ANNUAL REPORT 2006

For the year ended January 31, 2006

Sekisui House, Ltd.

Our Corporate Profile

Sekisui House, Ltd. is Japan's leading home builder, with profitability and dividends that well exceed the average for the industry. Our base of business is the construction, sale, purchase and administration of residential properties; the design, execution, contracting and supervision of construction projects; real estate brokerage and landscaping. Since our establishment in 1960, we at Sekisui House have achieved steady growth, becoming an ever-increasingly active participant in the Japanese construction industry.

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Financial Highlights

Sekisui House, Ltd. and Subsidiaries

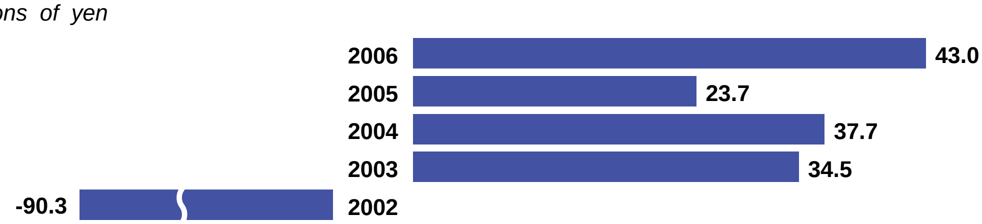
	Millions of yen					Thousands of U.S. dollars
	2006	2005	2004	2003	2002	**2006**
For the year:						
Net sales	¥ **1,501,857**	¥ 1,372,244	¥ 1,326,039	¥ 1,300,237	¥ 1,305,469	$ **12,754,624**
Net income	**43,029**	23,659	37,762	34,547	(90,331)	**365,427**
At year ended						
Total assets	**1,098,203**	1,140,231	1,181,013	1,258,980	1,303,821	**9,326,565**
Shareholders' equity	**685,762**	666,475	667,964	645,702	626,463	**5,823,881**

	Yen					U.S. dollars
	2006	2005	2004	2003	2002	**2006**
Per share:						
Net income	¥ **62.94**	¥ 33.80	¥ 53.30	¥ 48.71	¥ (125.11)	$ **0.53**
Cash dividends applicable to the year	**20.00**	18.00	18.00	18.00	18.00	**0.17**

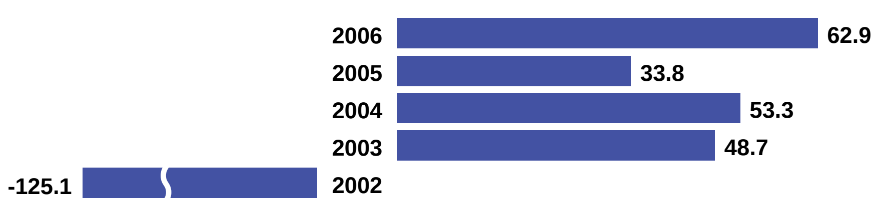
Note: U.S. dollar amounts above and elsewhere in this report represent translations of Japanese yen, for convenience only, at the approximate exchange rate of 117.75 yen = U.S. $1, effective at January 31, 2006.

Net Sales
Billions of yen

Net Income
Billions of yen



Net Income Per Share
Yen



A Message From The President

During Fiscal 2005, the Japanese economy finally bottomed-out and started to recover as the employment condition improved, with the income of wage earners gradually increasing on the back of brisk corporate profits. Active investing in blue-chip properties in big cities, mainly in the Tokyo metropolitan area, continued and expanded, and the stock market became buoyant. However, the rise in oil prices and concern over increasing interest rates prevented us from resolving some uncertainties concerning the future course of the economy.

In the housing market, first time buyers' motivation was still strong as housing prices were close to bottoming out with the percentage land price decrease moderating, and interest rates remained low. Driven chiefly by the brisk movement of built-for-sale units, new housing starts in calendar 2005 grew by 4.0% year-on-year to 1.236 million units. Nevertheless, demand from owner-occupiers remained sluggish as middle-aged and elderly customers, who account for the majority of secondary acquisitions for rebuilding, remained cautious.

Against this backdrop, we took a series of actions designed to reinforce the built to order housing business and peripheral businesses, including the enhancement of corporate resilience and marketing expertise, consolidation of the product line in such a way as to meet market needs, and development of new products.

Out of our sincere wish to be a leading creator of homes and environments, contributing to the building of a sustainable society through the supply of housing that meets customer satisfaction, we published a "Declaration of Sustainability" in April 2005, the first in the construction industry. Building on our track record in areas such as business undertakings, environmental preservation, and fulfillment of social responsibilities, the company's management believes it essential to maintain an adequate balance between pursuit of profits (economic value) on one hand and the environment (environmental value) and society (social value) on the other. We have added the "dweller value" to these three to make it a four-point guideline for the whole scope of our activities. With this "Sustainable Vision" forming our foundation, we will ensure that evenly balanced attention is paid to every stakeholder in our future undertakings.

We have always remained committed to the preservation of the environment. Our waste management system made us the first in the construction industry to be authorized by the Minister of the Environment to dispose of construction site waste across administrative boundaries. This system also enabled us to achieve "zero" emissions (landfill and simple incineration) at construction sites of new houses in July 2005, thus fulfilling our responsibility to recycle resources with the thoroughgoing voluntary environmental management system. Moving beyond "zero" emissions at new house construction sites, we will accelerate our initiatives designed to improve all aspects of the living environment, such as longer life of housing, development of easily recyclable materials, and reducing environmental stress from inhabited homes.

In the mainstay detached housing business, we introduced a series of measures designed to enhance our marketing expertise, including the pursuit of a consulting sales model. We also launched a Built to Order line that gives customers improved freedom in choosing the design and details of housing appearance, thus laying the foundation for our lifestyle solution business model. As a concrete step in our effort towards achieving a sustainable society, in November we launched an *Eco-Life Model Series*, which combines harmony with the natural environment and comfort in living. New offerings in the *Sha-Maison* low-rise apartment rental business are: "*SAKURA Style,*" specifically designed to meet the demands of young unmarried customers for comfort, fashionability, and security; and "*STUDIO LIVING*," which allows individual customers to change room planning as they like with sliding screens, for an efficient use of interior space that is able to meet their individual lifestyle.

In the Real Estate for Sale Business, we actively purchased land for sale to further the ongoing drive to boost sales from first time buyers, and began sale of quality housing complexes with enhanced security and disaster-prevention features. Meanwhile, we fulfilled our corporate responsibility for future generations by conducting R&D and educational activities for environmental preservation, which resulted in the debut of the world's first eco-friendly housing equipped with household fuel cells. In our sincere hope of designing a community whose value increases over time, we came up with the concept of "beauty that blooms with time." By drawing up an "Urban Development Charter," among other things, from the urban development planning stage, we aim at not only building "houses" (hardware/space), but creating a quality living environment through community formation. Regular maintenance of the whole community ensures that a beautiful townscape will be formed over time.

In our Real Estate for Leasing Business, we acquired full ownership of the six Sekiwa Real Estate companies in February 2005, with a view towards maximizing synergies with the Sekisui House Group. This move led to the brisk performance of block leasing and management of leasing properties. Resources of the Group were dedicated to strengthening the proposal capacity of our leasing business, including moving ahead with block leasing and management of leasing properties by the Sekiwa Real Estate companies, in the hopes of securing stable tenants.

As part of our promotion of customer satisfaction in providing our customers with comfortable residences for the long-term, we have put major efforts into the exterior business and energy-efficient home remodeling businesses targeted at the existing stock of houses built by the company, as we strive to create an organization that can provide comprehensive and high quality homes.

Consolidated net sales totaled 1,501,857million yen ($12,754,624 thousands +9.4%). Despite the sharp rise in materials prices during the period under review, we managed to achieve a year-on-year increase at all levels of consolidated income, with operating income growing by 4.4% to 79,981 million yen ($679,244 thousands) and net income by 81.9% to 43,029 million yen ($365,427 thousands).

