ANNUAL REPORT 2018

For the year ended
January 31, 2018

SEKISUI HOUSE, LTD.

Our Corporate Profile

The Sekisui House Group has been leading the housing industry, operating a business specializing in housing since its establishment in 1960. The Group has been building residential homes and rental housing, as well as selling houses built for sale and condominiums. It boasts a track record of 2.38 million homes built as of the end of January 2018. Moreover, we engage in the remodeling business, the administration of rental housing and real estate brokerage, mainly for properties that we have provided. We are expanding our business area into the urban redevelopment business including office building development and overseas businesses.
Going forward, we will make use of our techniques, expertise and track record to strive to provide high quality housing as common assets of society for sustainable growth.

Contents

Forward-Looking Statements

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

Financial Highlights

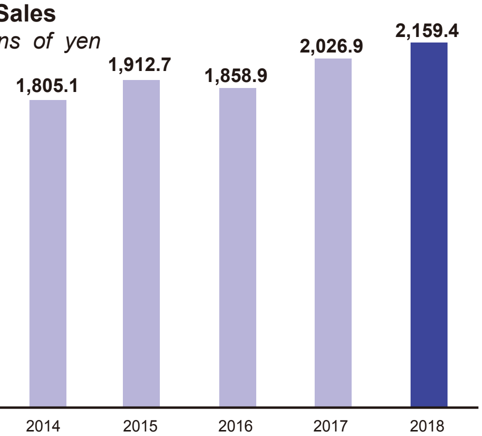
Sekisui House, Ltd. and Subsidiaries
For the year ended January 31

	Millions of yen					Thousands of U.S. dollars
	2018	2017	2016	2015	2014	**2018**
For the year:						
Net sales	¥ **2,159,364**	¥ 2,026,932	¥ 1,858,879	¥ 1,912,722	¥ 1,805,102	$ **19,848,920**
Operating income	**195,540**	184,165	149,645	146,596	131,930	**1,797,408**
Profit attributable to owners of parent	**133,225**	121,853	84,303	90,225	79,801	**1,224,607**
At year ended						
Total assets	**2,419,013**	2,184,895	2,029,794	1,929,410	1,769,005	**22,235,619**
Net assets	**1,208,121**	1,118,264	1,068,428	1,079,065	941,415	**11,105,074**

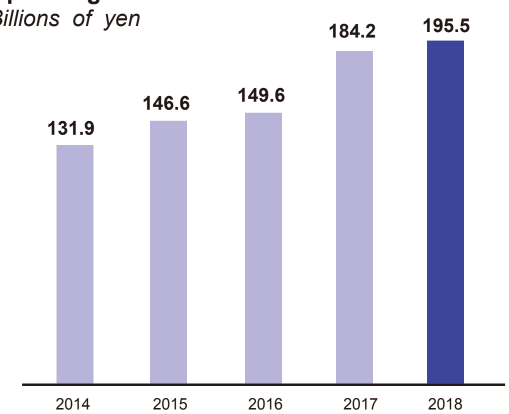
	Yen					U.S. dollars
	2018	2017	2016	2015	2014	**2018**
Per share:						
Profit attributable to owners of parent	¥ **193.06**	¥ 175.48	¥ 120.16	¥ 130.91	¥ 118.63	$ **1.77**
Net assets	**1,731.60**	1,598.90	1,508.81	1,527.52	1,358.60	**15.92**
Cash dividends applicable to the year	**77.00**	64.00	54.00	50.00	43.00	**0.71**

Note: U.S. dollar amounts above and elsewhere in this report represent translations of Japanese yen, for convenience only, at the approximate exchange rate of ¥108.79 = U.S. $1, effective at January 31, 2018.

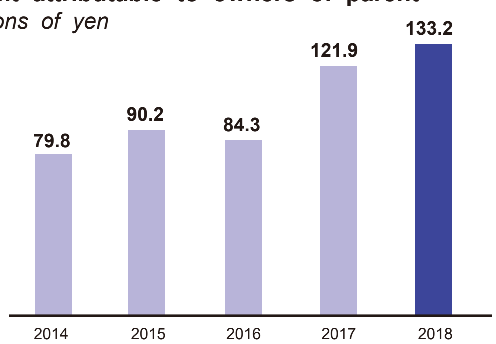
Net Sales
Billions of yen



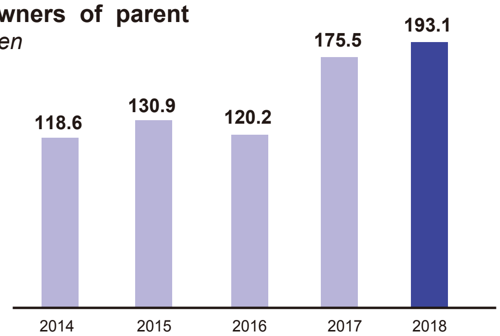
Operating Income
Billions of yen



Profit attributable to owners of parent
Billions of yen



Per Share : Profit attributable to owners of parent
Yen

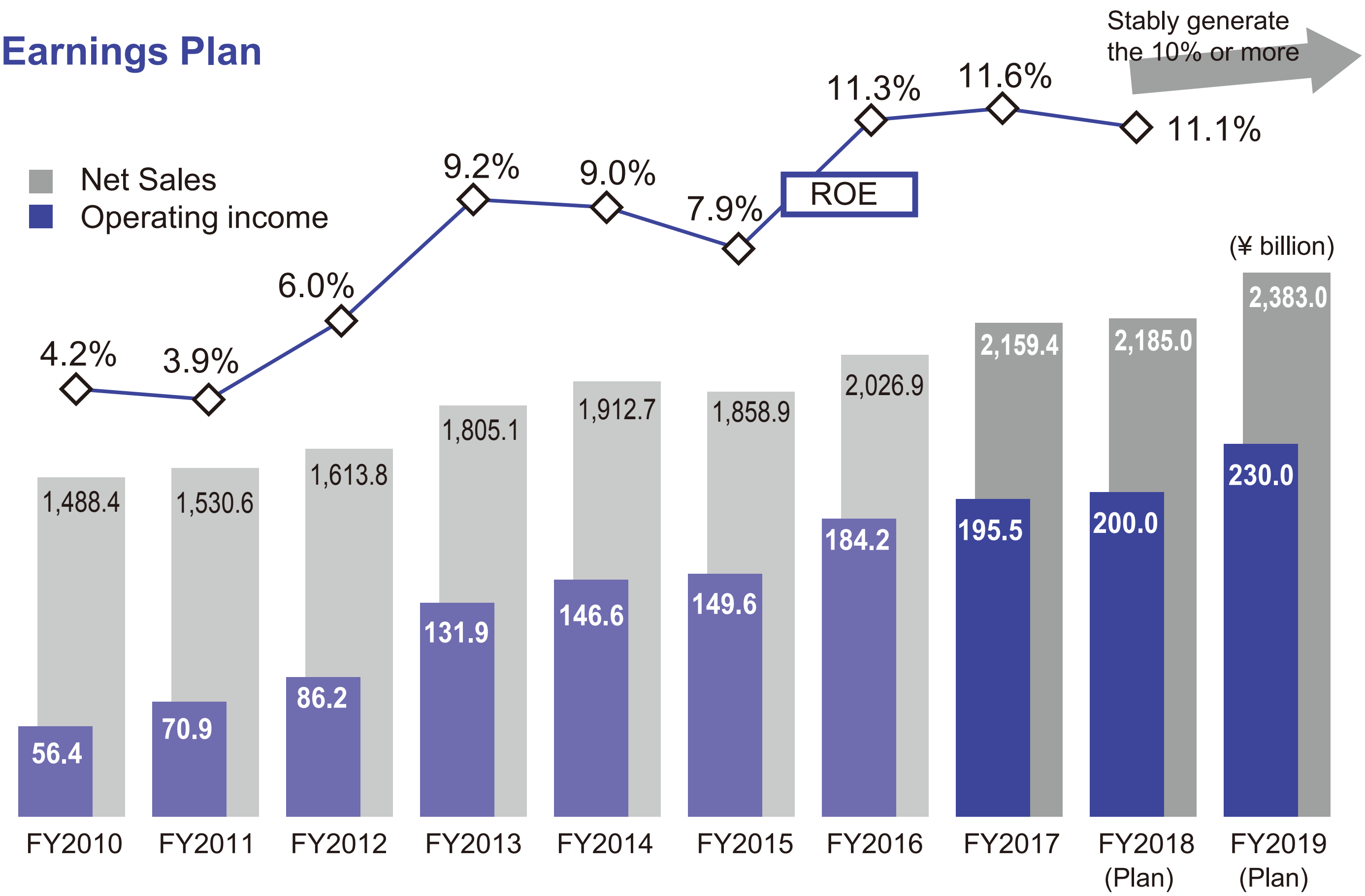


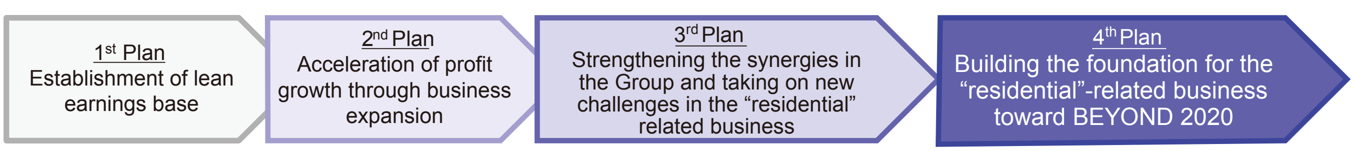
Progress of The Fourth Medium-term Management Plan (FY2017 through FY2019)

A Year of Steady Progress in Building the Foundation for the "Residential"-Related Business

The first year in the fourth mid-term management plan with the basic policy of "building the foundation for the 'residential'-related business toward BEYOND 2020" has ended. Each business segment grew sales continuously, while the Overseas Business as a new core segment steadily took positive steps, and operating income increased for the eighth consecutive year and reached a new record high for the fifth consecutive year. As a result, we increased the annual dividend from 75 yen in the initial plan to 77 yen. We will continue to accelerate the implementation of our growth strategy for the four business models, improve our balanced profit structure, and expand our business areas to achieve sustainable growth.

