

Notice regarding Business Alliance with Konoike Construction Co., Ltd. and Capital Alliance with Otori Holdings, Co., Ltd. (Change to an Equity Method Affiliate)

November 19, 2015 – Sekisui House, Ltd. (the “Company”) hereby announces that, at the meeting of the Board of Directors held today, the Company resolved to establish a business alliance with Konoike Construction Co., Ltd. (“Konoike Construction”) and a capital alliance with Otori Holdings, Co., Ltd. (“Otori Holdings”), a holding company (wholly owning parent) of Konoike Construction. It has entered into an agreement for each of these two alliances (the “Alliances”) dated today.

Details are as follows:

1. Objectives of the Alliances

In its Sekisui House Group Medium-term Management Plan (FY 2014 – FY 2016), the Company is implementing a growth strategy based on the basic policy of “taking on new challenges in the residential-related business by strengthening synergy within the Group.” More specifically, the Company is aiming to break its records in both sales and profit for the third consecutive year by promoting the diversification of residential-related businesses using three business models: the Built-to-order Business in detached houses and rental houses based on the Company’s solid top brand, the Supplied Housing Business, and the Development Business.

Meanwhile, Konoike Construction has made numerous achievements in the construction of offices, government buildings, production, distribution, education, and cultural facilities, and other buildings, roads, railroads, environmental cleanup and preservation, civil engineering works for dams and rivers, drawing upon its advanced technical skills and expertise cultivated for over 140 years since its foundation. In recent years, Konoike Construction has been using its original strengths in technologies such as base isolation technology and environmental protection and creation technologies to promote its businesses.

Konoike Construction and the Company have built an understanding of each other, including in regards to their respective technical abilities and corporate stance, through the development of reinforced concrete structures such as condominiums and offices and housing land development.

In Japan, economic revitalization from urban to remote areas, various efforts to solve social challenges—such as the declining birthrate and aging population, extending healthy life, environment and energy issues—and global responses to meet the ever growing inbound demand from tourists visiting Japan are expected to emerge or expand in line with the specific initiatives taken for the “Three New Arrows” of Abenomics implemented by the government.



In response to these environmental changes, the Company believes that future growth areas lie in the business of developing rich, comfortable, advanced, and environmentally-friendly communities towards the creation of “Compact Cities” and the “Japanese CCRC scheme”, etc. and residential-related businesses derived from the inbound demand from tourists visiting Japan. It aims to achieve further growth by actively taking part in these businesses, while also helping to create domestic demand and solve social issues.

In an effort to respond to the expansion of future businesses, Konoike Construction and the Company will strengthen their respective proposing and marketing abilities by combining the Company’s management resources in residential businesses and those of Konoike Construction in construction and civil engineering. The two companies will also aim to reduce the overall construction costs by jointly purchasing materials and providing each other with construction capacity. The companies decided to enter into the Alliances based on the idea that the differences in specialized business areas between the two will help create a synergy that facilitates business expansion.

2. Details of the Alliances

(1) Business alliance

In this business alliance, the Company and Konoike Construction will work together to enhance the corporate value of both companies. They will achieve this aim by using the each other’s management resources and marketing information, exchanging technologies, jointly developing technologies, expanding the scope of use of goods shipped from the Company’s plants, jointly purchasing materials, making use of construction skills, and exchanging human resources, etc.

(2) Capital alliance

In order to define the cooperative relationship with Konoike Construction and ensure steady progress of the business alliance, the Company will purchase the shares of Otori Holdings, the holding company (wholly owning parent) of Konoike Construction, as described in paragraphs II and III below, based on the assumption that the activity in paragraph I will be implemented.

I. Otori Holdings’ capital reorganization

In preparation for the capital alliance with the Company, Otori Holdings plans to carry out the following capital reorganization. As a result of this reorganization, the role of capital assistance provided primarily by banks in the past will be ended, and a new structure for cooperation with the Company will be built. This capital reorganization will be implemented based on the assumption that all the agenda items—the approval of which is required for the capital reorganization—will be passed and approved by the General Meeting of Shareholders of Otori Holdings scheduled to be held on December 24, 2015.

- Otori Holdings will purchase shares of its preferred stock outstanding (all shares except the preferred stock in paragraph II)
- Otori Holdings will change the design of a portion of the preferred stock after the purchase to fit the current capital environment.
 - * Class A Preferred Stock will be allocated to the Company as described in paragraph III.
- All the shares of the preferred stock, other than Class A Preferred Stock, will be retired.

