higashi-Tokyo, Ltd.
Sekisui House Asset Management, Ltd.
Sekisui House Australia Holdings Pty Limited
Sekisui House US Holdings, LLC
Sekisui House Changcheng (Suzhou) Real Estate Development Co. Ltd.

Stock Information

(As of January 31, 2019)

Stock Listing
Tokyo, Nagoya

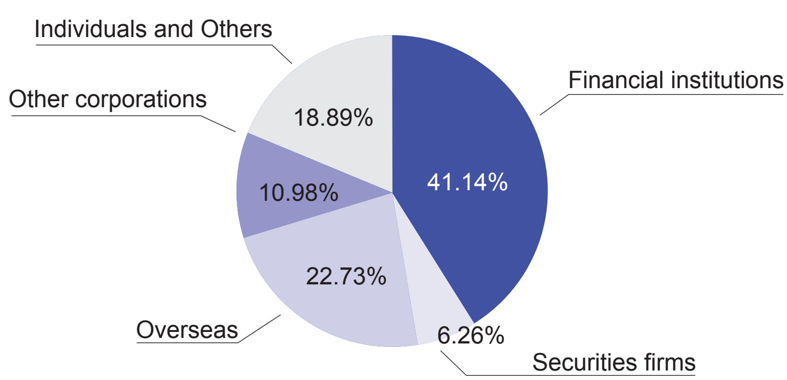
American Depositary Receipts
Symbol: SKHSY
CUSIP: 816078307
Ratio: 1:1
Exchange: OTC (Over-The-Counter)
Depositary: The Bank of New York Mellon
BNY Mellon PO Box 505000
Louisville,KY 40233-50000 U.S.A.
U.S. toll free: (888)269-2377 (888-BNY-ADRS)
International Callers: +1(201)680-6825
http://www.adrbnymellon.com

Major Shareholders

	Name	Number of shares	Shareholding ratio (%)
1	The Master Trust Bank of Japan, Ltd. (Trust account)	63,026,200	9.13
2	Sekisui Chemical Co., Ltd.	42,168,727	6.11
3	Japan Trustee Services Bank, Ltd. (Trust account)	36,648,666	5.31
4	Sekisui House *Ikushikai*	16,194,475	2.34
5	SMBC Nikko Securities Inc.	16,079,500	2.33
6	MUFJ Bank, Ltd.	13,624,515	1.97
7	Japan Trustee Services Bank, Ltd. (Trust account 5)	13,482,300	1.95
8	The Dai-ichi Life Insurance Company, Limited	12,158,730	1.76
9	NORTHERN TRUST CO. (AVFC) SUB A/C NON TREATY	11,009,306	1.59
10	Japan Trustee Services Bank, Ltd. (Trust account 7)	10,526,200	1.52

Note: Sekisui House *Ikushikai* is the Company's employee stock holding association

Stock Composition



Directors and Corporate Auditors
(As of April 25, 2019)

Chairman & Representative Director
Toshinori Abe

Vice Chairman & Representative Director
Shiro Inagaki

President & Representative Director
Yoshihiro Nakai

Executive Vice President & Representative Director
Takashi Uchida

Directors
Teruyuki Saegusa*
Shiro Wakui*
Yukiko Yoshimaru*
Fumiyasu Suguro
Kunpei Nishida
Yosuke Horiuchi
Toshiharu Miura

*Indicates an outside director as provided in Article 2-15 of the Companies Act and registered as independent officer required by the Tokyo Stock Exchange

Standing Corporate Auditors
Haruyuki Iwata
Hisao Yamada

Corporate Auditors
Yoshinori Shinohara **
Takashi Kobayashi **
Hisako Makimura**
Ryuichi Tsuruta **

**Indicates an outside audit & supervisory board member as provided in Article 2-16 of the Companies Act and registered as independent officer required by the Tokyo Stock Exchange

Executive Officers
(As of April 25, 2019)

Senior Managing Officers
Fumiyasu Suguro
Kunpei Nishida
Yosuke Horiuchi

Managing Officers
Toshiharu Miura
Kohei Hirota
Motohiko Fujiwara
Noboru Ashida
Hiroyuki Satoh
Kenichi Ishida
Kazuchika Uchiyama
Toru Ishii
Osamu Minagawa
Toshikazu Shimanuki
Futoshi Teramura
Hideyuki Kamijo

Executive Officers
Michio Yoshizaki
Takakazu Koi
Masayoshi Ishii
Midori Ito
Masato Kudoh
Sachio Nitta
Haruhiko Toyoda
Kohei Joki
Keizo Yoshimoto
Shigeo Tsujimoto

ANNUAL REPORT 2019

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