■Earnings Plan

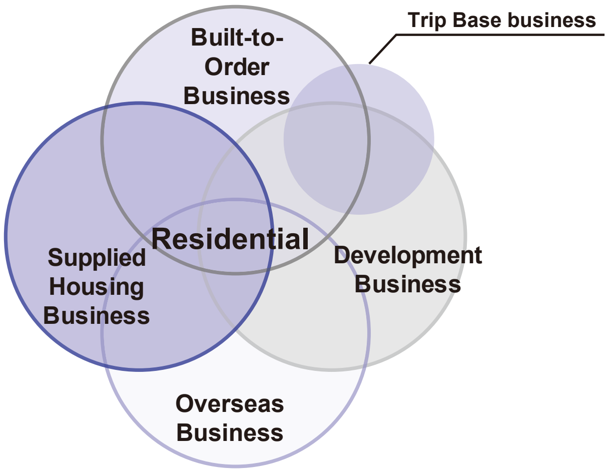




■Shareholder Return

	FY2014	FY2015	FY2016	FY2017	FY2018 (Plan)	FY2019 (Plan)
EPS (yen)	130.91	120.16	175.48	193.06	197.07	215.92
Dividends per share (yen)	50.00	54.00	64.00	77.00	79.00	Payout ratio of average 40%
Payout ratio	38.2%	44.9%	36.5%	39.9%	40.1%	

Achievements of Each Business Segment



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

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

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

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

Built-to-Order Business

•Maintained a high-profit structure by continuously selling high value-added houses such as Green First Zero.
•In the Rental Housing Business, developed the Flexible β System, a new construction method for 3- and 4-story houses, and promoted sales in non-housing markets such as hotels, nursery homes and hospitals,etc.

Future developments
●Expand the non-housing segment using factory shipping materials.
●Differentiate ourselves from other companies through comprehensive local area marketing.
●Introduce a second brand of detached houses.

Supplied Housing Business

•Shifted house remodeling from the conventional maintenance-based business to the lifestyle proposal-based business. Reduced costs and raised profitability.
•The occupancy rate increased in the Real Estate Management Fees Business thanks to the supply of high-quality rental houses. Achieved stable profit growth.

Future developments
●Further improve proposal-based, energy-saving remodeling by developing and retaining human resources.
●Promote the increased involvement of rental house owners and strengthen the real estate brokerage business.

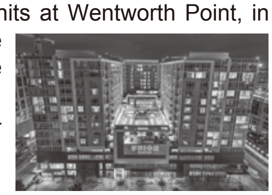
Development Business

•Demand was active, particularly by first-time home buyers, and sales in the Houses for Sale Business remained strong.
•In the Condominium Business specializing in urban areas, orders for newly released properties increased. Environmental technology for condominiums was actively introduced.
•In Urban Redevelopment, we invited one of Marriott International's hotel brands, "W," while recovering investment by selling properties.

Future developments
●Sell condominiums in which all units will meet ZEH specifications.
●Continue selling high-quality offices and rental houses to REIT.

Overseas Business

•Sales of multifamily properties developed on the U.S. West Coast contributed significantly to earnings. Acquired a housing supplier, Woodside Homes, whose sales contributed to earnings.
•In China, the delivery of condominiums in Taicang progressed steadily.
•In Australia, approximately 2,000 units at Wentworth Point, in which we had engaged from the beginning of the development, are nearly sold out.
•In Singapore, sales of a new condominium project have been strong.



Future developments
●Improve cash flow by balancing growth investment and asset efficiency while expanding the business.

To Our Shareholders and Investors

Record high income posted for five consecutive years
Continuing to aim for sustainable growth by creating new business under a new management team

Toshinori Abe
Chairman &
Representative Director

Yoshihiro Nakai
President &
Representative Director

Shiro Inagaki
Vice Chairman &
Representative Director

■We will implement initiatives from medium- and long-term perspectives by taking advantage of our core competency.

We are seeing steady progress in the Fourth Mid-Term Management Plan, which is aimed at achieving sustainable growth with our sights set on the period in 2020 and beyond, when we expect to see major changes in the business environment. Our consolidated net sales in FY2017 stood at 2,159.3 billion yen, and profit attributable to owners of parent was 133.2 billion yen. Operating income also exceeded the plan, marking a record high for five consecutive years. ROE was 11.6%, having remained stable at a level above 10%.

These figures prove that we have produced a result in each of the four core businesses that have supported the growth of the Sekisui House Group, namely the Built-to-Order Business, Supplied Housing Business, Development Business, and Overseas Business, and that our initiatives for "building the foundation for the 'residential'-related business toward BEYOND 2020," the basic policy of the Mid-Term Management Plan, are making steady progress. Above all, sales from the Overseas Business exceeded 300 billion yen, with steady progress in the handovers of condominium units in Australia and sales of properties in the multifamily rental housing development in the United States. Operating income also grew significantly, approaching 30 billion yen. The Overseas Business has thus grown so far as to contribute to strengthening our financial standing. At Sekisui House, we will continue to reinforce our policy of "break-even point management" and link achievements from the mid-term management plan for the period until FY2019 to leap further forward from 2020 onward, in addition to striving to achieve the mid-term management plan. This is what our new management team is promising shareholders once again. The key words are "sustainable growth."

This will be driven by our technical capabilities, customer base, and construction capabilities, which are our core competencies in medium- and long-term business promotion and the greatest strengths of Sekisui House. With respect to technical capabilities, the Flexible β system, a new construction method of 3- and 4-story houses, has joined our unique technologies that support our brand vision SLOW & SMART, including environmental technologies, SHEQAS, Airkis, and our original exterior walls. This has increased our design adaptability and strengthened our capability for proposing spaces, and is demonstrating high market competitiveness in non-residential fields that match the needs of the times, such as nurseries, medical facilities, and hotels that cater to the demand from inbound tourists.

Most importantly, the cumulative total number of houses we have constructed is 2.38 million. Based on this global No.1 track record and customer base, we will step up our cooperation further within the group in our efforts to expand the Supplied Housing Business. Regarding the improvement of construction capabilities, we are focusing our efforts on the development of human resources as next-generation leaders to avoid being affected by the shortage of manpower as a social situation.

■Housing construction in the era of the 100-year human life.
Providing new value from a new perspective

This is a longevity society, and it is not too much to say that we are in the era of the 100-year life. In such a situation, Sekisui House believes that providing new value in some form or other is the mission that the housing industry will be expected to fulfill. At Sekisui House, we have been providing safety, security, and comfort by using advanced technologies. We believe that the value we will provide in the future will be fulfillment in terms of intangible aspects, with the keywords “family” and “health.” We will need to evolve our measures regarding after-sales services further and tackle the challenge for health and happiness in the era of the 100-year life head-on. In the future, this should lead

to the creation of new functions and new value, such as residences based on preventive medicine and houses that create good health. Innovations related to IoT, AI, robots, and others will be based on the concept of “What people require of technologies” instead of “What technologies can do.” The viewpoint of providing intangible value by using IoT, AI, and other technologies and equipment must be reflected in housing construction hereafter. We are sure that we will be able to propose ideal next-generation residences that are unique to Sekisui House by proceeding to the new stage of housing construction by taking full advantage of our customer base and accumulated expertise.

■We will continue working to maximize shareholder value by having a stronger awareness of ESG factors.

We see the acceleration of moves to place emphasis on ESG factors (environmental management, improvement of social value, and governance), in addition to financial information, as the criteria for selecting investment destinations and measuring corporate value. This means that the protection of the social environment will be the basic premise for the pursuit of profit and the improvement of corporate value. Sekisui House was selected as a constituent of all three ESG Indices used by the Government Pension Investment Fund (GPIF) when the GPIF commenced ESG investment. In addition, Sekisui House was selected for the Gold Class honor for three years running at the RobecoSAM Sustainability Awards 2018. Gold Class is the highest rank in the Homebuilding category of the Awards, which are hosted by RobecoSAM AG, a world-class assessor of socially responsible investment (SRI) in Switzerland. To keep working in a way that deserves this evaluation, we will promote management with a strong awareness of ESG factors.

With respect to environmental management, we will promote zero energy houses (ZEHs) (Green First Zero of the Company), which accounts for nearly 80% of newly constructed detached houses. The ratio of ZEH at Sekisui House is overwhelmingly higher than other companies and attracted attention at COP23, which was held in Bonn in November last year.

In terms of social value improvement, we are focusing our efforts on work style reforms. In 2017, Sekisui House won the Minister of State for Special Missions Award in the Award for Advanced Enterprises in which Women Shine for FY2017, for the first time in the construction industry. Moving forward, we will improve productivity by applying information technologies, promote measures for developing and retaining human resources, and promote diversity of human resources under the slogan “Creating an exciting workplace.”

Concerning governance, we will of course strive to establish systems and mechanisms by following the Basic Policy on Corporate Governance that we formulated in 2016. In addition, we are determined to overcome challenges by taking comprehensive measures to reinforce our self-governance from the inside.

Sekisui House regards the maximization of shareholder value as one of its most important management issues. This basic stance remains unchanged under the new management setup. We will strengthen our financial standing further by improving cash flow. We will seek to operate more quickly and achieve further growth by making investments and achieving returns on investments in a well-balanced manner. We regard the achievement of performance targets and management objectives and shareholder returns as inseparable and increase EPS in our efforts to increase shareholder return.

Times are changing and evolving rapidly. Digitalization is expected to be a keyword for growth in house marketing strategies as well.

Sekisui House changed its representative directors as of February 1, 2018. We implemented a generational change in our top management with the aim of responding more promptly and appropriately to the turbulent market environment and achieving the sustainable growth of our businesses. We will also start working on organizational reforms, which will create the driving force for sustainable growth.

The future is bright for Sekisui House, which has embarked on a new chapter youthfully and powerfully. We would appreciate your continued support.

■Financial Analysis

In the fiscal year under review, corporate earnings improved and capital spending rose at a moderate pace in Japan, although uncertainty in overseas economies and fluctuations in financial markets required attention. Consumer spending in Japan continued to pick up following household income growth. It was, however, necessary to take note of uncertainties of overseas economies and of the impacts of fluctuations in the financial market. Meanwhile, a steady economic recovery continued in the United States and Asian economies also showed signs of recovery.

In the housing market, people's interest in acquiring their own homes continued to grow, mainly among first-time buyers attracted by low interest rates on housing loans and Japanese government measures to encourage housing purchases. On the other hand, a trend towards the prolongation of negotiations for rebuilding, etc. was observed among second-time buyers. Rental housing remained in solid demand, mainly in urban areas, for the purpose of avoiding the inheritance tax, although current building demand was somewhat weak due to concern about vacancy risks and a changing attitude among financial institutions towards lending. Among overseas housing markets, the market in the United States where the Company operates was brisk.

Under these circumstances, the Company advanced efforts to strengthen housing and residential-related businesses and expand new business areas under the basic policy of "building foundations for 'residential'-related businesses BEYOND 2020" adopted in the Fourth Mid-Term Management Plan. In the Custom Detached Houses and Rental Housing Businesses, the Company stepped up sales of eco-friendly and other high value-added houses and took advantage of the high quality elements supplied by its own factories to build hotels, nursery homes and medical facilities. Thus, the Company worked to diversify built-to-order operations. In the Overseas business, the Company acquired Woodside Homes Company, LLC, a custom detached housing business operator in the United States, in March last year to enter the homebuilding business. The Company thus sought to enlarge its business to achieve continued growth.