On the financial balance, we redeemed its eighth, ninth, and eleventh unsecured straight bonds (30 billion yen in issues outstanding), reducing interest-bearing debts to zero.

Cash flow from operating activities declined substantially year-on-year, between the aggressive acquisition of land for sale designed to strengthen the real estate for sale business, and the decrease from the previous term in impairment losses and gains on the return of the substitutional portion of its employee pension fund liabilities to the government.

Cash flow from investment activities grew substantially year-on-year, due primarily to the sale of national government bonds that were being held to manage our surplus funds.

Cash flow from financing activities declined substantially year-on-year, as we implemented a repurchase of over 43.02 million shares of treasury stock for a total sum of 46,600 million yen ($395,754 thousands), and also redeemed 30,000 million yen ($254,777 thousands) in straight bonds.

As a result, cash and cash equivalents at the end of the period decreased by 84,732 million yen ($719,592 thousands) year-on-year to 94,980 million yen ($806,624 thousands).

With the understanding that signs of general economic recovery have manifested themselves, despite some uncertainties over the future course of the economy, we intend to push aggressive marketing programs in order to achieve our growth strategies.

In more concrete terms, we plan to increase the number of sales people and help them sharpen their skills in order to boost the sales of detached houses and *Sha-Maison* rental housing, which are our top priorities. We also intend to shift more resources to our peripheral businesses, including exteriors and remodeling.

To tap into the growing opportunities offered by the real estate for sale business, we intend to develop quality housing complexes that are safe, secure, and comfortable, and whose beauty blooms with time, thereby boosting our earnings.

To counteract the worrying rise in prices of raw materials, we will implement thorough cost-cutting measures based on a review of our designs and construction techniques, as well as stricter process controls. We believe that these measures will improve profit margins without sacrificing our market competitiveness.

Now that the six Sekiwa Real Estate Group companies have been made wholly-owned subsidiaries, we will leverage our closer relationship with them in order to maximize synergies within the Sekisui Group in every aspect of business, going beyond the real estate for leasing business in order to drive our performance. With regards to the remodeling business, which was made separate at that same time, we intend to increase management efficiency and boost profitability by focusing on the strengthening of our marketing expertise and cost reduction through an increase in contract employees.

We wish also continue to compensate our shareholders aggressively in proportion to earning growth.

I. Wada

Isami Wada
CEO / President

Sekisui House Topics

Environmental and Social Responsibility

In our efforts to help realize a sustainable society, Sekisui House, Ltd. proclaimed the "Declaration of Sustainability" in April 2005, setting sustainability as a cornerstone of our corporate activities. The following outlines some of our efforts so far.

Announcement of voluntary action plan complying with COP3

In Japan, the Kyoto Protocol on global warming came into force in February 2005, and it has become our challenge as a nation to reduce CO_2 emissions in the household sector, which have been increasing in the last few years. Accepting our social responsibilities as the leading company in Japan's housing sector, Sekisui House has developed "Action Plan 20", a goal we set voluntarily, and been working to cut CO_2 emissions released from occupied houses, which account for about 70% of CO_2 emissions released during the housing life cycle, by 20% over the projected amount for 2010 (6% decrease over 1990).

Sekisui House now includes energy-saving high-efficiency water heaters and other features as standard equipment in our newly built homes. These features will achieve at least a 20% reduction in CO_2 emissions and are based on our next-generation energy-saving specifications (the highest level specified by the Law concerning the Rational Use of Energy) standardized in our all detached houses, and we have been leading the industry in this field since 2003. We will promote this project further by proactively proposing energy-saving equipment and photovoltaic power generation systems to our customers.

We have also been working to improve energy conservation in existing homes, and this plays a large part in decreasing CO_2 emissions in the household sector. Efforts are being made to create comfort for residents and enhance energy savings by taking advantage of Sekisui House's position as the largest housing supply company in Japan, with about 700,000 houses sold so far, and the merits of our remodeling technologies for improving heat insulation performance established in our Prefabricated Housing.

In May 2005, we became the first company in the world to sell housing equipped with household fuel cells, and we will continue to promote them in our commitment to introduce new energy-saving/creation technologies related to housing.

We also built an experimental house and launched live-in experiments to test sustainability.

Zero-emission achieved at new house construction sites

As the first company in the industry to be authorized by the Minister of the Environment to dispose of construction site waste across administrative boundaries, Sekisui House created a unique recycling system and achieved zero-emission of waste material at our new house construction sites in July 2005, six months ahead of schedule.

In this unique system, we recycle waste at our own facilities rather than just sending it all to recycling companies. First, waste is sorted into 27 different types at construction sites. Next, it is sorted again into about 60 types at our recycling centers at our factories, from where it goes back into our previously developed zero-emission recycling system. Thus we were also able to develop high traceability in the system due to our consistent waste disposal practices at our facilities.

The system has also proven effective in our efforts to reduce initial waste at construction sites. In 2000, the amount of waste was about 2,900kg per house built, but it is now about 1,800kg. To reduce it still further, we intend to include our suppliers in the effort.

Establishing brands for urban development

In fiscal 2005, Sekisui House set out a "Urban Development Charter" to build towns that are pleasant to live in, in cooperation with residents, as part of our efforts to strengthen our nationwide real estate for sales business. Our goal is to build beautiful, quality towns where residents will want to stay. Based on this companywide concept, starting in fiscal 2006, we will establish new brands for our housing complexes in order to foster communities that have a local culture and local characteristics.

In carrying out this plan, we will adopt our gardening concept "Five Trees Project", as one of the required elements, to help maintain ecosystems by planting indigenous trees where wild birds can gather, thus aiming to build towns with high brand value.

With such a concept in mind, in September 2005, as part of our housing and urban development business, we opened the 18ha "Teriha Town" in Fukuoka Island City, which was built on a large landfill off the coast of Hakata Bay in Fukuoka.

Additionally, we are developing suggestions for the Akasaka Project Building in Tokyo and urban development projects in large cities. These suggestions we are strengthening take advantage of our experience in creating comfortable, quality living environments which we have cultivated through our housing business, and take into account the natural environment.

Social activities for a better lifestyle culture

One of our social responsibilities is to provide society with the broad knowledge and experience we have acquired through our housing business and to help create housing and an environment with a rich sense of humanity. We have been promoting awareness about housing at Japan's first experience-based facility, "Nattoku Kobo (Home Amenities Experience Studio)" established in Kyoto in 1990, where visitors can fully utilize all their five senses to appreciate various concepts of housing. The facility has been open to the public, including professionals in architecture and welfare, and constructors, as well as educators and a landmark figure of 500,000 visitors was attained by August 2005. Our similar experiment-based facilities "Sumaino Yume Kojo" at our nationwide factories have increased in number, having added one in Toyama Prefecture this year, and these facilities contribute to school education. We have also been making efforts to educate consumers by holding courses about housing and lifestyle.

With our president as chair, our CSR (Corporate Social Responsibility) committee includes outside members and plays a role as an advisory body to the board of directors. Sekisui House is determined to fulfill our social responsibilities by promoting compliance and diversity-conscious business and enhancing communication with stakeholders.

The aforementioned activities are representative of our "Sustainability Report," which we released to report on our across-the-board activities in fiscal 2005, regarding the environment and our social responsibilities.