II. Purchase of preferred stock (Class III Preferred Stock) and conversion to common stock

Today, the Company entered into a share transfer agreement with Sumitomo Mitsui Banking Corporation (“Sumitomo Mitsui Banking”), the current shareholder of Otori Holdings, in order to purchase a part of the preferred stock outstanding (Class III Preferred Stock) of Otori Holdings. While Class III Preferred Stock does not include a voting right, the Company will acquire common shares that provide voting rights by exercising the conversion right included with Class III Preferred Stock. As a result, the Company will become the largest shareholder, holding 33.3% of Otori Holdings’ voting rights, and Otori Holdings will become an equity method company of the Company.

III. Underwriting the disposal of treasury stock (Class A Preferred Stock) through private placement

Today, the Company entered into a stock subscription agreement with Otori Holdings to subscribe for the disposal of all shares of treasury stock through the private placement of Class A Preferred Stock carried out by Otori Holdings. While Class A Preferred Stock does not include a voting right, the right to convert to common shares that will be exercisable in the future (after October, 2019) will be included.

- * The conversion right of Class A Preferred Stock is a right that will be exercisable in the future, and there is no fact or policy that has been determined at this point. The Company will promptly disclose any decision made on exercising the right that should be announced in the future.

(3) Dispatch of executives

The Company will send two executives (one non-executive director and one part-time auditor) each to Konoike Construction and Otori Holdings in order to efficiently implement the Alliances.

3. Overview of the partners in the Alliances and the company from which shares will be acquired

(1) Overview of the business alliance partner (Konoike Construction)

(As of September 30, 2014)

(1)	Name of company	Konoike Construction Co., Ltd.		
(2)	Head office	Homomachi Garden City, 3-6-1, Kitakyuhojimachi, Chuo-ku, Osaka		
(3)	Representative	Morihiro Tsutada, Representative Director, President		
(4)	Scope of business	Business related to construction work planning, measuring, design, supervision, undertaking projects, consulting, etc.		
(5)	Capital	5,250 million yen		
(6)	Establishment	June 7, 1918		
(7)	Fiscal year-end	September		
(8)	Number of employees	1,554 (Consolidated: 1,978)		
(9)	Major shareholders and shareholding ratios	Otori Holdings, Co., Ltd. 100%		
(10)	Relationship between the Company and Konoike Construction	Capital relationship	Not applicable	
		Personnel relationship	Not applicable	
		Business relationship	Not applicable	
		Applicability to related parties	Not applicable	
(11)	Business results and financial position over the last three years (consolidated)			
	Fiscal year-end	Year ended September 2012	Year ended September 2013	Year ended September 2014
	Consolidated net assets	¥ 14,630 million	¥ 17,151 million	¥ 17,177 million
	Consolidated total assets	¥ 148,427 million	¥ 144,994 million	¥ 158,987 million
	Consolidated net sales	¥ 196,007 million	¥ 207,600 million	¥ 225,430 million
	Consolidated operating income	¥ 3,153 million	¥ 3,130 million	¥ 9,334 million
	Consolidated ordinary income	¥ 2,489 million	¥ 2,368 million	¥ 8,712 million
	Consolidated net income	¥ 346 million	¥ 399 million	¥ 873 million

* The above consolidated financial results have not been subjected to a statutory audit.

(2) Overview of the company issuing the shares to be acquired and the company from which shares will be acquired (Otori Holdings) (As of September 30, 2014)

(1)	Name of company	Otori Holdings, Co., Ltd.		
(2)	Head office	Homomachi Garden City, 3-6-1, Kitakyuhojimachi, Chuo-ku, Osaka		
(3)	Representative	Morihiro Tsutada, Representative Director, President		
(4)	Scope of business	Holding company		
(5)	Capital	22,000 million yen		
(6)	Establishment	September 4, 2003		
(7)	Fiscal year-end	September		
(8)	Number of employees	45 (Consolidated: 2,023)		
(9)	Major shareholders and shareholding ratios	(Common Stock) Employee stock ownership plan: 19.9% Kazusue Konoike: 15.1% GINSEN Co., Ltd.: 8.5% * THAIKONOIKECORPORATION LTD.: 8.3% Tadahiko Konoike: 5.5% * The shareholding ratios of the two companies are combined in the presentation due to the merger of GINSEN Co., Ltd. and Otemachi Tatemono Co., Ltd. dated April 1, 2015 (surviving company is GINSEN Co., Ltd.).		
(10)	Relationship between the Company and Otori Holdings	Capital relationship	Not applicable	
		Personnel relationship	Not applicable	
		Business relationship	Not applicable	
		Applicability to related parties	Not applicable	
(11)	Business results and financial position over the last three years (consolidated)			
Fiscal period		Year ended September 2012	Year ended September 2013	Year ended September 2014
Consolidated net assets		¥ 7,302 million	¥ 12,132 million	¥ 17,331 million
Consolidated total assets		¥ 156,230 million	¥ 151,258 million	¥ 159,289 million
Consolidated net sales		¥ 196,564 million	¥ 207,600 million	¥ 225,430 million
Consolidated operating income		¥ 3,172 million	¥ 3,148 million	¥ 9,337 million
Consolidated ordinary income		¥ 2,542 million	¥ 2,396 million	¥ 8,712 million
Consolidated net income		¥ 430 million	¥ 483 million	¥ 5,211 million