Net sales in FY2017 amounted to ¥2,159,364 million, up 6.5% from the previous fiscal year, operating income amounted to ¥195,540 million (up 6.2%), and profit attributable to owners of parent to ¥133,225 million (up 9.3%)

Total assets increased by ¥234,118 million to ¥2,419,013 million at the end of the fiscal year under review, primarily owing to the increases in real estate for sale by the acquisition of Woodside Homes Company, LLC. Liabilities increased ¥144,260 million, to ¥1,210,891 million, mainly due to an increase in loans and the issue of bonds. Net asset increased ¥89,857 million to ¥1,208,121 million, mainly due to posting profit attributable to owners of parent.

Looking beyond 2020, the housing environment is set to change significantly, reflecting the situation in Japan. Discussions are underway at many institutions, including the government of Japan, with respect to the reutilization of existing houses, whose role and value are being reviewed. Other developments will include the rapid progress in IT technologies, the evolution of houses in response to global warming countermeasures and a much older society, together with a further increase in inbound demand.

In this business environment, the Company, while working on building the foundations for residential-related businesses under the Fourth Mid-Term Management Plan, will accelerate the strengthening of its business areas, taking advantage of elements supplied by its own factories, and the expansion of the Overseas Business that has emerged as one of its main pillars. In addition, the Company will undertake initiatives across the Sekisui House Group to pursue the value that houses provide for the society, and will work on forming a housing stock of good quality, thereby facilitating a steady increase in profit.

For the fiscal year ending January 31, 2019, the Company forecasts consolidated net sales of ¥2,185,000 million, consolidated operating income of ¥200,000 million, and profit attributable to owners of parent of ¥136,000 million.

■Basic Policy on profit distribution and dividend

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

For the year ended January 31, 2018, we paid an interim dividend of ¥37 and a year-end dividend of ¥40. For the next fiscal year ending January 31, 2019, we plan to pay out an interim dividend of ¥39 and a year-end dividend of ¥40.

Toshinori Abe

Toshinori Abe
Chairman & Representative Director

S. Inagaki

Shiro Inagaki
Vice Chairman & Representative Director

Yoshihiro Nakai

Yoshihiro Nakai
President & Representative Director

Segment Information

FY2017 Business results
Consolidated net sales: ¥2,159,364 million, Consolidated operating income: ¥195,540 million

Custom Detached Houses

Sales
¥ 371,172 million
(down 3.1% year-on-year)

Operating income
¥ 48,043 million
(down 3.0% year-on-year)

[Business details]

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

[Summary]

Sales decreased given the impact on sluggish orders in the previous year, although the Company focused its efforts on sales of value-added products such as Green First Zero and IS SERIES and the unit price per house continued to grow.

Built-to-Order Rental Housing

Sales
¥ 442,846 million
(up 0.6% year-on-year)

Operating income
¥ 60,884 million
(up 0.1% year-on-year)

[Business details]

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

[Summary]

Both sales and profit increased on the back of an increase in unit price per building, which was attributable to the effect of thorough area marketing that leverages the Group's advantages, including measures to sell 3- and 4-story rental houses and collaborations with the Sekiwa Real Estate companies.

Remodeling

Sales
¥ 136,844 million
(up 2.5% year-on-year)

Operating income
¥ 19,760 million
(up 12.6% year-on-year)

[Business details]

Remodeling of residential properties

[Summary]

The Company focused on large-scale remodeling and renovation businesses, shifting from maintenance-type remodeling to lifestyle proposal-type remodeling.
Rental housing remodeling business steadily grew, and as a result both sales and profit of the overall segment increased.

Real Estate Management Fees

Sales
¥ 489,891 million
(up 4.4% year-on-year)

Operating income
¥ 33,133 million
(up 5.9% year-on-year)

[Business details]

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

[Summary]

The Company worked to advance penetration of the Sha-Maison brand by supplying high quality housing units. Both sales and income increased, reflecting a high occupancy rate of 96.7% and an increase in the number of units under management.

Houses for Sale

Sales
¥ 155,481 million
(up 9.5% year-on-year)

Operating income
¥ 13,461 million
(up 52.6% year-on-year)

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

[Summary]
Sales and income grew, reflecting strong business results, especially among first-time buyers, due to the active procurements of land,

Condominiums

Sales
¥ 77,498 million
(up 17.2% year-on-year)

Operating income
¥ 9,229 million
(up 310.4%year-on-year)

[Business details]
Sale of condominiums

[Summary]
Both sales and income increased, which was attributable to the smooth property handovers of large-scale projects. Orders remained strong for new properties for sale.

Urban Redevelopment

Sales
¥ 103,777 million
(down 20.5% year-on-year)

Operating income
¥ 16,994 million
(down 27.4% year-on-year)

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

[Summary]
Occupancy rates for rental properties owned by the Sekisui House Group remained high. Sales of properties to REIT exceeded the initial plan, but net sales decreased as a result of a decrease from the previous period.

Overseas Businesses

Sales
¥ 306,717 million
(up 68.4% year-on-year)

Operating income
¥ 29,762 million
(up 18.2% year-on-year)

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

[Summary]
Property sales in the multifamily business in Seattle and Denver in the U.S. progressed, as did the delivery of condominiums in Sydney. Net sales grew substantially as a result.

Other Businesses

[Business details] Mainly involving in exterior business, etc

Sales: ¥75,138 million (down 6.2% year-on-year), **Operating income**: ¥1,234 million (up 69.9% year-on-year)

Non Financial Information regarding ESG

■ Environmental Strategy at the Heart of Management Strategy

Sekisui House's responsibility as a housing manufacturer is to contribute to the resolution of important social issues including energy and environmental problems while aiming to promote sustainable business. Positioning energy conservation as one of our core functions, we proactively propose eco-friendly Green First homes as well as energy-saving and energy-creation remodeling and renovation for existing homes.

In 2008, we announced our 2050 Vision, which targets zero CO2 emissions over the entire housing product lifecycle. We signed the Joint Declaration in the Building and Construction Sector formulated at COP21 in 2015, as well as committed to the Paris Agreement. At the COP21 conference, 70 organizations worldwide signed and the only Japanese names on the list were the Tokyo Metropolitan Government and Sekisui House. It is through initiatives such as this that we are aiming to reduce everyday CO_2 emissions by approximately 40% compared to levels in fiscal 2013 by 2030, including emissions from existing detached houses and rental properties.

We aim to increase comfort and cost-efficiency of our housing while significantly reducing energy consumption and contributing to the achievement of national objectives for the reduction of greenhouse gas emissions. We aim to achieve the COP21 residential sector commitments with both newly built and existing homes.

Sekisui House has focused on popularizing eco-friendly Green First homes that substantially reduce environmental loads through the Green First Strategy that it adopted in 2009. In 2013, the Company launched Green First Zero, in order to be ahead of time in realizing Zero Energy Houses (ZEH). This is an innovative house that drastically reduces energy consumption through high insulation values and the latest energy conservation facilities, as well as generating power using solar batteries and fuel cells, to aim for a Zero Energy Balance.

In line with the government's policy that over half of all new houses built by house manufacturers and other such companies should be ZEH by fiscal 2020, Green First Zero accounted for 76% of all detached house orders received in fiscal 2017, while the total number of orders received since we launched the scheme exceeded 28,000. This result gives Sekisui House the clear lead in the industry, and we see it as evidence of our strengths, such as the high-quality standard specifications of our housing and our sophisticated consulting proposals.

Our Green First initiative is not confined to new housing. We also promote Green First Remodeling for existing houses, responsible for a large proportion of CO_2 emissions in the household sector. Specifically, we propose remodeling for enhanced heat insulation efficiency and energy-saving equipment to improve living comfort as well as improved performance in energy generation and conservation.

In addition, in 2017 Sekisui House joined the RE100 international initiative, which is aimed at ensuring that the power used in business activities consists of 100% renewable energy, as the second company in Japan and the first Japanese construction firm to do so. Sekisui House has supplied photovoltaic power generation systems of more than 650 MW to date. Sekisui House aims to achieve the RE100 target by 2040 by purchasing surplus power from the owners of houses it has built and utilizing such power in its business activities.

■ Formation of Good Quality Stock

In addition to environmental technologies, Sekisui House owns a large number of original technologies in fields including exterior walls, seismic response control systems and high-quality indoor air systems. Sekisui House is focusing on developing technologies that contribute to the enhancement of customer comfort. Sekisui House is supplying rental properties with similar high added value in the Rental Housing Business as well.

The formation of good quality stock also leads to businesses such as remodeling and rental housing management. Sekisui House has built a cumulative total of 2.38 million houses. This customer base is a valuable asset for Sekisui House. The number of rental houses under its management has also exceeded 600,000. Sekisui House is building good quality competitive properties, which can be attested to by the occupancy rate of 96.7% in areas centered on cities at the end of January 2018, by implementing area-specific marketing exhaustively. We believe that building high quality houses, renovating them properly and using them for a long time as social assets leads us to the effective use of resources.

■ Development of Our Overseas Business

Sekisui House set off its overseas business in 2009. Many projects are underway in locations such as Australia, the United States, China and Singapore in collaboration with local administrative authorities and major developers that have rated Sekisui House's eco-friendly technologies and track record of high-quality housing construction highly and empathize with its corporate stance. The overseas business has grown into a new pillar in Sekisui House's business model, with net sales in excess of 300 billion yen in fiscal 2017.

As a method of operating our business, we are proceeding with the urban development and with the housing construction and sales businesses in alliance with leading local developers and home builders. We are targeting countries and regions with population and high economic growth potential and robust demand for enriched and high-quality housing, while making a judgment on the housing market conditions and the adaptability of our businesses in each area.

■ Actions for Sustainability

In consideration of biological diversity, Sekisui House proposes the planting of native species suitable for the local climate and vegetation at the time of constructing residential buildings or areas in accordance with our original guidelines. In so doing, we are promoting the *Gohon no ki* landscaping concept that helps to conserve eco-systems. In the exterior business, the total number of trees planted since we launched this initiative in 2001 reached 10 million in 2013, the result of promoting the *Gohon no ki* project.

We exhaustively practice the Reduce, Reuse and Recycle approach in an effort to reduce construction waste and to make effective use of resources. We have a waste disposal system with a high level of traceability that covers all processes from separation on the construction site to the recycling routes in factories. After achieving zero emissions from production plants, new building sites, after-sales maintenance and remodeling sites, we are striving to achieve the same at the time of dismantling houses.

We understand that one of our social missions is to pass the extensive knowledge and experience we have cultivated in our housing business on to society to help create comfortable living environments where both communities and homeowners thrive. For this reason, we engage in numerous educational activities, including initiatives to raise awareness of housing through experience and experiments, in addition to seminars for schools and the public on the subjects of housing and living as well as global warming and eco-system conservation through housing and living.