Management's Discussion and Analysis

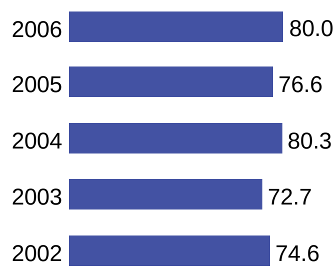
Results of Operations

For the year ended January 31

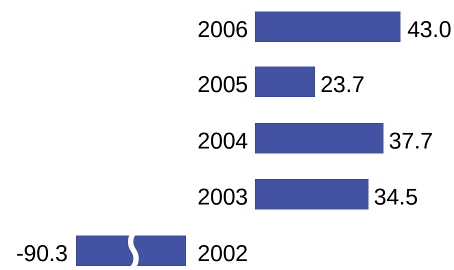
	Millions of yen (percentage change)				
	2006	2005	2004	2003	2002
Net sales..	**¥ 1,501,857 (9.4)**	1,372,244 (3.5)	1,326,039 (2.0)	1,300,237 (-0.4)	1,305,469 (-4.3)
Cost of sales....................................	**¥ 1,213,190 (10.4)**	1,098,520 (4.0)	1,055,989 (1.9)	1,035,976 (0.1)	1,035,277 (-3.3)
Operating income..........................	**¥ 79,981 (4.4)**	76,639 (-4.6)	80,334 (10.4)	72,737 (-2.5)	74,625 (-22.3)
Net income.....................................	**¥ 43,029 (81.9)**	23,659(-37.3)	37,762 (9.3)	34,547 (-)	-90,331 (-)
	Yen (percentage change)				
Net income per share (Note 16)......	**¥ 62.94 (86.2)**	33.80 (-36.6)	53.30 (9.4)	48.71 (-)	-125.11 (-)

Net Sales
Billions of yen

Operating Income
Billions of yen



Net Income
Billions of yen

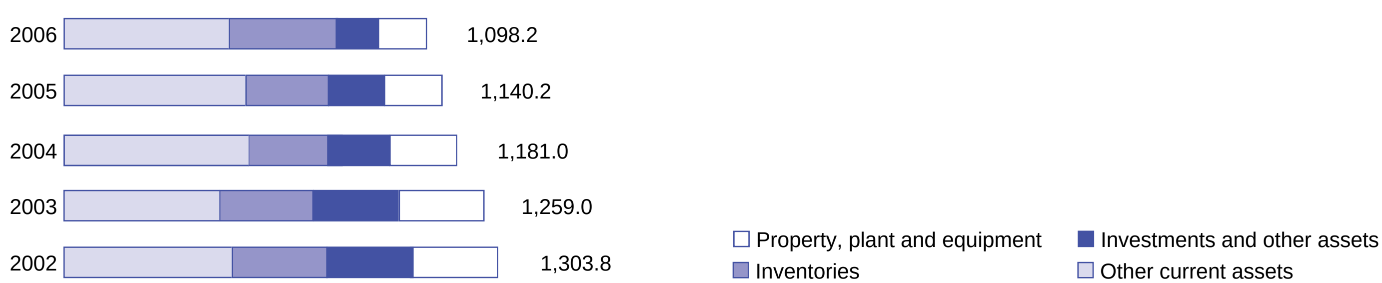


Financial Position

For the year ended January 31

	% of total assets				
	2006	2005	2004	2003	2002
Current assets................................	**64.9**	64.4	58.5	60.0	61.1
Inventories......................................	**39.8**	31.8	24.4	23.3	22.1
Investments and other assets.......	**16.7**	19.4	19.6	19.7	19.9
Property, plant and equipment.......	**18.4**	16.2	21.9	20.3	19.0
Current liabilities.............................	**29.8**	31.1	26.8	30.8	29.1
Long-term liabilities........................	**7.8**	8.6	14.8	16.4	22.3
Long-term debt...............................	**—**	0.8	3.4	5.6	12.3
Total shareholders' equity.............	**62.4**	58.5	56.6	51.3	48.0

Total Assets
Billions of yen



*See notes to consolidated financial statements.

Five-year Summary

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

	Millions of yen					Thousands of U.S. dollars
	2006	2005	2004	2003	2002	**2006**
Net sales	¥ **1,501,857**	1,372,244	1,326,039	1,300,237	1,305,469	**$ 12,754,624**
Operating income	¥ **79,981**	76,639	80,334	72,737	74,625	**$ 679,244**
Net income	¥ **43,029**	23,659	37,762	34,547	- 90,331	**$ 365,427**
Total assets	¥ **1,098,203**	1,140,231	1,181,013	1,258,980	1,303,821	**$ 9,326,565**
Shareholders' equity	¥ **685,762**	666,475	667,964	645,702	626,463	**$ 5,823,881**

	Millions of yen					Thousands of U.S. dollars
Segment information (Note 19):	**2006**	2005	2004	2003	2002	**2006**
Built to order housing	¥ **726,920**	709,832	744,600	740,947	821,451	**$ 6,173,418**
Real estate for sale	¥ **347,724**	273,455	202,532	190,096	185,273	**$ 2,953,070**
Real estate for leasing	¥ **292,672**	270,765	250,633	231,877	172,459	**$ 2,485,537**
Other	¥ **142,913**	128,802	134,199	142,671	132,432	**$ 1,213,699**

	Yen					U.S. dollars
Amounts per share (Note 16):	**2006**	2005	2004	2003	2002	**2006**
Net income per share	¥ **62.94**	**33.80**	53.30	48.71	- 125.11	**$ 0.53**
Diluted	–	–	51.39	44.42	–	–
Net assets	¥ **1,028.46**	**979.40**	959.96	911.01	883.16	**$ 8.73**
Dividends	¥ **20.00**	**18.00**	18.00	18.00	18.00	**$ 0.17**

*See notes to consolidated financial statements.

Consolidated Balance Sheets

Sekisui House, Ltd. and Subsidiaries
January 31, 2006 and 2005

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2006	2005	**2006**
Assets			
Current assets:			
Cash and cash equivalents	**¥ 94,980**	¥ 179,712	**$ 806,624**
Short-term investments *(Note 4)*	**817**	1,050	**6,938**
Notes and accounts receivable:			
Affiliates	**148**	124	**1,257**
Trade	**96,611**	82,571	**820,476**
Other	**17,189**	14,903	**145,979**
Less allowance for doubtful accounts	**(1,763)**	(1,636)	**(14,972)**
	112,185	95,962	**952,740**
Inventories *(Note 5 and 8)*	**436,609**	362,585	**3,707,932**
Deferred income taxes *(Note 9)*	**59,243**	85,052	**503,125**
Other current assets	**8,918**	10,089	**75,737**
Total current assets	**712,752**	734,450	**6,053,096**
Property, plant and equipment:			
Land *(Note 8)*	**87,926**	77,268	**746,718**
Buildings and structures *(Note 8)*	**170,252**	160,770	**1,445,877**
Machinery and equipment	**84,905**	81,692	**721,061**
Construction in progress	**3,823**	3,570	**32,467**
	346,906	323,300	**2,946,123**
Less accumulated depreciation	**(144,774)**	(139,079)	**(1,229,503)**
Property, plant and equipment, net	**202,132**	184,221	**1,716,620**
Investments and other assets:			
Long-term loans receivable	**37,985**	43,982	**322,590**
Less allowance for doubtful accounts	**(1,414)**	(1,427)	**(12,009)**
	36,571	42,555	**310,581**
Investments in securities *(Note 4)*	**99,896**	127,955	**848,374**
Investments in affiliates *(Note 6)*	**999**	896	**8,484**
Deferred income taxes *(Note 9)*	**3,055**	7,476	**25,945**
Other assets	**42,798**	42,678	**363,465**
Total investments and other assets	**183,319**	221,560	**1,556,849**
	¥ 1,098,203	¥ 1,140,231	**$ 9,326,565**

