



Notice Regarding Consolidation of Equity Method Affiliate

March 7, 2019 – Sekisui House, Ltd. (“the Company”) decided at the Board of Directors Meeting held on March 7, 2019 that the Company will consolidate Otori Holdings, Co., Ltd. (hereinafter “Otori Holdings”) (Note), an affiliate accounted for by the equity method, as detailed below:

Note: Otori Holdings is a holding company that owns outstanding shares issued by Konoike Construction Co., Ltd. (hereinafter “Konoike Construction”).

1. Reasons for consolidation

The Sekisui House Group has been taking consistent actions with the aim of building the foundation for the residential-related business toward BEYOND 2020, a basic policy for the fourth mid-term management plan ending in the fiscal year to January 2020, in view of business developments that are expected to unfold in the years beyond 2020.

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

As “Notice regarding Business Alliance with Konoike Construction Co., Ltd. and Capital Alliance with Otori Holdings, Co., Ltd. (Change to an Equity Method Affiliate)” announced on November 19, 2015, the Company concluded a business partnership agreement with Konoike Construction, and has succeeded in producing synergies in a number of collaborative areas, including condominium and hotel development projects as well as joint initiatives to acquire subcontractor contracts by sharing market intelligence. The two companies have been working together, leveraging the combination of the Company’s management resources related to the residential-related business and the expertise possessed by Konoike Construction in the construction and civil engineering business. The Company will step up its collaborative initiatives with Konoike Construction, seeking to respond quickly to business opportunities in the coming years. The initiatives will include not only the Development-oriented projects that have played a primary part of the partnership business, but also our Built-to-Order-oriented projects seeking to grow the CRE/PRE strategic solution business, helping to further bolster the value of real estate assets owned by corporations and public organizations.

Given this situation, the Company has decided to consolidate Otori Holdings (and its subsidiary Konoike Construction), believing that it will be necessary for the Company to



strengthen the existing business partnership in order to develop and expand the collaborative relationship between the two companies.

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

2. Outline of Otori Holdings, an entity to be consolidated

(1)	Name of company	Otori Holdings, Co., Ltd.	
(2)	Head office	3-6-1, Kitakyuhojimachi, Chuo-ku, Osaka	
(3)	Representative	Morihiro Tsutada, Representative Director, President	
(4)	Scope of business	Holding company	
(5)	Capital	100 million yen	
(6)	Establishment	September 4, 2003	
(7)	Major shareholders and shareholding ratios	<p>(Common Stock) [Shareholding ratios ,Voting rights percentagel The Company: [32.2% 33.3%] Employee stock ownership plan: [18.1% 18.8%] Kazusue Konoike: [10.2% 10.6%] *The percentage of voting rights is based on the number of shares owned, net of treasury shares (indirect treasury shares ownership) held by subsidiaries of Otori Holdings.</p> <p>(Class A Preferred Shares) [Shareholding ratios ,Voting rights percentagel The Company: [100.0% None] *Class A Preferred Shares do not carry voting rights, but they include an option for the holder to convert the preferred shares into common shares, exercisable on or after October 1, 2019.</p>	
(8)	Relationship between the Company and Otori Holdings	Capital relationship	Otori Holdings is an equity method affiliate in which the Company owns 32.2% of common shares (or 33.3% of voting rights) and 100% of Class A Preferred Shares (without voting rights).
		Personnel relationship	Two executive officers of the Company concurrently serve as board members (as a director and a corporate auditor) of Otori Holdings and Konoike Construction.

		Business relationship	Not applicable. The Company has a business partnership agreement for subcontracting and other transactions with Konoike Construction, its subsidiary.	
(9)	Business results and financial position over the last three years (consolidated)			
Fiscal period	Year ended September 2016	Year ended September 2017	Year ended September 2018	
Consolidated net assets	¥ 42,163 million	¥ 65,851 million	¥ 80,669 million	
Consolidated total assets	¥ 168,713 million	¥ 191,383 million	¥ 210,061 million	
Book value per share	¥ 68.66	¥ 110.21	¥ 136.22	
Consolidated net sales	¥ 231,702 million	¥ 241,362 million	¥ 251,138 million	
Consolidated operating income	¥ 19,852 million	¥ 21,443 million	¥ 21,089 million	
Consolidated ordinary income	¥ 18,861 million	¥ 22,088 million	¥ 21,102 million	
Consolidated net income attributable to owners of parent	¥ 21,562 million	¥ 21,767 million	¥ 14,425 million	
Earnings per share	¥ 42.34	¥ 38.13	¥ 25.25	
Dividend per common share	¥ 0.16	¥ 0.21	¥ 0.21	
Dividend per share preferred share	¥ 1.80	¥ 2.30	¥ 2.30	