In 2013, Sekisui House established *Sumufumulab* (Osaka City) as an open innovation facility aiming to create a new housing culture. The Company transmits the values of day-to-day life to various takeholders based on the research and development capabilities it has been cultivating for years. In 2015, the Sekisui House Eco First Park was inaugurated. The park brought together residential houses for demonstrative trials that exhibited our cutting-edge environmental technologies.

■ Promoting Diversity

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

Specific initiatives include the Sekisui House Women's College started since October 2014,which is an internal training program under which prospective female executives selected from across the country learn about the managerial perspectives needed for managers and business administration in a curriculum lasting two years.

Sekisui House has introduced a highly flexible working system that allows working at home as well as reduced,earlier and later working hours. It has created many different programs for assistance in nursing care for family members to support the many different work styles of employees and their work-life balance.

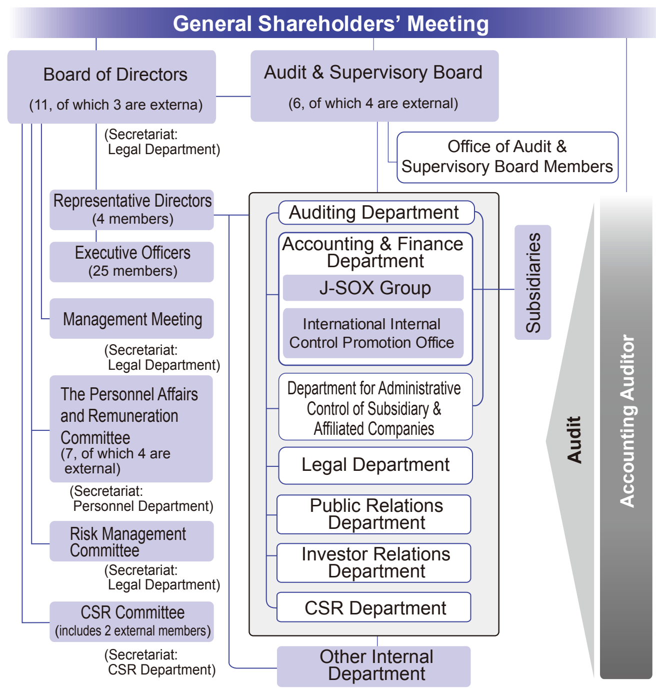
In addition, efforts are made to employ individuals with disabilities and to enhance the internal human resource development program.

Female managers who represent candidates for future female leaders have grown steadily in number as a result of the promotion of these initiatives. The total number of female managers and executives at Sekisui House Group companies has increased from 15 in 2006 to 158 at the end of January 2018 (with their ratio to all Group executives reaching 2.94%).

In addition, one outside director, one outside auditor and one executive officer at Sekisui House are women. Sekisui House is promoting women's participation in business administration to reflect diverse opinions and values in its management.

As a result of these efforts, Sekisui House has been included in the Nadeshiko list of companies that empower women and their careers through a scheme jointly run by the Ministry of Economy, Trade and Industry and the Tokyo Stock Exchange.

Corporate Governance Structure(as of May 2018)



■ Governance Structure

Sekisui House understands that corporate governance means a system for governance required for improving corporate value continuously while gaining the trust of all stakeholders. Sekisui House views corporate governance as a priority management issue. Positioning 2018 as the first year for governance reforms, Sekisui House has launched initiatives in six categories set for strengthening its systems.

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

To ensure the transparency of corporate administration and the timely and appropriate exertion of the check and supervisory functions, we have three outside directors and four outside auditors. We thus make clear the responsibility for management and accelerate business execution.

At the Management Meeting established recently, participants will actively exchange their opinions on important investment cases and crucial matters, such as the formulation of management policies, management strategies and management plans for the entire Sekisui House Group, ahead of resolutions by the Board of Directors and decisions on matters proposed in circulated drafts. Sekisui House thinks that the method of executing important business will be decided appropriately through the enhancement of risk management, which the Management Meeting and the Risk Management Committee, which has become a standing advisory body to the Board of Directors, are expected to achieve.

In terms of our CSR structure too, we have a CSR Committee that acts as an advisory body to the Board of Directors. The committee includes two outside members, to enable us to take on board external perspectives on CSR management and improve our own activities.

In recognition of initiatives such as these, we are one of 31 Japanese companies included in the Dow Jones Sustainability Indices (DJSI) World Index, a leading share index that evaluates companies' environmental and social performance, as well as their financial credentials. We were also one of just five Japanese companies awarded the highest "Gold Class" in the homebuilding category at the RobecoSAM Sustainability Awards 2018.

Information on these and other ESG related initiatives for FY2017 will be released in our "Sustainability Report 2018" and on our website.

Management's Discussion and Analysis

Results of Operations

For the year ended January 31

	Millions of yen					Thousands of U.S. dollars
	2018	2017	2016	2015	2014	**2018**
Net sales	**¥ 2,159,364**	¥ 2,026,932	¥ 1,858,879	¥ 1,912,722	¥ 1,805,102	**$ 19,848,920**
Cost of sales	**1,714,282**	1,608,634	1,485,011	1,544,275	1,446,602	**15,757,717**
Operating income	**195,540**	184,165	149,645	146,596	131,930	**1,797,408**
Profit attributable to owners of parent	**133,225**	121,853	84,303	90,225	79,801	**1,224,607**

Segment Information (Note 21)
Sales by each segment

	Millions of yen					Thousands of U.S. dollars
	2018	2017	2016	2015	2014	**2018**
Custom detached houses	**¥ 371,172**	¥ 383,129	¥ 393,787	¥ 427,044	¥ 517,691	**$ 3,411,821**
Rental housing	**442,846**	440,313	400,601	398,483	356,203	**4,070,650**
Remodeling	**136,844**	133,499	134,459	134,167	125,047	**1,257,873**
Real estate management fees	**489,891**	469,133	448,751	428,227	408,404	**4,503,089**
Houses for sale	**155,481**	142,015	137,485	118,731	133,405	**1,429,185**
Condominiums	**77,498**	66,126	81,470	56,699	63,084	**712,363**
Urban redevelopment	**103,777**	130,491	93,038	178,345	42,428	**953,920**
Overseas Business	**306,717**	182,127	89,523	79,835	85,393	**2,819,349**
Other	**75,138**	80,099	79,765	91,191	73,447	**690,670**
Consolidated	**2,159,364**	2,026,932	1,858,879	1,912,722	1,805,102	**19,848,920**

Amounts per share (Note 18)	Yen					U.S. dollars
	2018	2017	2016	2015	2014	**2018**
Profit attributable to owners of parent :						
Basic	**¥ 193.06**	¥ 175.48	¥ 120.16	¥ 130.91	¥ 118.63	**$ 1.77**
Diluted	**192.82**	175.22	119.41	125.22	110.50	**1.77**
Net assets	**1,731.60**	1,598.90	1,508.81	1,527.52	1,358.60	**15.92**
Dividends	**77.00**	64.00	54.00	50.00	43.00	**0.71**

Ratios

	2018	2017	2016	2015	2014
Equity ratio	**49.40%**	50.50%	52.11%	55.38%	52.63%
Return on assets (ROA)*	**9.03%**	9.38%	8.25%	8.40%	8.15%
Return on equity (ROE)	**11.59%**	11.28%	7.93%	9.03%	9.19%
D/E ratio	**52.06%**	44.50%	40.28%	32.92%	31.14%

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

Consolidated Balance Sheet

Sekisui House, Ltd. and Subsidiaries
January 31, 2018

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2017	**2018**
Assets			
Current assets:			
Cash and cash equivalents *(Note 19)*	**¥ 324,693**	¥ 204,701	**$ 2,984,585**
Short-term investments *(Notes 3, 10 and 19)*	**1,731**	9,507	**15,911**
Notes and accounts receivable :			
Affiliates	**668**	5,041	**6,140**
Trade *(Note 19)*	**45,715**	44,944	**420,213**
Other	**33,036**	32,051	**303,668**
Less allowance for doubtful accounts	**(1,270)**	(1,172)	**(11,674)**
	78,149	80,864	**718,347**
Inventories *(Notes 4 and 10)*	**1,095,161**	997,746	**10,066,744**
Deferred income taxes *(Note 11)*	**29,076**	30,229	**267,267**
Other current assets	**43,860**	31,983	**403,162**
Total current assets	**1,572,670**	1,355,030	**14,456,016**
Property, plant and equipment, at cost:			
Land *(Notes 4,5,8 and 10)*	**322,503**	325,073	**2,964,454**
Buildings and structures *(Notes 4,5,8 and 10)*	**348,783**	354,012	**3,206,021**
Machinery, equipment and other *(Note 5)*	**96,193**	97,567	**884,208**
Construction in progress	**26,117**	24,951	**240,068**
	793,596	801,603	**7,294,751**
Less accumulated depreciation	**(240,782)**	(237,920)	**(2,213,273)**
Property, plant and equipment, net	**552,814**	563,683	**5,081,478**
Investments and other assets:			
Long-term loans receivable	**25,342**	40,646	**232,944**
Less allowance for doubtful accounts	**(431)**	(461)	**(3,962)**
	24,911	40,185	**228,982**
Investments in securities *(Notes 3, 10 and 19)*	**112,487**	102,661	**1,033,983**
Investments in affiliates *(Notes 7, 10 and 19)*	**61,315**	46,854	**563,609**
Goodwill *(Note 21)*	**6,167**	48	**56,687**
Intangible assets	**15,850**	13,297	**145,694**
Deferred income taxes *(Note 11)*	**3,080**	2,728	**28,311**
Asset for retirement benefits *(Note 12)*	**14,725**	8,117	**135,353**
Other assets *(Note 10)*	**54,994**	52,292	**505,506**
Total investments and other assets	**293,529**	266,182	**2,698,125**
	¥ 2,419,013	¥ 2,184,895	**$22,235,619**