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2006	2005	**2006**
Liabilities and shareholders' equity			
Current liabilities:			
Current portion of long-term debt *(Note 7)*	**¥ —**	¥ 30,000	**$ —**
Notes and accounts payable:			
Affiliates	**3,080**	2,987	**26,157**
Trade	**163,308**	151,860	**1,386,904**
Accrued income taxes *(Note 9)*	**7,207**	19,485	**61,206**
Advances received	**86,174**	86,434	**731,839**
Other current liabilities	**67,095**	63,656	**569,809**
Total current liabilities	**326,864**	354,422	**2,775,915**
Long-term debt, less current portion *(Note 7)*	**—**	9,427	**—**
Deferred income taxes *(Note 9)*	**2,257**	—	**19,168**
Accrued retirement benefits for employees *(Note 12)*	**26,144**	26,896	**222,030**
Accrued retirement benefits for directors, corporate auditors and executive officers	**1,803**	1,536	**15,312**
Other liabilities *(Note 8)*	**55,101**	60,033	**467,949**
Total long-term liabilities	**85,305**	97,892	**724,459**
Minority interests	**272**	21,442	**2,310**
Contingent liabilities *(Note 13)*			
Shareholders' equity *(Note 10)*:			
Common stock:			
Authorized: 1,978,281,000 shares			
Issued: 2006 and 2005 - 709,385,078 shares	**186,554**	186,554	**1,584,323**
Capital surplus	**237,523**	237,525	**2,017,180**
Retained earnings *(Note 20)*	**285,574**	259,773	**2,425,257**
Net unrealized holding gain on securities	**24,530**	13,169	**208,323**
Translation adjustments	**(40)**	(5)	**(340)**
Less treasury stock, at cost	**(48,379)**	(30,541)	**(410,862)**
Total shareholders' equity	**685,762**	666,475	**5,823,881**
	¥ 1,098,203	¥ 1,140,231	**$ 9,326,565**

See notes to consolidated financial statements.

Consolidated Statements of Income

Sekisui House, Ltd. and Subsidiaries
Years ended January 31, 2006 and 2005

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2006	2005	**2006**
Net sales *(Note 19)*	**¥ 1,501,857**	¥ 1,372,244	**$12,754,624**
Cost of sales	**1,213,190**	1,098,520	**10,303,100**
Gross profit	**288,667**	273,724	**2,451,524**
Selling, general and administrative expenses	**208,686**	197,085	**1,772,280**
Operating income *(Note 19)*	**79,981**	76,639	**679,244**
Other income (expenses):			
Interest and dividend income	**2,223**	2,765	**18,879**
Interest expense	**(140)**	(535)	**(1,189)**
Loss on impairment of fixed assets *(Note 18)*	**—**	(59,470)	**—**
Gain on return of substitutional portion of Welfare Pension Fund Plans	**—**	41,901	**—**
Loss on revaluation of real estate held for sale *(Note 17)*	**(12,015)**	(4,069)	**(102,038)**
Loss on revaluation of securities	**(9)**	(1,579)	**(76)**
Other, net	**4,735**	(3,447)	**40,212**
Income before income taxes and minority interests	**74,775**	52,205	**635,032**
Income taxes *(Note 9)*:			
Current	**9,937**	22,347	**84,391**
Deferred	**21,626**	5,104	**183,660**
	31,563	27,451	**268,051**
Income before minority interests	**43,212**	24,754	**366,981**
Minority interests in earnings of subsidiaries	**(183)**	(1,095)	**(1,554)**
Net income	**¥ 43,029**	¥ 23,659	**$ 365,427**

See notes to consolidated financial statements.

Consolidated Statements of Shareholders' Equity

Sekisui House, Ltd. and Subsidiaries
Years ended January 31, 2006 and 2005

	Number of shares in issue	Millions of yen					
		Common stock	Capital surplus	Retained earnings	Net unrealized holding gain on securities	Translation adjustments	Treasury stock
Balance at January 31, 2004	**709,385,078**	**¥186,554**	**¥237,523**	**¥248,961**	**¥7,640**	**¥(98)**	**¥(12,616)**
Net income for the year	—	—	—	23,659	—	—	—
Cash dividends	—	—	—	(12,428)	—	—	—
Bonuses to directors and corporate auditors	—	—	—	(419)	—	—	—
Gain on sale of treasury stock	—	—	2	—	—	—	—
Net unrealized holding gain on securities	—	—	—	—	5,529	—	—
Translation adjustments	—	—	—	—	—	93	—
Increase in treasury stock	—	—	—	—	—	—	(17,925)
Balance at January 31, 2005	**709,385,078**	**¥186,554**	**¥237,525**	**¥259,773**	**¥13,169**	**¥(5)**	**¥(30,541)**
Net income for the year	—	—	—	43,029	—	—	—
Cash dividends	—	—	—	(12,785)	—	—	—
Bonuses to directors and corporate auditors	—	—	—	(484)	—	—	—
Loss on sale of treasury stock	—	—	(2)	(3,954)	—	—	—
Decrease in retained earnings resulting from exclusion of subsidiaries	—	—	—	(5)	—	—	—
Net unrealized holding gain on securities	—	—	—	—	11,361	—	—
Translation adjustments	—	—	—	—	—	(35)	—
Increase in treasury stock	—	—	—	—	—	—	(17,838)
Balance at January 31, 2006	**709,385,078**	**¥186,554**	**¥237,523**	**¥285,574**	**¥24,530**	**¥(40)**	**¥(48,379)**

	Thousands of U.S. dollars (Note 1)					
	Common stock	Capital surplus	Retained earnings	Net unrealized holding gain on securities	Translation adjustments	Treasury stock
Balance at January 31, 2005	**$1,584,323**	**$2,017,197**	**$2,206,140**	**$111,839**	**$ (43)**	**$(259,372)**
Net income for the year	—	—	365,427	—	—	—
Cash dividends	—	—	(108,577)	—	—	—
Bonuses to directors and corporate auditors	—	—	(4,110)	—	—	—
Loss on sale of treasury stock	—	(17)	(33,580)	—	—	—
Decrease in retained earnings resulting from exclusion of subsidiaries	—	—	(43)	—	—	—
Net unrealized holding gain on securities	—	—	—	96,484	—	—
Translation adjustments	—	—	—	—	(297)	—
Increase in treasury stock	—	—	—	—	—	(151,490)
Balance at January 31, 2006	**$1,584,323**	**$2,017,180**	**$2,425,257**	**$208,323**	**$(340)**	**$(410,862)**

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Sekisui House, Ltd. and Subsidiaries
Years ended January 31, 2006 and 2005

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2006	2005	**2006**
Cash flows from operating activities			
Income before income taxes and minority interests	**¥ 74,775**	¥ 52,205	**$ 635,032**
Adjustments for:			
Depreciation and amortization	**11,117**	11,554	**94,412**
Loss on impairment of fixed assets	**—**	59,470	**—**
Gain on return of substitutional portion of Welfare Pension Fund Plans	**—**	(41,901)	**—**
Provision for retirement benefits	**(752)**	(3,259)	**(6,386)**
Interest and dividend income	**(2,223)**	(2,765)	**(18,879)**
Interest expense	**140**	535	**1,189**
Loss on revaluation of real estate held for sale	**12,015**	4,069	**102,038**
Loss on revaluation of securities	**9**	1,579	**76**
Increase in notes and accounts receivable	**(14,040)**	(2,533)	**(119,236)**
Increase in inventories and advance payments	**(68,175)**	(45,225)	**(578,981)**
Increase in notes and accounts payable	**12,493**	11,794	**106,098**
(Decrease) increase in advances received	**(260)**	11,396	**(2,208)**
Other	**(10,073)**	(1,471)	**(85,546)**
Subtotal	**15,026**	55,448	**127,609**
Interest and dividends received	**2,367**	3,074	**20,102**
Interest paid	**(244)**	(719)	**(2,072)**
Income taxes paid	**(22,905)**	(6,810)	**(194,522)**
Net cash (used in) provided by operating activities	**(5,756)**	50,993	**(48,883)**
Cash flows from investing activities			
Proceeds from sales of short-term investments	**266**	1,930	**2,259**
Purchases of short-term investments	**(232)**	(235)	**(1,970)**
Proceeds from sales of property, plant and equipment	**1,951**	1,220	**16,569**
Purchases of property, plant and equipment	**(47,142)**	(35,108)	**(400,357)**
Proceeds from sales of investments in securities	**65,741**	10,221	**558,310**
Purchases of investments in securities	**(12,655)**	(12,268)	**(107,473)**
Decrease in loans receivable	**5,973**	2,828	**50,726**
Other	**(1,642)**	(1,096)	**(13,945)**
Net cash provided by (used in) investing activities	**12,260**	(32,508)	**104,119**
Cash flows from financing activities			
Repayment of long-term debt	**(31,553)**	(30,249)	**(267,966)**
Cash dividends paid	**(12,785)**	(12,428)	**(108,577)**
Increase in treasury stock	**(46,600)**	(17,947)	**(395,754)**
Other	**(263)**	(517)	**(2,234)**
Net cash used in financing activities	**(91,201)**	(61,141)	**(774,531)**
Effect of exchange rate changes on cash and cash equivalents	**(35)**	93	**(297)**
Net decrease in cash and cash equivalents	**(84,732)**	(42,563)	**(719,592)**
Cash and cash equivalents at beginning of the year	**179,712**	222,275	**1,526,216**
Cash and cash equivalents at end of the year	**¥ 94,980**	¥ 179,712	**$ 806,624**