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

3. Consolidation method

(1) An option of converting Class A Preferred Shares

The Company currently owns 12,000,000 shares of Class A Preferred Shares issued by Otori Holdings. Class A Preferred Shares do not carry voting rights, but they do include an option to convert the preferred shares into common shares, exercisable on or after October 1, 2019. When fully exercised, the option will give the Company 130,434,782 common shares converted from the preferred shares. Consequently, the Company's common share ownership in Otori Holdings will increase to 320,434,782 shares in total, including 190,000,000 shares held already. Accordingly, the Company's voting rights will rise to 45.7%.

(2) Consolidation method

Given the conditions as described in 3-(1) above, the Company has decided to acquire the majority of voting rights of Otori Holdings, seeking to make Otori Holdings a consolidated subsidiary of the Company by taking the steps outlined below:

(i) Acquisition of common shares

The Company will acquire common shares in Otori Holdings held by its existing shareholders in such a way that the resulting percentage of the Company's voting rights will be in excess of 50% when the conversion option is fully exercised for the Class A Preferred Shares.

(ii) Full exercise of an option to convert Class A Preferred Shares

The Company will exercise an option to convert all of the Class A Preferred Shares on



October 1, 2019 and acquire the majority of the voting rights, on the assumption that the step described in (i) above will have been taken.

4. Outline of counterparty of share acquisition

Negotiations are currently underway with some of the shareholders with the aim of acquiring the common shares as described earlier. The Company does not disclose specific information related to the share acquisition, including counterparty information and the number of shares to be acquired, in compliance with the individual confidentiality obligations. There are no capital, personnel or business relationships to report between the Company and any counterparty of the share acquisition.

5. Number of shares acquired, acquisition price, and the status of share ownership before and after the acquisition (Planned)

(1) Number of shares held prior to the acquisition	Common shares: 190,000,000 shares (Voting rights: 190,000,000 units) Class A preferred shares: 12,000,000 shares (Voting rights: 0 unit) (Voting rights percentage: 33.3%)
(2) Number of shares acquired (Planned)	(i) Common share acquisition: No less than 29,782,610 shares (Number of voting rights: No less than 29,782,610 units) (ii) Conversion of Class A preferred shares: 130,434,782 common shares (Number of voting rights: 130,434,782 units)
(3) Acquisition price	The common share acquisition price has not been determined yet at this point in time. The Company will not disclose the price even after it has been fixed due to the confidentiality obligations among the parties concerned. The acquisition price will be set in accordance with an independent third party evaluation in order to assure fairness and validity of the price.
(4) Number of shares held after the acquisition (Planned)	No less than 350,217,392 common shares (Number of voting rights: No less than 350,217,392 units) (Voting rights percentage: more than 50%)

* The number of shares acquired (Planned) and the number of shares held after the acquisition (Planned) are described as above because they remain indefinite at this point in time.

6. Schedule

(1) Date of resolution at Board of Directors Meeting	March 7, 2019
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(2)	Date of common share acquisition	A single day or multiple days between March 8, 2019 and September 30, 2019 (planned)
(3)	Conversion of Class A preferred shares (Consolidation completed)	October 1, 2019 (planned)

* The affiliate consolidation assumes the successful acquisition of common shares and the approval of the Fair Trade Commission. The consolidation process and its schedule are subject to change due to outcomes or developments related to the assumption or the regulatory approval.

7. Future prospects

With the planned procedures executed as described above, Otori Holdings will become the Company's consolidated subsidiary, effective this October. Consolidated business results forecast announced today for the fiscal year ending January 31, 2020 reflect the possible impacts of the affiliate consolidation.

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For further information, please contact:

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