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2017	**2018**
Liabilities and net assets			
Current liabilities:			
Short-term loans *(Notes 9, 10 and 19)*	**¥ 209,708**	¥ 150,863	**$ 1,927,640**
Short-term bonds *(Note 9 and 19)*	**15,000**	75,000	**137,880**
Current portion of long-term debt and lease obligation *(Notes 9,10 and 19)*	**2,761**	22,644	**25,379**
Notes and accounts payable *(Note 19)* :			
Affiliates	**4,235**	4,436	**38,928**
Trade	**168,580**	174,603	**1,549,591**
Accrued income taxes *(Note 11)*	**32,200**	34,312	**295,983**
Advances received on construction projects in progress	**142,691**	129,784	**1,311,619**
Accrued employees' bonuses	**28,901**	28,006	**265,659**
Accrued directors' and corporate auditors' bonuses	**1,560**	1,290	**14,340**
Provision for warranties for completed construction	**2,980**	2,800	**27,392**
Other current Liability	**98,282**	90,208	**903,410**
Total current liabilities	**706,898**	713,946	**6,497,821**
Long-term liabilities:			
Long-term debt and lease obligation *(Notes 9, 10 and 19)*	**394,616**	242,510	**3,627,319**
Guarantee deposits received *(Note 10)*	**60,508**	59,952	**556,192**
Accrued retirement benefits for directors and corporate auditors	**1,338**	1,198	**12,299**
Liability for retirement benefits *(Note 12)*	**21,505**	20,266	**197,674**
Deferred income taxes *(Note 11)*	**12,500**	6,460	**114,900**
Other liabilities *(Note 13)*	**13,527**	22,299	**124,340**
Total long-term liabilities	**503,994**	352,685	**4,632,724**
Contingent liabilities *(Note 14)*			
Net assets:			
Shareholders' equity *(Notes 15 and 24)*:			
Common stock:			
Authorized: 1,978,281,000 shares			
Issued: 690,683,466 shares in 2018 and 709,683,466 shares in 2017	**202,591**	202,591	**1,862,221**
Capital surplus	**251,563**	253,559	**2,312,372**
Retained earnings	**626,961**	577,663	**5,763,039**
Less treasury stock, at cost	**(948)**	(37,248)	**(8,714)**
Total shareholders' equity	**1,080,167**	996,565	**9,928,918**
Accumulated other comprehensive income:			
Net unrealized holding gain on securities	**48,033**	37,840	**441,521**
Deferred (loss) gain on hedges	**(69)**	20	**(634)**
Translation adjustments	**50,678**	46,975	**465,833**
Retirement benefits liability adjustments	**16,166**	21,959	**148,598**
Total accumulated other comprehensive income	**114,808**	106,794	**1,055,318**
Stock subscription rights *(Notes 15 and 24)*	**762**	694	**7,004**
Non-controlling interests	**12,384**	14,211	**113,834**
Total net assets	**1,208,121**	1,118,264	**11,105,074**
	¥ 2,419,013	¥ 2,184,895	**$22,235,619**

∗See notes to consolidated financial statements.

Consolidated Statement of Income

Sekisui House, Ltd. and Subsidiaries
Year ended January 31, 2018

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2017	**2018**
Net sales *(Note 21)*	**¥ 2,159,364**	¥ 2,026,932	**$19,848,920**
Cost of sales *(Notes 4 and 15)*	**1,714,282**	1,608,634	**15,757,717**
Gross profit	**445,082**	418,298	**4,091,203**
Selling, general and administrative expenses *(Notes15 and 16)*	**249,542**	234,133	**2,293,795**
Operating income	**195,540**	184,165	**1,797,408**
Other income (expenses):			
Interest and dividend income	**4,037**	3,557	**37,108**
Interest expense	**(3,733)**	(2,326)	**(34,314)**
Loss on disposal or sales of fixed assets	**(1,938)**	(536)	**(17,814)**
Equity in earnings of affiliates	**8,184**	10,022	**75,228**
Gain on sales of shares of subsidiaries and affiliate *(Note 25)*	**10,478**	–	**96,314**
Foreign exchange gain (loss), net	**1,091**	(2,482)	**10,028**
Loss on impairment of fixed assets *(Notes 5 and 21)*	**(7,791)**	(5,155)	**(71,615)**
Bad debt loss *(Note 6)*	**(5,559)**	–	**(51,098)**
Loss on revaluation of investments in securities *(Note 3)*	**(2,880)**	–	**(26,473)**
Other, net	**(1,440)**	(1,946)	**(13,237)**
Profit before income taxes	**195,989**	185,299	**1,801,535**
Income taxes *(Note 11)*:			
Current	**51,611**	54,486	**474,409**
Deferred	**5,186**	3,917	**47,670**
	56,797	58,403	**522,079**
Profit	**139,192**	126,896	**1,279,456**
Profit attributable to :			
Non-controlling interrests	**(5,967)**	(5,043)	**(54,849)**
Owners of parent	**¥ 133,225**	¥ 121,853	**$ 1,224,607**

*See notes to consolidated financial statements.

Consolidated Statement of Comprehensive Income

Sekisui House, Ltd. and Subsidiaries
Year ended January 31, 2018

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2017	**2018**
Profit	**¥ 139,192**	¥ 126,896	**$ 1,279,456**
Other comprehensive income (loss) *(Note 23)*:			
Net unrealized holding gain on securities	**9,673**	11,454	**88,915**
Deferred gain on hedges	**–**	13	**–**
Translation adjustments	**2,594**	(21,226)	**23,844**
Retirement benefits liability adjustments	**(5,931)**	(3,625)	**(54,518)**
Share of other comprehensive gain (loss) of affiliates accounted for by the equity method	**1,694**	(905)	**15,571**
Total other comprehensive income (loss)	**8,030**	(14,289)	**73,812**
Comprehensive income	**¥ 147,222**	¥ 112,607	**$ 1,353,268**

Total comprehensive income attributable to:			
Owners of parent	**¥ 141,239**	¥ 107,618	**$ 1,298,272**
Non-controlling interests	**5,983**	4,989	**54,996**

*See notes to consolidated financial statements.

Consolidated Statement of Changes in Net Assets

Sekisui House, Ltd. and Subsidiaries
Year ended January 31, 2018

	Millions of yen											
						Accumulated other comprehensive income						
	Number of shares in issue	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Net unrealized holding gain on securities	Deferred (loss) gain on hedges	Translation adjustments	Retirement benefits liability adjustments	Stock subscription rights	Non-controlling interests	Total net assets
Balance at February 1, 2016	**709,683,466**	**¥202,591**	**¥253,559**	**¥498,094**	**¥(17,577)**	**¥26,672**	**¥(13)**	**¥68,748**	**¥25,622**	**¥623**	**¥10,109**	**¥1,068,428**
Profit attributable to owners of parent for the year........................	-	-	-	121,853	-	-	-	-	-	-	-	121,853
Cash dividends..............................	-	-	-	(41,087)	-	-	-	-	-	-	-	(41,087)
Purchases of treasury stock..........	-	-	-	-	(22,018)	-	-	-	-	-	-	(22,018)
Sales of treasury stock..................	-	-	-	(1,197)	2,347	-	-	-	-	-	-	1,150
Other changes...............................	-	-	-	-	-	11,168	33	(21,773)	(3,663)	71	4,102	(10,062)
Balance at February 1, 2017	**709,683,466**	**¥202,591**	**¥253,559**	**¥577,663**	**¥(37,248)**	**¥37,840**	**¥20**	**¥46,975**	**¥21,959**	**¥694**	**¥14,211**	**¥1,118,264**
Profit attributable to owners of parent for the year........................	-	-	-	133,225	-	-	-	-	-	-	-	133,225
Cash dividends..............................	-	-	-	(47,628)	-	-	-	-	-	-	-	(47,628)
Purchases of treasury stock..........	-	-	-	-	(22)	-	-	-	-	-	-	(22)
Sales of treasury stock..................	-	-	-	(46)	69	-	-	-	-	-	-	23
Retirement of treasury stock.........	(19,000,000)	-	-	(36,253)	36,253	-	-	-	-	-	-	-
Purchases of shares of consolidated subsidiaries............	-	-	(1,996)	-	-	-	-	-	-	-	-	(1,996)
Other changes..............................	-	-	-	-	-	10,193	(89)	3,703	(5,793)	68	(1,827)	6,255
Balance at January 31, 2018	**690,683,466**	**¥202,591**	**¥251,563**	**¥626,961**	**¥(948)**	**¥48,033**	**¥(69)**	**¥50,678**	**¥16,166**	**¥762**	**¥12,384**	**¥1,208,121**

	Thousands of U.S. dollars (Note 1)										
					Accumulated other comprehensive income						
	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Net unrealized holding gain on securities	Deferred (loss) gain on hedges	Translation adjustments	Retirement benefits liability adjustments	Stock subscription rights	Non-controlling interests	Total net assets
Balance at February 1, 2017	**$1,862,221**	**$2,330,720**	**$5,309,891**	**$(342,384)**	**$347,826**	**$ 184**	**$431,795**	**$201,847**	**$6,379**	**$130,628**	**$10,279,107**
Profit attributable to owners of parent for the year.....................	-	-	1,224,607	-	-	-	-	-	-	-	1,224,607
Cash dividends	-	-	(437,798)	-	-	-	-	-	-	-	(437,798)
Purchases of treasury stock	-	-	-	(202)	-	-	-	-	-	-	(202)
Sales of treasury stock..................	-	-	(423)	634	-	-	-	-	-	-	211
Retirement of treasury stock..........	-	-	(333,238)	333,238	-	-	-	-	-	-	-
Purchase of shares of consolidated subsidiaries.............	-	(18,348)	-	-	-	-	-	-	-	-	(18,348)
Other changes.............................	-	-	-	-	93,695	(818)	34,038	(53,249)	625	(16,794)	57,497
Balance at January 31, 2018	**$1,862,221**	**$2,312,372**	**$5,763,039**	**$(8,714)**	**$441,521**	**$(634)**	**$465,833**	**$148,598**	**$7,004**	**$113,834**	**$11,105,074**

*See notes to consolidated financial statements.