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Sekisui House, Ltd. and Subsidiaries
Notes to Consolidated Financial Statements
January 31, 2006 and 2005

1. Basis of Preparation

Sekisui House, Ltd. (the "Company") and its domestic subsidiaries maintain their accounts and records in accordance with the provisions set forth in the Commercial Code of Japan and the Securities 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 prepared by the Company as required by the Securities and Exchange Law of Japan. In preparing the accompanying consolidated financial statements, certain reclassification and rearrangements have been made to present the accompanying consolidated financial statements in a form which is familiar to reorders outside Japan. In addition, the notes to the consolidated financial statements include information which is not required under accounting principles generally accepted in Japan but is presented herein as additional information.

The translation of Japanese yen amounts into U.S. dollars is included solely for the convenience of the reader and has been made at 117.75 yen = U.S.$1.00, the approximate rate of exchange in effect on January 31, 2006. 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 its subsidiaries (the "Group") based on the control or influence concept. 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.

The difference between the cost of investments in subsidiaries and affiliates and the Company's equity in their net assets at their respective dates of acquisition is being amortized over a period of five years.

(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 exchange contract rates. Gain or loss on each translation is credited or charged to income.

The financial statements of the overseas subsidiary are translated into yen at the rate of exchange in effect at the balance sheet date except that the components of shareholders' equity are translated at their historical exchange rate. Differences resulting from translating the financial statements of the overseas subsidiary have not been included in the determination of net income, but are presented as translation adjustments in the 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 and loss, both realized and unrealized, are charged to income. Held-to-maturity debt securities are stated at their 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 shareholders' equity. Non-marketable securities classified as other securities are carried at cost determined by the moving average method.

Under the Commercial Code of Japan, unrealized holding gain on other securities, net of the related taxes, is not available for distribution as dividends or as bonuses to directors and corporate auditors.

(e) Inventories

The individual cost method is applied to land held for sale, construction for sale and contracts in process.

Other inventories are stated at cost determined by the moving average method.

(f) Property, plant and equipment

Property, plant and equipment is stated on the basis of cost. Depreciation is computed principally by the declining-balance method at rates based on the estimated useful lives of the respective assets. The straight-line method is applied to buildings (except for structures attached to the buildings).

(g) Leases

Noncancelable lease transactions are accounted for as operating leases (whether such leases are classified as operating or finance leases) except that lease agreements which stipulate the transfer of ownership of the leased property to the lessee are accounted for as finance leases.

(h) Allowance for doubtful accounts

The allowance for doubtful accounts has been provided based on the Company's and the subsidiaries' historical experience with respect to write-offs plus an estimate of the amount of specific uncollectible accounts.

(i) 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.

(j) Accrued retirement benefits

Employees of the Company and its domestic subsidiaries are covered by an employees' retirement allowances plan and an employees' pension plan. The employees' retirement allowances plan provides for a lump-sum payment determined by reference to the rate of pay, length of service and conditions under which the termination occurs. The employees' pension plan, which is a funded defined pension plan, covers approximately 75% of the benefits under the retirement allowances plan for employees retiring after three or more years of service.

Accrued retirement benefits are provided based on the amount of the projected benefit obligation reduced by the pension plan assets at fair value at the end of the year.

Actuarial gain or loss is amortized in the year following the year in which the gain or loss is recognized principally by the straight-line method over

5 years, which falls within the estimated average remaining years of service of the eligible employees.

Prior service cost is amortized by the straight-line method over 5 years, which falls within the estimated average remaining years of service of the eligible employees.

See Note 12 for the method of accounting for the separation of the substitutional portion from the corporate portion of the benefit obligation under the Welfare Pension Fund Plan.

Directors, corporate auditors and executive officers are customarily entitled to lump-sum payments under an unfunded retirement allowances plan. The provision for retirement allowances for these officers has been made at an estimated amount based on the Company's internal regulations.

(k) Research and development expenditures and computer software

Research and development expenditures are charged to income as incurred.

Expenditures relating to computer software developed for internal use are charged to income when incurred, except if it has been determined that the software will contribute to the future generation of income or cost savings. Such expenditures are capitalized as assets and amortized by the straight-line method over 5 years.

(l) Accounting for warranty expenses

The Company provides after-sales service for twenty years against structural defects on detached houses and low-rise apartment buildings as well as a ten-year warranty under the "Housing Quality Assurance Act," except for buildings other than houses.

Expenses in connection with repair services or warranties are charged to manufacturing overhead as incurred and have no material effect on net income.

3. Change in Method of Accounting

Effective February 1, 2004, the Company and its domestic subsidiaries opted for early adoption of a new accounting standard for the impairment of fixed assets which requires that tangible and intangible fixed assets be carried at cost less depreciation and be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. A company is required to recognize an impairment loss in the statement of income if certain indicators of asset impairment exist and if the book value of an asset exceeds the undiscounted sum of its future cash flows. The standard states that an impairment loss should be measured as the excess of the book value over the higher of (1) the fair market value of the asset, net of its disposition cost, and (2) the present value of future cash flows arising from the ongoing utilization of the asset and from its disposition, if applicable. The standard covers land, factories, buildings and other items of property, plant and equipment as well as intangible assets.

As a result of the adoption of this new accounting standard, a loss on impairment of fixed assets in the aggregate amount of 59,470 million yen was recognized in the consolidated statement of income for the year ended January 31, 2005.

The impairment loss on fixed assets has been deducted directly from the carrying amounts of the respective assets in the consolidated balance sheets.

