

S EMIANNUAL

R EPORT

2008

February 1 to July 31, 2008



SEKISUI HOUSE

To Our Shareholders

During the first half of fiscal 2008, the Japanese economy witnessed a faltering of the employment environment and businesses' capital expenditures as corporate earnings declined, owing to the slowdown of the U.S. economy and the continued rise of the price of oil and other raw materials. The international financial turmoil stemming from the sub-prime mortgage crisis continued to raise concerns about an economic downturn, thereby fueling uncertainties about the future course of the economy.

In the housing market, the aftermath of the amendment in the Building Standard Law is settling down; however, the housing starts continued to record negative year-on-year growth. As personal income failed to show any improvement and prices rose for basic consumer goods such as gasoline and food, first-time buyers' willingness to purchase housing was generally diminished, particularly in the built for sale housing market. Likewise, second-time buyers' willingness to invest in housing - by way of reconstructing their own housing or otherwise - continued to wane as depreciation of private financial assets failed to show any recovery with the stock market weakening, etc. In the rental housing market, on the other hand, wealthy individuals' willingness to invest in real estate increased in the form of efficient use of idle land to reduce inheritance taxes, amid the liquidation of the population in metropolitan areas.

Against this backdrop, we launched our initiatives in accordance with the medium-term management plan for three years ending January 31, 2011. While maintaining focus on our high-end lines, we initiated a new product strategy of releasing mid-end lines for younger generations in an attempt to expand sales by enhancing our appeal to a broader customer base. In order to cope with the sharp rise in costs, we took a series of cost-cutting measures, including a partial revision in our start-to-finish production system in each region to streamline some of our production lines, a realignment of our sales offices, and an elimination and consolidation of display home locations. In the urban redevelopment business, we worked on projects from a long-term perspective. Accordingly, the sale of our stake in Tokyo Mid-town was completed and other projects showed steady progress toward completion in this first half.

Despite these assiduous efforts in various different areas, however, we found it difficult to resist the sluggishness of the housing market as a whole, resulting in sluggish sales particularly in the Built for Sale Housing Business. Raw materials prices did not cease rising during this half year, pushing up input costs to top the cost reduction that we had planned at the beginning of the fiscal year. Orders for the Built to Order Housing Business were on a recovery track, which is expected to boost future performance.

In the Built to Order Housing Business, we developed and launched new compact housing in the mid-price range category. Offering high cost performance without sacrificing any specifications in functionality, this new line was developed with a view towards expanding our customer base by tapping into the latent demand among young and first time buyers who cannot expend as many funds on their housing. As a whole, orders for detached housing were showing a recovery trend, and the low rise apartment construction business performed briskly.

In the Real Estate for Sale Business, we purchased carefully-selected blue-chip real estate for the built for sale housing business. The slowing down of the real estate market, however, prevented us from recording a positive showing. In the Condominiums Business, we carried out our sales activities mainly in the three metropolitan areas, making extensive market research to minimize marketing risk. As a result, our condominiums sales helped to increase the total sales volume. For the urban redevelopment business, the sale of our retained interest in Tokyo Mid-town made a significant contribution to this half-year's showing.

The Real Estate for Leasing Business remained strong as the number of properties under Sekiwa Real Estate companies' management increased and the occupancy was maintained at a high level.

In the Other Business, we reached out to owners of our existing stock built by the company for the remodeling business, while for the exterior business, we promoted the creation of a rich natural environment in accordance with our "Gohon no ki" gardening concept.

As a result, consolidated net sales declined by 1.7% to 783,447 million yen (\$7,246,088 thousand). Consolidated operating income increased by 9.5% to 50,944 million yen (\$471,180 thousand), and consolidated net income decreased by 2.3% to 28,006 million yen (\$259,027 thousand). We also retired 32.5 million shares of treasury stock.