* The above consolidated financial results have not been subjected to a statutory audit.

(3) Overview of the company from which shares will be acquired (Sumitomo Mitsui Banking)
(March 31, 2015)

(1)	Name of company	Sumitomo Mitsui Banking Corporation	
(2)	Head office	1-1-2, Marunouchi, Chiyoda-ku, Tokyo	
(3)	Representative	Takeshi Kunibe, President and CEO (Representative Director)	
(4)	Principal business activities	Banking	
(5)	Capital	1,770,996 million yen	
(6)	Establishment	June 6, 1996	
(7)	Fiscal year-end	March	
(8)	Number of employees	26,416 (Consolidated: 50,249)	
(9)	Major shareholders and shareholding ratios	Sumitomo Mitsui Financial Group, Inc. : 100%	
(10)	Relationship between the Company and Sumitomo Mitsui Banking	Capital relationship	The Company holds 608,004 common shares of Sumitomo Mitsui Financial Group, Inc., the parent of the company concerned, and the company concerned holds 7,192,906 common shares of the Company.
		Personnel relationship	Not applicable
		Business relationship	There are capital borrowings and other business relationships related to finance between the Company and the company concerned.
		Applicability to related parties	Not applicable

4. Number and value of shares acquired and the status of share ownership before and after the share acquisition

(1)	Number of shares held before transfer	0 (Number of voting rights: 0) (Percentage of voting rights held: 0%)
(2)	Number of shares acquired	Class III Preferred Stock: 38,000,000 shares (Number of voting rights: 0) * All of Class III Preferred Stock will be converted into 190,000,000 shares (number of voting rights: 190,000,000) of common stock. Class A Preferred Stock: 12,000,000 shares (Number of voting rights: 0)
(3)	Acquisition value	The acquisition value is not disclosed in accordance with the agreement with the company selling the shares and because the value is insignificant in view of the standards of the rules for timely disclosure. The acquisition value has been calculated using the results of the share value calculation conducted by an independent third party organization as a reference to ensure fairness and appropriateness.
(4)	Number of shares held after transfer	Common Stock: 190,000,000 shares (Number of voting rights: 190,000,000) Class A Preferred Stock: 12,000,000 shares (Number of voting rights: 0) (Percentage of voting rights held: 33.3%)

(Reference) The number of shares held when the conversion right of Class A Preferred Stock is exercised in the future (after October, 2019)

Number of shares held after transfer	Common Stock: 320,434,782 shares (Number of voting rights: 320,434,782) (Percentage of voting rights held: 45.7%)
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5. Schedule

(1)	Date of resolution of the Board of Directors	November 19, 2015
(2)	Date of signing <ul style="list-style-type: none"> • Business alliance agreement • Class III Preferred Stock transfer agreement • Class A Preferred Stock subscription agreement 	November 19, 2015



(3)	Date of resolution at the general meeting of shareholders of Otori Holdings	December 24, 2015 (Plan)
(4)	Date of stock acquisition and Class III Preferred Stock conversion	January 27, 2016 (Plan)

* This stock acquisition will be conducted based on the assumption that all the agenda items—the approval of which is required for the capital reorganization, including the allocation of Class A Preferred Stock to the Company —will be passed and approved by the General Meeting of Shareholders of Otori Holdings and approved by the Fair Trade Commission. The implementation and schedule of this stock acquisition is subject to change due to the results or progress of this approval process.

6. Future outlook

Otori Holdings will be an equity method affiliate of the Company based on the Alliances. The Company expects the Alliances to have a negligible impact on its consolidated results for the current fiscal year, but will facilitate the improvement of its financial performance in the medium to long term.

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