4. Short-Term Investments and Investments in Securities

Held-to-maturity debt securities and other securities at January 31, 2006 and 2005 were as follows:

	Millions of yen							
	Held-to-maturity debt securities							
	2006				2005			
	Book value	Gross unrealized gain	Gross unrealized loss	Estimated fair value	Book value	Gross unrealized gain	Gross unrealized loss	Estimated fair value
Market value determinable:								
Bonds	**¥ 1,800**	**¥ 1**	**¥ (2)**	**¥ 1,799**	**¥ 1,948**	**¥ 2**	**–**	**¥ 1,950**
	¥ 1,800	**¥ 1**	**¥ (2)**	**¥ 1,799**	**¥ 1,948**	**¥ 2**	**–**	**¥ 1,950**
Market value not determinable:								
Bonds	**¥ 2,101**	**–**	**–**	**–**	**¥ 2,000**	**–**	**–**	**–**
Other	**–**	**–**	**–**	**–**	**800**	**–**	**–**	**–**
	¥ 2,101	**–**	**–**	**–**	**¥ 2,800**	**–**	**–**	**–**

	Thousands of U.S. dollars			
	Held-to-maturity debt securities			
	2006			
	Book value	Gross unrealized gain	Gross unrealized loss	Estimated fair value
Market value determinable:				
Bonds	**$ 15,287**	**$ 8**	**$(17)**	**$ 15,278**
	$ 15,287	**$ 8**	**$(17)**	**$ 15,278**
Market value not determinable:				
Bonds	**$ 17,843**	**–**	**–**	**–**
Other	**–**	**–**	**–**	**–**
	$ 17,843	**–**	**–**	**–**

	Millions of yen							
	Other securities							
	2006				2005			
	Acquisition cost	Gross unrealized gain	Gross unrealized loss	Book value (estimated fair value)	Acquisition cost	Gross unrealized gain	Gross unrealized loss	Book value (estimated fair value)
Market value determinable:								
Equity securities	**¥41,484**	**¥41,156**	**–**	**¥82,640**	¥32,962	¥21,180	¥(965)	¥53,177
Bonds	**–**	**–**	**–**	**–**	51,921	1,649	–	53,570
	¥41,484	**¥41,156**	**–**	**¥82,640**	¥84,883	¥22,829	¥(965)	¥106,747
Market value not determinable:								
Equity securities	**¥12,572**	**–**	**–**	**–**	¥11,510	–	–	–
Other	**999**	**–**	**–**	**–**	6,000	–	–	–
	¥13,571	**–**	**–**	**–**	¥17,510	–	–	–

	Thousands of U.S. dollars			
	Other securities			
	2006			
	Acquisition cost	Gross unrealized gain	Gross unrealized loss	Book value (estimated fair value)
Market value determinable:				
Equity securities	**$352,306**	**$349,520**	**–**	**$701,826**
Bonds	**–**	**–**	**–**	**–**
	$352,306	**$349,520**	**–**	**$701,826**
Market value not determinable:				
Equity securities	**$106,769**	**–**	**–**	**–**
Other	**8,484**	**–**	**–**	**–**
	$115,253	**–**	**–**	**–**

5. Inventories

Inventories at January 31, 2006 and 2005 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	**2006**
Land held for sale, including land held for development	**¥324,796**	¥256,189	**$2,758,352**
Construction for sale, including projects under construction	**61,398**	55,423	**521,427**
Contracts in process	**44,931**	46,098	**381,580**
Other	**5,484**	4,875	**46,573**
	¥436,609	¥362,585	**$3,707,932**

6. Investments in Affiliates

Investments in affiliates at January 31, 2006 and 2005 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	**2006**
Investments in capital stock, at cost	**¥ 1,021**	¥ 1,019	**$ 8,671**
Equity in undistributed loss since acquisition, net	**(22)**	(123)	**(187)**
	¥ 999	¥ 896	**$ 8,484**

7. Long-Term Debt

(a) Long-term debt, less the current portion at January 31, 2005, is summarized as follows:

	Millions of yen
	2005
0% unsecured loans from manufacturing industries and others	**¥ 9,427**

(b) Notes

Notes outstanding at January 31, 2005 were as follows:

	Millions of yen
	2005
2.4% yen unsecured notes, due 2005	**¥ 10,000**
1.92% yen unsecured notes, due 2005	**10,000**
1.79% yen unsecured notes, due 2005	**10,000**
	30,000
Less current portion	**(30,000)**
	¥ –

8. Mortgaged and Pledged Assets

The following assets, recorded at net book value at January 31, 2006 and 2005, were either mortgaged or pledged for guarantees of bank loans of third parties and long-term deposits received and other, and totaled 3,159 million yen ($26,828 thousand) and 4,313 million yen, respectively.

	Millions of yen		Thousands of U.S. dollars
	2006	2005	**2006**
Inventories	**¥ 4,257**	¥ 6,450	**$ 36,153**
Land	**192**	192	**1,631**
Buildings	**764**	–	**6,488**
	¥ 5,213	¥ 6,642	**$ 44,272**

9. Income Taxes

The Company and its domestic subsidiaries are subject to several taxes based on income which, in the aggregate, resulted in statutory tax rates of approximately 40.4% and 41.7% for the years ended January 31, 2006 and 2005. The overseas subsidiary is subject to the income taxes of the country in which it operates.

The effective tax rates reflected in the consolidated statements of income for the years ended January 31, 2006 and 2005 differ from the above statutory tax rates for the following reasons:

	2006	2005
Statutory tax rate	**40.4%**	41.7%
Entertainment expenses not deductible	**2.0**	2.9
Dividend income not taxable	**(0.4)**	(1.3)
Inhabitants' per capita taxes	**0.8**	1.0
Valuation allowance	**(0.7)**	6.7
Other	**0.1**	1.6
Effective tax rates	**42.2%**	52.6%

The significant components of the Group's deferred tax assets at January 31, 2006 and 2005 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	**2006**
Loss on revaluation of real estate held for sale	**¥ 47,154**	¥ 73,649	**$ 400,459**
Impairment loss on fixed assets	**7,340**	7,685	**62,335**
Tax loss carryforwards	**10**	3	**85**
Accrued enterprise tax	**733**	1,741	**6,225**
Retirement benefits	**10,188**	9,502	**86,522**
Allowance for doubtful accounts	**1,015**	866	**8,620**
Accrued bonuses	**7,302**	7,041	**62,013**
Unrealized holding gain on securities	**(16,624)**	(8,992)	**(141,180)**
Other	**6,128**	4,543	**52,042**
	63,246	96,038	**537,121**
Valuation allowance	**(3,206)**	(3,510)	**(27,227)**
	¥ 60,040	¥ 92,528	**$ 509,894**

10. Shareholders' Equity

The Commercial Code of Japan (the "Code") provides that an amount equivalent to at least 10% of all cash appropriations of retained earnings be appropriated to the legal reserve until the sum of the legal reserve and additional paid-in capital equals 25% of common stock. The legal reserve is not available for dividends but may be used to eliminate or reduce a deficit by approval of the shareholders or may be transferred to common stock by resolution of the Board of Directors. The Code also stipulates that, to the extent that the sum of the additional paid-in capital and the legal reserve exceeds 25% of the common stock account, the amount of any such excess is available for appropriation by resolution of the shareholders. Retained earnings include the legal reserve provided in accordance with the provisions of the Code.

The Company's legal reserve included in retained earnings at January 31, 2006 and 2005 amounted to 23,129 million yen ($196,425 thousand) and 23,129 million yen, respectively.

Under the Code, upon the issuance and sale of new shares of common stock, the entire amount of the issue price 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 issue price of the new shares as additional paid-in capital.

Interim cash dividends may be declared and paid subject to a resolution of the Board of Directors. The Commercial Code imposes a limit on the amount which may be paid as interim dividends. An interim dividend of 10.0 yen ($0.08) per share totaling 6,665 million yen ($56,603 thousand) was paid on September 30, 2005.

11. Research and Development Costs

Research and development costs charged to income amounted to 6,190 million yen ($52,569 thousand) and 5,793 million yen for the years ended January 31, 2006 and 2005, respectively.