Now that the slowdown of the domestic economy and a downturn in economic growth have become an increasingly likely possibility, we do not believe that our business can be immune to this situation. Taking into account the results of orders, net sales, order backlog, among other figures, and the greater than expected cost increase in the first half; we have decided to revise our earlier results forecasts for the year ending January 31, 2009 as follow; net sales of 1,580 billion yen (down 1.1% year-on-year), operating income of 89 billion yen (down 18.9%), recurring income of 90 billion yen (down 21.1%), and net income of 48 billion yen (down 20.5%).

The dividend for the interim period under review will be 12 yen (\$0.11) per share.

September, 2008



Isami Wada
Chairman & CEO



Toshinori Abe
President & COO

CONSOLIDATED BALANCE SHEETS

As of July 31 and January 31, 2008 and July 31, 2007

Assets	Millions of yen			Thousands of U.S. dollars
	July 31 2008	January 31 2008	July 31 2007	July 31 2008
Current assets:				
Cash and cash equivalents.....	¥ 89,213	¥ 60,236	¥ 104,226	\$ 825,129
Short-term investments.....	10	140	1,528	93
Notes and accounts receivable:				
Affiliates.....	187	106	154	1,730
Trade.....	12,581	84,589	64,237	116,361
Other.....	13,667	16,572	16,330	126,406
Less allowance for doubtful accounts	(1,874)	(1,843)	(2,035)	(17,333)
	<u>24,561</u>	<u>99,424</u>	<u>78,686</u>	<u>227,164</u>
Inventories	766,354	709,185	624,815	7,087,995
Deferred income taxes	40,620	45,522	47,168	375,694
Other current assets.....	11,341	12,956	13,699	104,893
Total current assets	<u>932,099</u>	<u>927,463</u>	<u>870,122</u>	<u>8,620,968</u>
Property, plant and equipment, at cost:				
Land.....	112,265	105,111	99,598	1,038,337
Buildings and structures.....	209,677	202,329	192,589	1,939,299
Machinery and equipment.....	91,412	90,838	89,701	845,468
Construction in progress.....	6,124	5,964	4,073	56,641
	<u>419,478</u>	<u>404,242</u>	<u>385,961</u>	<u>3,879,745</u>
Less accumulated depreciation	(164,902)	(159,994)	(155,279)	(1,525,176)
Property, plant and equipment, net	<u>254,576</u>	<u>244,248</u>	<u>230,682</u>	<u>2,354,569</u>
Investments and other assets:				
Long-term loans receivable.....	32,251	33,714	34,470	298,289
Less allowance for doubtful accounts	(1,567)	(1,484)	(1,605)	(14,493)
	<u>30,684</u>	<u>32,230</u>	<u>32,865</u>	<u>283,796</u>
Investments in securities.....	87,890	82,770	98,607	812,893
Investments in affiliates.....	3,184	3,028	2,014	29,449
Deferred income taxes	6,663	4,941	1,455	61,626
Intangible assets	8,830	8,356	7,633	81,668
Prepaid pension cost.....	6,370	6,918	2,194	58,916
Other assets	39,859	39,487	38,932	368,655
Total investments and other assets	<u>183,480</u>	<u>177,730</u>	<u>183,700</u>	<u>1,697,003</u>
	<u>¥ 1,370,155</u>	<u>¥ 1,349,441</u>	<u>¥ 1,284,504</u>	<u>\$ 12,672,540</u>