Consolidated Statement of Cash Flows

Sekisui House, Ltd. and Subsidiaries
Year ended January 31, 2018

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2017	**2018**
Cash flows from operating activities			
Profit before income taxes	**¥ 195,989**	¥ 185,299	**$ 1,801,535**
Adjustments for:			
Depreciation and amortization	**21,983**	23,125	**202,068**
Loss on impairment of fixed assets	**7,791**	5,155	**71,615**
Increase in liability for retirement benefits	**376**	532	**3,456**
Increase in asset for retirement benefits	**(14,281)**	(10,531)	**(131,271)**
Interest and dividend income	**(4,037)**	(3,557)	**(37,108)**
Interest expense	**3,733**	2,326	**34,314**
Equity in earnings of affiliates	**(8,184)**	(10,022)	**(75,228)**
Gain on sales of shares of subsidiaries and affiliate	**(10,478)**	–	**(96,314)**
Loss on revaluation of investments in securities	**2,880**	–	**26,473**
Decrease in notes and accounts receivable	**4,407**	792	**40,509**
Decrease (increase) in inventories	**19,107**	(62,733)	**175,632**
(Decrease) increase in notes and accounts payable	**(13,242)**	34,692	**(121,721)**
Increase in advances received on construction projects in progress	**12,260**	13,278	**112,694**
Other	**307**	(12,803)	**2,823**
Subtotal	**218,611**	165,553	**2,009,477**
Interest and dividends received	**6,547**	7,092	**60,180**
Interest paid	**(5,336)**	(2,598)	**(49,048)**
Income taxes paid	**(54,467)**	(54,226)	**(500,662)**
Net cash provided by operating activities	**165,355**	115,821	**1,519,947**
Cash flows from investing activities			
Proceeds from sales of short-term investments	**1,400**	2,800	**12,869**
Proceeds from sales of property, plant and equipment	**2,832**	448	**26,032**
Purchases of property, plant and equipment	**(62,900)**	(94,588)	**(578,178)**
Proceeds from sales and redemption of investments in securities	**2,886**	910	**26,528**
Purchases of investments in securities	**(5,467)**	(6,463)	**(50,253)**
Increase in loans receivable	**(262)**	(8,875)	**(2,409)**
Collection of loans receivable	**14,732**	9,725	**135,417**
Purchases of shares of subsidiary resulting in change in scope of consolidation *(Note 24)*	**(47,788)**	–	**(439,268)**
Proceeds from sales of shares of subsidiaries resulting in change in scope of consolidation *(Note 24)*	**18,109**	–	**166,458**
Other	**307**	(11,354)	**2,822**
Net cash used in investing activities	**(76,151)**	(107,397)	**(699,982)**
Cash flows from financing activities			
Proceeds from issuance of short-term bonds	**(35,000)**	(25,000)	**(321,721)**
Increase in short-term loans, net	**55,537**	6,636	**510,497**
Proceeds from issuance of bonds	**120,000**	80,000	**1,103,043**
Redemption of bonds	**(76,015)**	–	**(698,731)**
Proceeds from long-term debt	**59,385**	155,594	**545,868**
Repayment of long-term debt	**(36,384)**	(145,600)	**(334,443)**
Cash dividends paid	**(47,628)**	(41,087)	**(437,798)**
Purchases of treasury stock	**(19)**	(22,015)	**(175)**
Purchase of shares of subsidiary that do not result in change in scope of consolidation	**(2,220)**	–	**(20,406)**
Other *(Note 24)*	**(7,501)**	(3,016)	**(68,949)**
Net cash provided by financing activities	**30,155**	5,512	**277,185**
Effect of exchange rate changes on cash and cash equivalents	**633**	(1,573)	**5,819**
Net increase in cash and cash equivalents	**119,992**	12,363	**1,102,969**
Cash and cash equivalents at beginning of the year	**204,701**	192,338	**1,881,616**
Cash and cash equivalents at end of the year	**¥ 324,693**	¥ 204,701	**$ 2,984,585**

*See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Sekisui House, Ltd. and Subsidiaries
January 31, 2018

1. Basis of Preparation

The accompanying consolidated financial statements of Sekisui House, Ltd. (the "Company") and its subsidiaries (collectively, the "Group") have been compiled from the consolidated financial statements prepared by the Company as required by the Financial Instruments and Exchange Act of Japan. In preparing the accompanying consolidated financial statements, certain reclassifications and rearrangements have been made to present them in a form which is familiar to readers outside Japan. In addition, the notes to the accompanying consolidated financial statements include information which is not required under accounting principles generally accepted in Japan but is presented herein as additional information.
Certain reclassifications of previously reported amounts have been made to confirm the accompanying consolidated financial statements for the year ended January 31, 2017 to the 2018 presentation. Such reclassifications had no effect on consolidated profit or net assets.
The translation of Japanese yen amounts into U.S. dollars is included solely for the convenience of the readers and has been made at ¥108.79 = U.S.$1.00, the approximate rate of exchange in effect on January 31, 2018. This translation should not be construed as a representation that the Japanese yen amounts have been, could have been, or could in the future be, converted into U.S. dollar amounts at the above or any other rate.

2. Summary of Significant Accounting Policies

(a) Principles of consolidation
The accompanying consolidated financial statements include the accounts of the Company and all subsidiaries over which substantial control is exerted through either majority ownership of voting stock and/or by other means. All significant intercompany transactions and accounts have been eliminated in consolidation.
Investments in affiliates (companies over which the Company has the ability to exercise significant influence) are accounted for by the equity method.
For consolidation purposes, the financial statements of the subsidiaries whose balance sheet dates are either March 31, May 31 or November 30 were prepared as of and for the year ended January 31, 2018.
The balance sheet date of overseas subsidiaries and certain domestic subsidiaries is December 31. Any significant differences in intercompany accounts and transactions arising from intervening intercompany transactions during the period from January 1 through January 31 have been adjusted, if necessary.

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

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

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

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

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

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

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

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

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

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

(l) Allowance for doubtful accounts

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

(m) Accrued employees' bonuses

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

(n) Accrued directors' and corporate auditors' bonuses

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

(o) Provision for warranties for completed construction

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

(p) Retirement benefits

The retirement benefit is attributed to each period by the benefit formula method over the estimated years of service of the eligible employees.

Actuarial gain or loss is amortized from the year following the year in which such gain or loss is recognized principally by the straight-line method over a period of 5 years.

Prior service cost is amortized by the straight-line method over a period of 5 years.

Directors and corporate auditors of certain domestic subsidiaries are customarily entitled to lump-sum payments under an unfunded retirement benefit plan. The accrued retirement benefits for these officers have been made at an estimated amount based on each subsidiary's internal regulations.

(q) Recognition of revenues and costs of construction contracts

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

(r) Recognition of revenue derived from finance lease transactions as a lessor

Revenue from finance lease transactions and its related cost are recognized upon receipt of lease payments.

(s) Research and development cost

Research and development cost is charged to income as incurred.

(t) Capitalization of interest expenses

Interest expenses incurred for real estate development projects conducted by certain overseas subsidiaries have been capitalized as a part of the development cost of such projects.

For the years ended January 31, 2018 and 2017, interest expenses that were capitalized and included in inventories as part of "Construction for sale, including projects under construction," "Land held for sale," "Land held for development" and "Construction in progress" were ¥8,433 million ($77,516 thousand) and ¥7,321 million, ¥6,398 million ($58,811 thousand) and ¥2,287 million, ¥918 million ($8,438 thousand) and ¥516 million, and nil and ¥527 million, respectively.

(u) Derivative transactions and hedge accounting

Derivative positions are carried at fair value with any changes in unrealized gain or loss charged or credited to income, except for those which meet the criteria for deferral hedge accounting under which unrealized gain or loss is deferred as an asset or a liability.

Foreign exchange contracts are used to hedge foreign currency trade receivables and payables and forecasted transactions. In addition, interest rate swap contracts are used to hedge bank loans.

Such derivative transactions are entered into to reduce the foreign currency exchange risk or interest rate fluctuation risk. Notional amounts related to forward foreign exchange contracts are set within the amounts of import transactions denominated in the foreign currencies. Notional amounts related to interest rate swap contracts are set within the amounts of underlying borrowings.

The Company also formally assesses, at the hedge's inception, whether the derivatives used in the hedging transactions are highly effective in offsetting any changes in fair values or cash flows of the hedged items so that the actual fluctuations of each hedge are within the acceptable range of approximately 80% to 125%. However, an evaluation of effectiveness of forward foreign exchange contracts was omitted because the significant terms related to the hedged items and hedging instruments are the same and cash flows are also fixed.

(v) Additional information

Implementation Guidance on Recoverability of Deferred Tax Assets

Effective February 1, 2017, the Company and its domestic consolidated subsidiaries adopted "Revised Implementation Guidance on Recoverability of Deferred Tax Assets" (Accounting Standards Board of Japan Guidance No.26 of March 28, 2016).

3. Short-Term Investments and Investments in Securities

IInformation on held-to-maturity debt securities with determinable market value at January 31, 2018 and 2017 was as follows:

	Millions of yen					
	Held-to-maturity debt securities					
	2018			2017		
	Carrying value	Unrealized gain	Estimated fair value	Carrying value	Unrealized gain	Estimated fair value
Market value determinable: National Bonds	**¥ 589**	**¥ 1**	**¥ 590**	¥ 1,989	¥ 5	¥ 1,994

	Thousands of U.S. dollars		
	Held-to-maturity debt securities		
	2018		
	Carrying value	Unrealized gain	Estimated fair value
Market value determinable: National Bonds	$ 5,414	$ 9	$ 5,423

Information on other securities with determinable market value at January 31, 2018 and 2017 was as follows：

	Millions of yen							
	Other securities							
	2018				2017			
	Acquisition cost	Gross unrealized gain	Gross unrealized loss	Carrying value (estimated fair value)	Acquisition cost	Gross unrealized gain	Gross unrealized loss	Carrying value (estimated fair value)
Market value determinable: Equity securities	**¥37,453**	**¥66,962**	**¥ (46)**	**¥104,369**	¥37,453	¥53,132	¥ (21)	¥90,564

	Thousands of U.S. dollars			
	Other securities			
	2018			
	Acquisition cost	Gross unrealized gain	Gross unrealized loss	Carrying value (estimated fair value)
Market value determinable:				
Equity securities	$344,269	$615,516	$ (423)	$959,362

Sales of other securities for the years ended January 31, 2018 and 2017 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	**2018**
Proceeds from sales	**¥ 144**	¥ –	**$ 1.324**
Gross realized gain	**1**	–	**9**

The Group has recognized loss on revaluation of investments in securities classified as other securities of ¥2,880 million ($26,473 thousand) for the year ended January 31, 2018.

4. Inventories

Inventories at January 31, 2018 and 2017 were as follows:.

	Millions of yen		Thousands of U.S. dollars
	2018	2017	**2018**
Land held for sale	**¥599,515**	¥566,019	**$5,510,755**
Land held for development	**109,480**	92,683	**1,006,342**
Construction for sale, including projects under construction	**369,124**	321,682	**3,392,996**
Contracts in process	**9,415**	10,151	**86,543**
Other	**7,627**	7,211	**70,108**
	¥1,095,161	¥997,746	**$10,066,744**

Loss on devaluation of inventories included in cost of sales for the years ended January 31, 2018 and 2017 amounted to ¥6,512 million ($59,858 thousand) and ¥8,944 million, respectively.

Due to changes in holding purpose, ¥1,136 million ($10,442 thousand) and ¥10,271 million of inventories, which were mainly included in "Construction for sale, including projects under construction" and "Land held for sale," were principally reclassified to "Land" and "Buildings and structures" at January 31, 2018 and 2017, respectively. In addition, ¥44,638 million ($410,313 thousand) and ¥50,238 million of investment real estate and land for internal use, which were mainly included in "Buildings and structures" and "Land," were reclassified to "Construction for sale, including projects under construction" and "Land held for sale," classified as inventories in the accompanying consolidated balance sheets at January 31, 2018 and 2017, respectively.

5. Impairment of Fixed Assets

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

For the years ended January 31, 2018 and 2017, the Group has written down certain real estate for lease and certain factory assets to their respective net recoverable values.

Consequently, the Group recorded losses on impairment of fixed assets of ¥7,791 million ($71,615 thousand) and ¥5,155 million in the accompanying consolidated statements of income for the years ended January 31, 2018 and 2017, respectively.