12. Accrued Retirement Benefits

The following table sets forth the funded and accrued status of the plans, and the amounts recognized in the consolidated balance sheets at January 31, 2006 and 2005 for the Group's defined benefit plans:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	**2006**
Retirement benefit obligation at end of year	**¥(195,617)**	¥(181,761)	**$(1,661,291)**
Fair value of plan assets at end of year	**181,593**	141,625	**1,542,191**
Unfunded retirement benefit obligation	**(14,024)**	(40,136)	**(119,100)**
Unrecognized fair value of plan assets	**(6,036)**	—	**(51,261)**
Unrecognized actuarial loss	**875**	22,771	**7,431**
Unrecognized past service cost	**(6,940)**	(9,529)	**(58,938)**
Net retirement benefit obligation	**(26,125)**	(26,894)	**(221,868)**
Prepaid pension cost	**19**	2	**162**
Accrued retirement benefits	**¥ (26,144)**	¥ (26,896)	**$ (222,030)**

On September 1, 2004, the Company and certain subsidiaries obtained approval from the Minister of Health, Labor and Welfare with respect to their application for the transfer to the Japanese government of the substitutional portion of benefit obligation for future employee services provided in prior years and the related pension plan assets. The transfer of the substitutional portion to the Japanese government was completed for the year ended January 31, 2005. On December 1, 2004, certain other subsidiaries obtained approval from the Minister of Health, Labor and Welfare for a transfer to Japanese government of the substitutional portion of the obligation for benefits for future employee services provided in the prior year and the related pension plan assets.
As a result, the Company and its domestic subsidiaries recognized a gain of 41,901 million yen for the year ended January 31, 2005.

The components of net retirement benefit expenses for the years ended January 31, 2006 and 2005 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	**2006**
Service cost	**¥ 9,060**	¥ 10,056	**$ 76,943**
Interest cost	**4,429**	5,512	**37,613**
Expected return on plan assets	**(5,531)**	(6,645)	**(46,972)**
Amortization:			
Actuarial loss	**7,075**	7,397	**60,085**
Past service cost	**(3,009)**	(7,222)	**(25,554)**
Retirement benefit expenses	**¥ 12,024**	¥ 9,098	**$ 102,115**
Gain on restitution of substitutional portion of Welfare Pension Fund Plans	—	(41,901)	—
	¥ 12,024	¥ (32,803)	**$ 102,115**

The assumptions used in accounting for the defined benefit plans for the years ended January 31, 2006 and 2005 were as follows:

	2006	2005
Discount rate	**2.5%**	2.5%
Expected rates of return on plan assets	**4.0%**	4.0%

13. Contingent Liabilities

The Group had the following contingent liabilities at January 31, 2006:

	Millions of yen	Thousands of U.S. dollars
Guarantees of housing loans to customers	**¥94,016**	**$798,437**
Guarantees of bank loans of a third party	**1,184**	**10,055**
	¥95,200	**$808,492**

14. Leases

The following *pro forma* amounts present the acquisition costs and accumulated depreciation of property leased to the Group at January 31, 2006 and 2005, which would have been reflected in the consolidated balance sheets if finance leases other than those which transfer the ownership of the leased property (currently accounted for as operating leases) were capitalized.

	Millions of yen					
	2006			2005		
	Acquisition costs	Accumulated depreciation	Net leased property	Acquisition costs	Accumulated depreciation	Net leased property
Buildings and structures	**¥ 38,889**	**¥ 23,037**	**¥ 15,852**	¥ 35,668	¥ 21,946	¥ 13,722
Machinery and equipment	**7,180**	**5,317**	**1,863**	6,940	4,953	1,987
Other	**1,741**	**1,050**	**691**	1,809	1,223	586
	¥ 47,810	**¥ 29,404**	**¥ 18,406**	¥ 44,417	¥ 28,122	¥ 16,295

	Thousands of U.S. dollars		
	2006		
	Acquisition costs	Accumulated depreciation	Net leased property
Buildings and structures	**$330,267**	**$195,643**	**$134,624**
Machinery and equipment	**60,977**	**45,155**	**15,822**
Other	**14,786**	**8,917**	**5,869**
	$406,030	**$249,715**	**$156,315**

Lease payments relating to finance leases other than those which transfer the ownership of the leased property amounted to 7,035 million yen ($59,745 thousand) and 7,347 million yen for the years ended January 31, 2006 and 2005, respectively.

Future minimum lease payments subsequent to January 31, 2006 for finance leases other than those which transfer the ownership of the leased property were as follows:

Year ending January 31,	Millions of yen	Thousands of U.S. dollars
2007	¥ 6,415	$ 54,480
2008 and thereafter	12,776	108,501
	¥ 19,191	$ 162,981

15. Derivatives and Hedging Activities

Derivative financial instruments are utilized by the Company to reduce the risk of foreign exchange rate fluctuation. The Company has established a control environment which includes policies and procedures for risk assessment and for the approval, reporting and monitoring of transactions involving derivative financial instruments. The Company does not enter into derivatives transactions for speculative trading purposes.

The Company is exposed to certain market risks arising from its forward foreign exchange contracts. The Company is also exposed to the risk of credit loss in the event of non-performance by the counterparties to currency-related and interest-related derivatives transactions; however, the Company does not anticipate non-performance by any of these counterparties all of whom are financial institutions with high credit ratings.

Derivatives positions are carried at fair value with any changes in unrealized gain or loss charged or credited to operations, 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.

At January 31, 2005, the outstanding interest-rate swap positions were as follows:

	Millions of yen	
	2005	
	Notional amount	Unrealized gain
Interest-rate swap agreements:		
Fixed-rate into variable-rate obligations	¥ 7,500	¥ 28
Variable-rate into fixed-rate obligations	¥ 7,500	¥ 23

16. Amounts per Share

	Yen		U.S. dollars
	2006	2005	2006
Basic net income	¥ 62.94	¥ 33.80	$ 0.53
Net assets	1,028.46	979.40	8.73
Cash dividends	20.00	18.00	0.17

Basic net income per share has been computed based on the net income available for distribution to shareholders of common stock and the weighted-average number of shares of common stock outstanding during the year.

No diluted net income per share for the years ended January 31, 2005 and 2006 has been presented because no potentially dilutive securities were issued.

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.

17. Loss on Revaluation of Real Estate Held for Sale

Real estate held for sale at January 31, 2006 and 2005, the market value of which has declined significantly from its carrying value, has been written down to its fair market value.

18. Loss on Impairment of Fixed Assets

During the year ended January 31, 2005, 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 of a recent decline in land prices and a sluggish rental market, the carrying value of the above assets has been reduced to their recoverable amounts. Accordingly, a total impairment loss of 59,470 million yen was recognized which consisted of 18,661 million yen on buildings, 39,772 million yen on land and 1,037 million yen on other assets.

The recoverable amount utilized in the calculation was the higher of the net selling price or value in use. The net selling price is the appraised value less the costs of disposal; whereas value in use is the sum of the net projected future cash flows discounted at rates varying from 3% to 6%.

19. Segment Information

The Group companies are primarily engaged in the construction, purchase, administration and sales of residential properties; the design, contracting, execution, and supervision of construction projects; real estate brokerage, and landscaping.

In the built-to-order housing segment, the Company prefabricates, builds to order and sells steel frame, wood frame, and concrete houses and low-rise apartment buildings on land owned by the customers. The real estate for sale segment include sales of land, built-for-sale houses, and also the portion of built-to-order sales where Sekisui House also sold the land, and sales of condominiums. In the real estate for leasing segment, the Company leases, subleases and manages detached houses, low-rise apartment buildings, condominiums, commercial buildings, shops, and so forth. Other business is involved in contracts for the design of condominiums and commercial buildings, the construction and remodeling of houses, and landscape and garden design and construction.