Liabilities and net assets	Millions of yen			Thousands of U.S. dollars
	July 31 2008	January 31 2008	July 31 2007	July 31 2008
Current liabilities:				
Notes and accounts payable:				
Affiliates.....	¥ 4,362	¥ 3,306	¥ 3,371	\$ 40,344
Trade.....	146,837	157,530	169,944	1,358,093
Short-term bonds payable.....	60,000	40,000	80,000	554,939
Accrued income taxes.....	15,795	27,530	10,852	146,088
Advances received on construction projects in progress.....	100,234	87,033	96,116	927,062
Allowance for employees' bonuses.....	12,257	17,030	14,928	113,365
Allowance for directors' and corporate auditors' bonuses.....	—	860	—	—
Other current liabilities.....	42,253	46,315	49,552	390,797
Total current liabilities	381,738	379,604	424,763	3,530,688
Long-term liabilities:				
Long-term debt.....	120,665	120,418	20,196	1,116,029
Guarantee deposits received.....	54,519	54,665	54,845	504,245
Deferred income taxes.....	10	26	2,805	92
Accrued retirement benefits for employees	20,136	20,107	19,805	186,238
Accrued retirement benefits for directors and corporate auditors.....	1,111	1,235	1,119	10,276
Other liabilities	2,154	2,423	2,447	19,922
Total long-term liabilities	198,595	198,874	101,217	1,836,802
Contingent liabilities (Note 2)				
Net assets :				
Shareholders' equity				
Common stock:				
Authorized -1,978,281,000 shares				
Issued: July 2008 - 676,885,078 shares, July 2007, and January 2008				
-709,385,078 shares.....	186,554	186,554	186,554	1,725,435
Capital surplus.....	237,523	254,127	254,133	2,196,846
Retained earnings.....	356,603	377,565	353,995	3,298,215
Less treasury stock, at cost.....	(1,099)	(58,531)	(58,451)	(10,165)
Total shareholders' equity	779,581	759,715	736,231	7,210,331
Valuation and translation adjustments:				
Net unrealized holding gain on securities.....	9,824	10,893	21,996	90,862
Deferred losses on hedges.....	(3)	(4)	(1)	(28)
Total valuation and translation adjustments.....	9,821	10,889	21,995	90,834
Stock subscription rights.....	111	67	23	1,027
Minority interests.....	309	292	275	2,858
Total net assets	789,822	770,963	758,524	7,305,050
	¥ 1,370,155	¥ 1,349,441	¥ 1,284,504	\$ 12,672,540

* See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF INCOME

Six months ended July 31, 2008 and 2007, and year ended January 31, 2008

	Millions of yen			Thousands of U.S. dollars
	July 31 2008	July 31 2007	January 31 2008	July 31 2008
Net sales	¥ 783,447	¥ 796,756	¥ 1,597,807	\$ 7,246,088
Cost of sales	621,977	640,465	1,269,243	5,752,655
Gross profit	161,470	156,291	328,564	1,493,433
Selling, general and administrative expenses	110,526	109,781	218,836	1,022,253
Operating income	50,944	46,510	109,728	471,180
Other income (expenses):				
Interest and dividend income	1,453	1,524	2,799	13,439
Interest expense	(1,248)	(261)	(1,153)	(11,543)
Loss due to change in business plan <i>(Note 3)</i>	(2,818)	-	-	(26,064)
Loss on impairment of fixed assets <i>(Note 4)</i>	(822)	-	-	(7,603)
Loss on revaluation of real estate held for sale <i>(Note 5)</i>	-	(97)	(3,375)	-
Loss on revaluation of securities	-	-	(566)	-
Other, net	80	1,338	1,999	741
Income before income taxes and minority interests	47,589	49,014	109,432	440,150
Income taxes :				
Current	15,686	10,955	36,778	145,079
Deferred	3,878	9,376	12,267	35,868
Income before minority interests	19,564	20,331	49,045	180,947
Income before minority interests	28,025	28,683	60,387	259,203
Minority interests in earnings of subsidiaries	(19)	(17)	(35)	(176)
Net income	¥ 28,006	¥ 28,666	¥ 60,352	\$ 259,027

* See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Six months ended July 31, 2008 and 2007, and year ended January 31, 2008