The losses on impairment of fixed assets for the years ended January 31, 2018 and 2017 are outlined as follows:

2018

Location	Use	Classification	Millions of yen	Thousands of U.S. dollars
Hodogaya-ku, Yokohama City etc.	Real estate for lease etc.	Buildings and structures	¥ 2,486	$ 22,851
		Machinery, equipment and other	332	3,052
		Land	4,468	41,070
		Other	505	4,642
			¥ 7,791	$ 71,615

2017

Location	Use	Classification	Millions of yen
Naka-ku, Nagoya City etc.	Real estate for lease etc.	Buildings and structures	¥ 994
		Machinery, equipment and other	113
		Land	3,841
		Other	207
			¥ 5,155

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

6. Bad Debt Loss

Bad debt loss is recorded as the uncollectible amount resulting from an incident with a purchase transaction involving land for condominiums.

7. Investments in Affiliates

Investments in affiliates at January 31, 2018 and 2017 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	**2018**
Investments in capital stock, at cost	**¥ 29,524**	¥ 24,025	**$ 271,385**
Equity in undistributed earnings since acquisition, net	**31,791**	22,829	**292,224**
	¥ 61,315	¥ 46,854	**$ 563,609**

8. Investment and Rental Properties

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

For the years ended January 31, 2018 and 2017, rental profit and loss on impairment of these rental properties amounted to ¥8,883 million ($81,653 thousand) and ¥8,095 million and ¥6,308 million ($57,983 thousand) and ¥4,815 million, respectively.

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

The carrying value in the accompanying consolidated balance sheets as of January 31, 2018 and 2017 and corresponding fair value of those properties are as follows:

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

Millions of yen			
Carrying value			Fair value
January 31, 2016	Net change	January 31, 2017	January 31, 2017
¥ 446,290	¥ 28,945	¥ 475,235	¥ 540,848

Thousands of U.S. dollars			
Carrying value			Fair value
January 31, 2017	Net change	January 31, 2018	January 31, 2018
$ 4,368,370	$ (64,546)	$ 4,303,824	$ 5,019,680

Notes:

1. The carrying value represents the acquisition cost less accumulated depreciation and impairment losses.
2. For the years ended January 31, 2018 and 2017, the main components of net change in carrying value are the increase of ¥54,302 million ($499,145 thousand) and ¥83,920 million in acquisitions of real estate and the decreases of ¥43,684 million ($401,544 thousand) and ¥39,503 million in transfer to inventories, ¥8,852 million ($81,368 thousand) and ¥9,652 million in depreciation and ¥6,308 million ($57,983 thousand) and ¥4,815 million in loss on impairment of the rental properties, respectively.
3. The fair value of main real estate is computed based on appraisal amounts valued by real estate appraisers. The fair value of the others is computed by the Group in accordance with "Real Estate Appraisal Standards."

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

Short-term loans consist of unsecured bank loans. The average interest rates on the short-term loans outstanding at January 31, 2018 and 2017 were 2.41% and 1.77%, respectively.

The interest rate on the short-term bonds outstanding at January 31, 2017 was (0.00) % .

Long-term debt at January 31, 2018 and 2017 consisted of the following :

	Millions of yen		Thousands of U.S. dollars
	2018	2017	**2018**
Unsecured loans from banks and insurance companies at interest rates ranging from 0.13% to 5.37%, due from 2018 to 2022	**¥ 110,787**	¥ 76,321	**$ 1,018,357**
Unsecured bonds denominated in yen at interest rates ranging from 0.11% to 0.31%, due 2017	**–**	40,000	**–**
Nonrecourse bank loans at interest rates ranging from 2.77% to 7.28%, due from 2018 to 2023	**45,845**	54,408	**421,408**
Unsecured bonds denominated in yen at an interest rate 0.13% due 2018	**15,000**	15,000	**137,880**
Unsecured bonds denominated in yen at an interest rate of 0.18%, due 2019	**20,000**	20,000	**183,840**
Unsecured bonds denominated in yen at an interest rate of 0.22%, due 2020	**15,000**	15,000	**137,880**
Unsecured bonds denominated in yen at an interest rate of 0.04%, due 2021	**30,000**	30,000	**275,761**
Unsecured bonds denominated in yen at an interest rate of 0.11%, due 2023	**30,000**	30,000	**275,761**
Unsecured bonds denominated in yen at an interest rate of 0.20%, due 2026	**20,000**	20,000	**183,840**
Deferrable and early redeemable subordinated unsecured bonds denominated in yen at an interest rate of 0.81%,due 2077	**120,000**	–	**1,103,043**
Lease obligations	**5,745**	4,425	**52,808**
	412,377	305,154	**3,790,578**
	(17,761)	(62,644)	**(163,259)**
Less current portion	**¥ 394,616**	¥ 242,510	**$ 3,627,319**

The aggregate annual maturities of long-term debt subsequent to January 31, 2018 are summarized as follows:

Year ending January 31,	Millions of yen	Thousands of U.S. dollars
2019	¥ 17,761	$ 163,259
2020	94,460	868,279
2021	20,950	192,573
2022	63,714	585,660
2023 and thereafter	215,492	1,980,807
	¥412,377	$3,790,578

In order to achieve more efficient and flexible financing, the Company has concluded line-of-credit agreements with certain financial institutions. The status of these lines of credit at January 31, 2018 and 2017 is as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017,	**2018**
Lines of credit	**¥ 361,721**	¥ 337,889	**$ 3,324,947**
Credit utilized	**167,585**	150,555	**1,540,445**
Available credit	**¥ 194,136**	¥ 187,334	**$ 1,784,502**

10. Mortgaged and Pledged Assets

At January 31, 2018 and 2017, the following assets were either mortgaged or pledged for guarantees of a third party bank loan, guarantee deposits received and long-term bank loan, including current portion and totaled ¥47,233 million ($434,167 thousand) and ¥58,203 million, respectively.

	Millions of yen		Thousands of U.S. dollars
	2018	2017	**2018**
Inventories	**¥ 85,907**	¥ 94,601	**$ 789,659**
Land	**2,868**	2,971	**26,362**
Buildings and structures	**494**	511	**4,541**
Investments in securities	**515**	1,227	**4,734**
	¥ 89,784	¥ 99,310	**$ 825,296**

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

As of January 31, 2018 and 2017, ¥85,862 million ($789,245 thousand) and ¥94,555 million of inventories were pledged as collateral for nonrecourse liabilities of short-term and long-term debt, including current portion and totaled ¥45,845 million ($421,408 thousand) and ¥56,719 million, respectively. These nonrecource liabilities and corresponding assets are included in the above table.

In addition, for the purpose of covering warranty obligations for latent defects on certain housing, ¥586 million ($5,387 thousand) and ¥1,400 million of short-term investments, nil and ¥586 million of investments in securities, and ¥6,694 million ($61,531 thousand) and ¥4,646 million of other assets were deposited in accordance with relevant laws at January 31, 2018 and 2017, respectively.

11. 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 30.7% and 32.8% for the years ended January 31, 2018 and 2017, respectively. Overseas subsidiaries are subject to the income taxes of the countries in which they operate.

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

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

The reconciliation of the difference between the statutory tax rate and the effective tax rate for the year ended January 31, 2017 was omitted because such difference is less than 5% of the statutory tax rate.

The significant components of the Group's deferred tax assets (liabilities) at January 31, 2018 and 2017 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	**2018**
Loss on revaluation of real estate held for sale	**¥ 16,665**	¥ 16,787	**$ 153,185**
Accrued employees' bonuses	**9,075**	8,796	**83,418**
Liability for retirement benefits	**6,743**	6,358	**61,982**
Accumulated losses on impairment of fixed assets	**6,213**	8,007	**57,110**
Unrealized gain on fixed assets	**4,758**	4,271	**43,736**
Tax loss carryforwards	**3,631**	3,878	**33,376**
Allowance for doubtful accounts	**2,206**	502	**20,278**
Loss on revaluation of securities	**1.551**	2,721	**14,257**
Net unrealized holding gain on securities	**(19,153)**	(15,020)	**(176,055)**
Asset for retirement benefits	**(4,558)**	(2,535)	**(41,897)**
Other, net	**6,786**	8,985	**62,377**
Less valuation allowance	**(14,261)**	(16,253)	**(131,088)**
Net deferred tax assets	**¥ 19,656**	¥ 26,497	**$ 180,679**

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

The Tax Cuts and Jobs Act, which reduces the federal corporate income tax rate from 35% to 21% in the U.S. effective January 1, 2018, was enacted on December 22, 2017.

In line with this, the deferred tax assets and liabilities of U.S. subsidiaries were calculated in accordance with the revised statutory tax rate.

As a result of the change in tax rate, deferred tax assets (after offsetting deferred tax liabilities and translation adjustments decreased by ¥1,433 million ($13,172 thousand) and ¥8 million ($74 thousand), and income taxes – deferred increased by ¥1,426 million ($13,108 thousand), respectively, as of and for the year ended January 31, 2018.

12. Retirement Benefit Plans

The Company and its domestic subsidiaries have defined benefit plans, which consists of corporate pension funds and lump-sum payment retirement plan and defined contribution pension plans.
Certain domestic subsidiaries have calculated their retirement benefit obligation and retirement benefit expenses based on the amount which would be payable at the year end if all eligible employees terminated their services voluntarily (the "Simplified Method").
In certain cases, special retirement benefits may be paid to employees.

Defined benefit plan

The changes in the retirement benefit obligations, including those for which the Simplified Method is applied, during the years ended January 31, 2018 and 2017 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	**2018**
Retirement benefit obligations at the beginning of the year	**¥ 258,935**	¥ 253,402	**$ 2,380,136**
Service cost	**9,974**	10,075	**91,681**
Interest cost	**3,615**	3,544	**33,229**
Actuarial loss (gain)	**3,539**	(1,180)	**32,531**
Retirement benefit paid	**(6,962)**	(6,906)	**(63,995)**
Retirement benefit obligations at the end of the year	**¥ 269,101**	¥ 258,935	**$ 2,473,582**

The changes in plan assets, including those for which the Simplified Method is applied, during the years ended January 31, 2018 and 2017 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	**2018**
Plan assets at the beginning of the year	**¥ 246,786**	¥ 237,338	**$ 2,268,462**
Expected return on plan assets	**6,143**	5,909	**56,466**
Actuarial gain	**7,950**	2,219	**73,077**
Contributions paid by the Company	**7,753**	7,575	**71,266**
Retirement benefits paid	**(6,311)**	(6,255)	**(58,011)**
Plan assets at the end of the year	**¥ 262,321**	¥ 246,786	**$ 2,411,260**