The business segment information of the Group companies for the years ended January 31, 2006 and 2005 is outlined as follows:

	Millions of yen						
	2006						
	Built to order housing	Real estate for sale	Real estate for leasing	Other	Total	Eliminations and other	Consolidated
Sales to third parties	¥ 725,217	¥ 347,724	¥ 291,154	¥ 137,762	¥1,501,857	¥ –	¥1,501,857
Inter-group sales and transfers	1,703	–	1,518	5,151	8,372	(8,372)	–
Total sales	726,920	347,724	292,672	142,913	1,510,229	(8,372)	1,501,857
Operating expenses	652,140	324,317	279,438	139,355	1,395,250	26,626	1,421,876
Operating income	¥ 74,780	¥ 23,407	¥ 13,234	¥ 3,558	¥ 114,979	¥ (34,998)	¥ 79,981
Assets	¥ 211,677	¥ 457,231	¥ 201,487	¥ 29,204	¥ 899,599	¥ 198,604	¥1,098,203
Depreciation and amortization	¥ 4,850	¥ 762	¥ 3,175	¥ 337	¥ 9,124	¥ 1,993	¥ 11,117
Loss on impairment of fixed assets	–	–	–	–	–	–	–
Capital expenditures	¥ 8,543	¥ 260	¥ 35,526	¥ 85	¥ 44,414	¥ 2,403	¥ 46,817

	Millions of yen						
	2005						
	Built to order housing	Real estate for sale	Real estate for leasing	Other	Total	Eliminations and other	Consolidated
Sales to third parties	¥ 708,539	¥ 273,455	¥ 269,326	¥ 120,924	¥1,372,244	¥ –	¥1,372,244
Inter-group sales and transfers	1,293	–	1,439	7,878	10,610	(10,610)	–
Total sales	709,832	273,455	270,765	128,802	1,382,854	(10,610)	1,372,244
Operating expenses	627,692	261,176	262,642	125,030	1,276,540	19,065	1,295,605
Operating income	¥ 82,140	¥ 12,279	¥ 8,123	¥ 3,772	¥ 106,314	¥ (29,675)	¥ 76,639
Assets	¥ 200,220	¥ 405,162	¥ 199,022	¥ 22,923	¥ 827,327	¥ 312,904	¥1,140,231
Depreciation and amortization	¥ 4,875	¥ 636	¥ 3,863	¥ 345	¥ 9,719	¥ 1,835	¥ 11,554
Loss on impairment of fixed assets	–	–	¥ 59,470	–	¥ 59,470	–	¥ 59,470
Capital expenditures	¥ 8,818	¥ 126	¥ 25,573	¥ 217	¥ 34,734	¥ 1,492	¥ 36,226

	Thousands of U.S. dollars						
	2006						
	Built to order housing	Real estate for sale	Real estate for leasing	Other	Total	Eliminations and other	Consolidated
Sales to third parties	$ 6,158,955	$ 2,953,070	$ 2,472,645	$ 1,169,954	$12,754,624	$ –	$12,754,624
Inter-group sales and transfers	14,463	–	12,892	43,745	71,100	(71,100)	–
Total sales	6,173,418	2,953,070	2,485,537	1,213,699	12,825,724	(71,100)	12,754,624
Operating expenses	5,538,344	2,754,285	2,373,146	1,183,482	11,849,257	226,123	12,075,380
Operating income	$ 635,074	$ 198,785	$ 112,391	$ 30,217	$ 976,467	$ (297,223)	$ 679,244
Assets	$ 1,797,682	$ 3,883,066	$ 1,711,142	$ 248,017	$ 7,639,907	$1,686,658	$ 9,326,565
Depreciation and amortization	$ 41,189	$ 6,471	$ 26,964	$ 2,862	$ 77,486	$ 16,926	$ 94,412
Loss on impairment of fixed assets	–	–	–	–	–	–	–
Capital expenditures	$ 72,552	$ 2,208	$ 301,707	$ 722	$ 377,189	$ 20,408	$ 397,597

As more than 90% of the consolidated net sales for the years ended January 31, 2006 and 2005 were made in Japan, the disclosure of geographical segment information and overseas sales information has been omitted.

20. Subsequent Events

(a) The following appropriations of retained earnings of the Company, which have not been reflected in the accompanying consolidated financial statements for the year ended January 31, 2006, were approved at a shareholders' meeting held on April 27, 2006:

	Millions of yen	Thousands of U.S. dollars
Year-end cash dividends of ¥10.00 ($0.08) per share	¥6,663	$56,586
Bonuses to directors and corporate auditors	156	1,325

(b) Sales of treasury stock and disposition of treasury stock

Pursuant to a resolution of the Board of Directors at a meeting held on March 1, 2006, the Company sold 38,000,000 shares of its own common stock in treasury ("treasury stock") which had an average acquisition cost of 1,506.84 yen ($13.26) per share to Mizuho Securities Co., Ltd., Nomura Securities Co., Ltd., Nikko Citigroup Limited, Daiwa Securities SMBC Co., Ltd., and Mitsubishi UFJ Securities Co., Ltd. at a selling price of 1,571 yen ($13.34) per share. The dates for the remittance and for the transfer of the shares were March 23, 2006 and March 24, 2006, respectively. The proceeds from these transactions will be utilized for investments in real estate development.

Pursuant to a resolution of the Board of Directors at a meeting held on March 1, 2006, the Company disposed of 5,000,000 shares of treasury stock at 1,506.84 yen ($13.26) per share in the form of an overallotment to Mizuho Securities Co., Ltd. The dates for the remittance and for the transfer of the shares were April 19, 2006 and April 20, 2006, respectively.

Report of Independent Auditors

The Board of Directors
Sekisui House, Ltd.

We have audited the accompanying consolidated balance sheets of Sekisui House, Ltd. and subsidiaries as of January 31, 2006 and 2005, and the related consolidated statements of income, shareholders' equity, and cash flows for the years then ended, all expressed in yen. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Sekisui House, Ltd. and subsidiaries at January 31, 2006 and 2005, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

Supplemental Information

1. As described in Note 20.(b), Sekisui House, Ltd. sold and disposed of a portion of its own common stock in treasury ("treasury stock") .

2. As described in Note 3, effective the year ended January 31, 2005, Sekisui House, Ltd. and its domestic subsidiaries adopted a new accounting standard for the impairment of fixed assets as early adoption of this standard was permissible effective the fiscal year ended January 31, 2005.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended January 31, 2006 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1.

April 27, 2006

Ernst & Young Shin Nihon

Ernst & Young Shin Nihon & Co.
Auditors

Corporate Data (As of January 31, 2006)

Corporate Officers

President & Representative Director
Isami Wada

Executive Vice President & Director
Hideyuki Tonomura
Shichiro Iwane
Hiroshi Itawaki

Director
Akira Morimoto
Tadashi Iwasaki
Sumio Wada
Yasuaki Yamamoto
Saburo Matsuyoshi
Kunitada Suzuki
Yuzo Matsumoto
Kazuo Yoshimitsu
Shiro Inagaki

Standing Corporate Auditors
Mikio Yamada
Kenji Kondo
Kenichi Kawauchi

Corporate Auditors
Takaharu Dohi
Yoshiharu Takahashi

Executive Vice President & Officer
Hideyuki Tonomura
Shichiro Iwane
Hiroshi Itawaki

Senior Managing Executive Officer
Akira Morimoto
Tadashi Iwasaki

Managing Executive Officer
Sumio Wada
Kunitada Suzuki
Yuzo Matsumoto
Kazuo Yoshimitsu
Shiro Inagaki
Yoshiro Kubota
Tetsuhiro Kamae
Kenichi Moriuchi
Junichi Terada
Fumiaki Hirabayashi
Yoshimasa Konishi
Toshiharu Arakawa
Kiyohide Hirabayashi
Toshinori Abe

Executive Officer
Kazuhisa Ami
Satoru Shima
Mikio Ishikawa
Hisashi Murao
Tetuo Iku
Daiji Kuroki
Takashi Uchida

OUTLINE OF THE COMPANY

(As of January 31, 2006)

Established
August 1, 1960

Capital Stock Issued
¥186,554,196,729

Employees
16,223 (As of April 1, 2006)

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.
Sekisui House Umeda Operation Co., Ltd.
SGM Operation Co., Ltd and 81 other subsidiaries and 3 affiliates.

Stock Listing
Tokyo Stock Exchange
Osaka Securities Exchange
Nogoya Stock Exchange

American Depositary Receipts
Depositary:
The Bank of New York

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