	Millions of yen			Thousands of U.S. dollars
	July 31 2008	July 31 2007	January 31 2008	July 31 2008
Cash flows from operating activities				
Income before income taxes and minority interests.....	¥ 47,589	¥ 49,014	¥ 109,432	\$ 440,150
Adjustments for:				
Depreciation and amortization.....	7,407	6,476	14,157	68,507
Loss on impairment of fixed assets.....	822	-	-	7,603
Increase (decrease) in accrued retirement benefits.....	28	(1,898)	(1,596)	259
Decrease (increase) in prepaid pension cost.....	548	(2,194)	(6,918)	5,068
Interest and dividend income.....	(1,453)	(1,524)	(2,799)	(13,439)
Interest expense.....	1,248	261	1,153	11,543
Loss on revaluation of real estate held for sale.....	-	97	3,375	-
Loss on revaluation of securities.....	-	-	566	-
Decrease (increase) in notes and accounts receivable.....	72,007	20,066	(286)	665,991
Increase in inventories and advance payments.....	(58,105)	(126,000)	(213,528)	(537,412)
(Decrease) increase in notes and accounts payable.....	(11,650)	2,054	(10,967)	(107,750)
Increase (decrease) in advances received on construction projects in progress..	13,201	(1,989)	(11,072)	122,096
Other.....	(3,305)	(12,646)	(11,513)	(30,568)
Subtotal.....	68,337	(68,283)	(129,996)	632,048
Interest and dividends received.....	1,500	1,575	2,858	13,873
Interest paid.....	(1,243)	(249)	(843)	(11,496)
Income taxes paid.....	(26,736)	(38,137)	(47,299)	(247,281)
Net cash provided by (used in) operating activities.....	41,858	(105,094)	(175,280)	387,144
Cash flows from investing activities				
Proceeds from sales of short-term investments.....	130	50	1,450	1,202
Proceeds from sales of property, plant and equipment.....	37	21	71	342
Purchases of property, plant and equipment.....	(17,929)	(22,846)	(44,552)	(165,825)
Proceeds from sales of investments in securities.....	-	370	434	-
Purchases of investments in securities.....	(6,906)	(12,659)	(17,052)	(63,873)
Decrease in loans receivable.....	1,455	838	1,604	13,457
Other.....	(1,773)	160	(1,855)	(16,398)
Net cash used in investing activities.....	(24,986)	(34,066)	(59,900)	(231,095)
Cash flows from financing activities				
Increase in short-term bonds payable.....	20,000	80,000	40,000	184,980
Proceeds from long-term debt.....	245	147	40,391	2,266
Proceeds from issuance of bonds.....	-	-	59,977	-
Cash dividends paid.....	(8,116)	(8,508)	(16,625)	(75,065)
Increase in treasury stock.....	(47)	(57,760)	(57,855)	(435)
Other.....	23	8	29	213
Net cash provided by financing activities.....	12,105	13,887	65,917	111,959
Net increase (decrease) in cash and cash equivalents.....	28,977	(125,273)	(169,263)	268,008
Cash and cash equivalents at beginning of period.....	60,236	229,499	229,499	557,121
Cash and cash equivalents at end of period.....	¥ 89,213	¥ 104,226	¥ 60,236	\$ 825,129

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

July 31, 2008 and 2007

1. Basis of Consolidated Financial Statements

Sekisui House, Ltd. (the "Company") and its domestic subsidiaries maintain their accounts and records in accordance with the provisions set forth in the Corporation Law of Japan and the Financial Instruments and Exchange Law of Japan and in conformity with accounting principles generally accepted in Japan, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards. The Company's overseas subsidiary maintains its accounts and records in conformity with the accounting principles generally accepted and the practices prevailing in its country of domicile. The accompanying consolidated financial statements have been compiled from the consolidated financial statements prepared by the Company as required by the Financial Instruments and Exchange Law of Japan.

The translation of Japanese yen amounts into U.S. dollars is included solely for the convenience of the reader and has been made at ¥108.12= U.S.\$1.00, the approximate rate of exchange in effect on July 31, 2008. 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. Contingent Liabilities

The Company and its subsidiaries had the following contingent liabilities at July 31, 2008

	Millions of yen	Thousands of U.S. dollars
Guarantees of housing loans to customers.....	¥ 73,159	\$ 676,646
Guarantees of bank loans of third parties.....	852	7,880
	<u>¥ 74,011</u>	<u>\$ 684,526</u>

3. Loss Due to Change in Business Plan

The Company reviewed its business plan, and recorded a loss due to change in the business plan, with recognition of accrued tax liabilities on land held for sale to which a moratorium on levying of the special land holding tax had been applicable before. The amount of accrued tax liabilities included the amount of a delinquency tax during the grace period.

4. Loss on Impairment of Fixed Assets

The Company and its domestic subsidiaries completed a review of their assets to identify those whose carrying amounts were not recoverable and recognized losses on the impairment of buildings, land and other assets for leasing, which are grouped individually. As a result, the book value of the group of assets which it was decided to dispose of by dismantling buildings was impaired down to the recoverable value, and this decrease was recorded as loss on impairment of fixed assets under Extraordinary Loss. The recoverable value of these assets was calculated base on the net saleable value.

5. Loss on Revaluation of Real Estate Held for Sale

Real estate held for sale at July 31, 2007, and January 31, 2008, the market value of which has declined significantly from its carrying value, has been written down to its fair market value.

6. Amounts per Share

	Yen			U.S. dollars
	July 31 2008	July 31 2007	January 31 2008	July 31 2008
Net income:				
Basic	¥ 41.42	¥ 41.04	¥ 87.70	\$ 0.38
Diluted	41.41	41.04	87.68	0.38
Net assets.....	1,167.47	1,121.21	1,139.63	10.80
Cash dividends.....	12.00	12.00	24.00	0.11

CORPORATE DATA

(As of July 31, 2008)

Corporate Officers

Chairman & CEO

Isami Wada

President & COO

Toshinori Abe

Executive Vice President & Director

Kazuo Yoshimitsu

Directors

Katsuhiko Machida

Akira Morimoto

Sumio Wada

Shiro Inagaki

Yoshiro Kubota

Yuzo Matsumoto

Fumiaki Hirabayashi

Takashi Uchida

Junichi Terada

Tetsuo Iku

Kenji Hatanaka

Standing Corporate Auditors

Hiroshi Itawaki

Tadashi Iwasaki

Corporate Auditors

Takaharu Dohi

Eiji Mansho

Executive Vice President & Officers

Kazuo Yoshimitsu

Senior Managing Officers

Akira Morimoto

Sumio Wada

Shiro Inagaki

Yoshiro Kubota

Managing Officers

Yuzo Matsumoto

Fumiaki Hirabayashi

Takashi Uchida

Junichi Terada

Tetsuo Iku

Kenji Hatanaka

Daiji Kuroki

Shinichi Yamada

Akihisa Terasaki

Executive Officers

Kenji Imamura

Takaaki Shigematsu

Mitsugu Iijima

Katsuaki Shimoda

Hidehiro Yamaguchi

Kengo Yoshida

Yoshikazu Takatsuka

Tsutomu Motomura

Naoki Ishii

Takanobu Ishioka

Shinichi Doi

Masaaki Oikawa

Atsuyuki Miyamoto

Yoshimoto Nakamura

Fumiyasu Suguro

Outline of the Company

(As of July 31, 2008)

Established

August 1, 1960

Capital Stock Issued

¥ 186,554 million

Employees

16,697 (As of April 1, 2008)

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

Shiga, Ibaraki, Shizuoka, Yamaguchi,

Miyagi and Hyogo

Laboratory

Kyoto

Domestic Subsidiaries and Affiliates

Sekiwa Real Estate Sapporo, Ltd.

Sekiwa Real Estate Tohoku, Ltd.

Sekiwa Real Estate, Ltd.

Sekiwa Real Estate Chubu, Ltd.

Sekiwa Real Estate Kansai, Ltd.

Sekiwa Real Estate Chugoku, Ltd.

Sekiwa Real Estate Kyushu, Ltd.

Sekiwa Real Estate KRM, Ltd.

Sekisui House Remodeling, Ltd.

Sekisui House Umeda Operation Co., Ltd.

SGM Operation Co., Ltd. etc

All 73 subsidiaries and 6 affiliates.

Stock Listing

Tokyo Stock Exchange

Osaka Securities Exchange

Nagoya Stock Exchange

American Depositary Receipts

Depository:

The Bank of New York

SEKISUI HOUSE, LTD.

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