The following table sets forth the funded status of the plan assets and the amounts recognized in the consolidated balance sheets as of January 31, 2018 and 2017 for the Company's and domestic subsidiaries' defined benefit plans, including those for which the Simplified Method is applied:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	**2018**
Funded retirement benefit obligation	**¥ 247,596**	¥ 238,669	**$ 2,275,908**
Plan assets at fair value	**(262,321)**	(246,786)	**(2,411,261)**
	(14,725)	(8,117)	**(135,353)**
Unfunded retirement benefit obligation	**21,505**	20,266	**197,675**
Net liability for retirement benefits in the balance sheets	**¥ 6,780**	¥ 12,149	**$ 62,322**
Liability for retirement benefits	**¥ 21,505**	¥ 20,266	**$ 197,675**
Asset for retirement benefits	**(14,725)**	(8,117)	**(135,353)**
Net liability for retirement benefits in the balance sheets	**¥ 6,780**	¥ 12,149	**$ 62,322**

The components of retirement benefit expenses for the years ended January 31, 2018 and 2017 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	**2018**
Service cost	**¥ 9,974**	¥ 10,075	**$ 91,681**
Interest cost	**3,615**	3,545	**33,229**
Expected return on plan assets	**(6,143)**	(5,909)	**(56,467)**
Amortization of actuarial gain	**(7,261)**	(2,963)	**(66,743)**
Amortization of prior service cost	**(5,684)**	(6,521)	**(52,247)**
Other	**502**	521	**4,614**
Retirement benefit expenses	**¥ (4,997)**	¥ (1,252)	**$ (45,933)**

(Note)
Retirement benefit expenses of certain subsidiaries adopting the Simplified Method are included in "service cost."
"Other" mainly consists of special retirement benefits paid to employees.
The components of retirement benefits liability adjustments included in other comprehensive income (before tax effect) for the years ended January 31, 2018 and 2017 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	**2018**
Prior service cost	**¥ (5,684)**	¥ (6,596)	**$ (52,247)**
Actuarial (gain) loss	**(2,850)**	511	**(26,198)**
Total	**¥ (8,534)**	¥ (6,085)	**$ (78,445)**

The components of retirement benefits liability adjustments included in accumulated other comprehensive income (before tax effect) as of January 31, 2018 and 2017 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	**2018**
Unrecognized prior service cost	**¥ 10,410**	¥ 16,095	**$ 95,689**
Unrecognized actuarial gain	**12,706**	15,556	**116,794**
Total	**¥ 23,116**	¥ 31,651	**$ 212,483**

The fair values of plan assets, by major category, as a percentage of total plan assets as of January 31, 2018 and 2017 are as follows:

	2018	2017
Debt securities	**30%**	36%
Equity securities	**29**	29
Hedge fund	**18**	15
General accounts at insurance companies	**13**	13
Cash and deposits	**2**	2
Other	**8**	5
Total	**100%**	100%

The expected rate of return on plan assets has been estimated considering the anticipated allocation to each asset class and the expected long-term rates of returns on various assets composed of pension assets each category.
The assumptions used in accounting for the above retirement benefit plans for the years ended January 31, 2018 and 2017 are as follows:

	2018	2017
Discount rate	**1.4%**	1.4%
Expected long-term rate of return on plan assets	**2.5%**	2.5%
Expected rate of salary increase	**4.5%**	4.5%

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

Defined contribution pension plans

Total contributions paid by the domestic subsidiaries to the defined contribution plan for the years ended January 31, 2018 and 2017 were ¥6 million ($55 thousand) and ¥6 million, respectively.

13. Asset Retirement Obligations

In accordance with exhibition contracts at housing exhibition sites, tenancy contracts for offices and real estate for investment, the Company and certain subsidiaries are obligated to remove leasehold improvements attached to these housing exhibitions, offices and real estate and return the property to its original state after vacating the premises.

The asset retirement obligations included in other liabilities are determined and discounted to their present value using a risk-free rate at the beginning of the year and the anticipated future useful lives for each housing exhibition, office or real estate.

The changes in asset retirement obligations for the years ended January 31, 2018 and 2017 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	**2018**
Balance at the beginning of the year	**¥ 2,439**	¥ 2,370	**$ 22,419**
Liabilities incurred for assets acquired	**397**	138	**3,649**
Accretion expense	**18**	18	**166**
Liabilities settled	**(131)**	(87)	**(1,204)**
Balance at the end of the year	**¥ 2,723**	¥ 2,439	**$ 25,030**

14. Contingent Liabilities

The Group had the following contingent liabilities at January 31, 2018:

	Millions of yen	Thousands of U.S. dollars
Guarantees of housing loans to customers	¥ 102,610	$ 943,194
Guarantees of bank loans of a third party	294	2,702

15. Shareholders' Equity

The Companies Act of Japan (the "Act") requires the Company to transfer an amount equal to 10% of the amount to be disbursed as distributions of capital surplus (other than the capital reserve) and retained earnings (other than the legal reserve) to the capital reserve and the legal reserve, respectively, until the sum of the capital reserve and the legal reserve equals 25% of the capital stock account. Such distributions can be made at any time by resolution of the shareholders, or by the Board of Directors if certain conditions are met.
The Company's legal reserve included in retained earnings at January 31, 2018 and 2017 amounted to ¥23,129 million ($212,602 thousand).
Under the Act, upon the issuance and sales of new shares of common stock, the entire amount of the proceeds is required to be accounted for as common stock, although a company may, by resolution of the Board of Directors, account for an amount not exceeding one-half of the proceeds of the sale of new shares as capital surplus.

Stock option plan

Stock option expenses per accounts for the years ended January 31, 2018 and 2017 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	**2018**
Cost of sales	**¥ 2**	¥ 3	**$ 18**
Selling, general and administrative expenses	**89**	88	**818**

Description of each stock option plan as of January 31, 2018 is as follows:

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

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

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

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

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

	The 2006 plan	The 2007 plan	The 2008 plan	The 2009 plan	The 2010 plan	The 2011 plan	The 2012 plan	The 2013 plan	The 2014 plan	The 2015 plan	The 2016 plan	The 2017 plan
Number of stock options:												
Non-vested												
Outstanding at February 1, 2017	21,000	24,000	55,000	59,000	82,000	101,000	129,000	59,000	97,000	60,000	66,000	–
Granted	–	–	–	–	–	–	–	–	–	–	–	64,000
Forfeited	–	–	–	–	–	–	–	–	–	–	–	–
Vested	–	–	–	–	2,000	3,000	2,000	1,000	2,000	1,000	2,000	1,000
Outstanding at Janyuary 31, 2018	21,000	24,000	55,000	59,000	80,000	98,000	127,000	58,000	95,000	59,000	64,000	63,000
Vested												
Outstanding at February 1, 2017	7,000	8,000	8,000	14,000	10,000	18,000	15,000	5,000	3,000	3,000	–	–
Vested	–	–	–	–	2,000	3,000	2,000	1,000	2,000	1,000	2,000	1,000
Exercised	–	–	1,000	10,000	7,000	15,000	3,000	–	–	–	–	–
Forfeited	–	–	–	–	–	–	–	–	–	–	–	–
Outstanding at January 31, 2018	7,000	8,000	7,000	4,000	5,000	6,000	14,000	6,000	5,000	4,000	2,000	1,000
Exercise price	¥ 1	¥1	¥1	¥1	¥1	¥1	¥1	¥1	¥1	¥1	¥1	¥1
Average stock price at exercise	¥ –	¥ –	¥2,022	¥2,006	¥1,921	¥1,940	¥2,136	¥ –	¥ –	¥ –	¥ –	¥ –
Fair value price at grant date	¥ –	¥1,571	¥876	¥681	¥717	¥592	¥495	¥1,071	¥974	¥1,507	¥1,356	¥1,415
Exercise price	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
Average stock price at exercise	$ –	$ –	$19	$18	$18	$18	$ 20	$ –	$ –	$ –	$ –	$ –
Fair value price at grant date	$ –	$14	$ 8	$ 6	$ 7	$ 5	$ 5	$ 10	$ 9	$14	$12	$13

The fair value as of the grant date for stock options which were issued during the year ended January 31, 2018 was estimated using the Black-Scholes Option Pricing Model with the following assumptions:

	Note	The 2017 plan
Expected volatility	*1	25.702%
Expected remaining period	*2	10 years
Estimated dividend per share	*3	¥64 ($1)
Risk-free rate	*4	0.060%

*1 Expected volatility was computed by the actual prices of the Company during the period from June 2007 to May 2017.

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

*3 The estimated dividend per share was calculated at the actual amount for the year ended January 31, 2017.

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

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

Treasury stock

Movements in treasury stock during the years ended January 31, 2018 and 2017 are summarized as follows:

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

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

	Number of shares 2017			
	January 31, 2016	Increase	Decrease	January 31, 2017
Treasury stock	8,670,214	12,107,304	1,166,642	19,610,876

The increase in treasury stock consists of 12,097,400 shares resulting from the repurchasing based on the article of incorporation of the Company under Article 165 (2) of the Act, 8,403 shares resulting from the purchase of shares less than one unit by the Company, and 1,501 shares of treasury stock attributable to the Company resulting from the purchase by an affiliate for the year ended January 31, 2017. The decrease in treasury stock consists of 1,141,413 shares resulting from the conversion of convertible bonds, 229 shares resulting from sale of shares less than one unit by the Company, and 25,000 shares resulting from the exercise of stock option plans for the year ended January 31, 2017.

16. Research and Development Cost

Research and development cost charged to income amounted to ¥5,181 million ($47,624 thousand) and ¥4,991 million for the years ended January 31, 2018 and 2017, respectively.

17. Leases

(Lessee)

The Company has leased assets under finance lease transactions which do not transfer ownership to the lessee, mainly consisting of business-use servers, vehicles and software.
Regarding the depreciation method of leased assets under finance lease transactions which do not transfer ownership to the lessee, please refer to in Note 2 (i).
Future minimum lease payments subsequent to January 31, 2018 under non-cancellable operating leases are summarized as follows:

Year ending January 31,	Millions of yen	Thousands of U.S. dollars
2019	¥ 9,036	$ 83,059
2020 and thereafter	39,183	360,171
	¥ 48,219	$ 443,230

(Lessor)

Lease receivables from finance lease transactions in which the ownership of the leased assets is not transferred to the lessee as of January 31, 2018 and 2017 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	**2018**
Current assets:			
Gross lease receivables	**¥ 9,053**	¥ 3,402	**$ 83,216**
Less unearned interest income	**(2,493)**	(6)	**(22,916)**
Net lease receivables	**¥ 6,560**	¥ 3,396	**$ 60,300**

Contractual maturities of lease receivables from finance lease transactions subsequent to January 31, 2018 in which the ownership of the leased assets is transferred to the lessee are as follows:

Year ending January 31,	Millions of yen	Thousands of U.S. dollars
2019	¥ 195	$ 1,792
2020	195	1,792
2021	195	1,792
2022	195	1,792
2023	195	1,792
2024 and thereafter	4,002	36,788
	¥ 4,977	$ 45,748

Contractual maturities of the above gross lease receivables subsequent to January 31, 2018 in which the ownership of the leased assets is not transferred to the lessee are as follows:

Year ending January 31,	Millions of yen	Thousands of U.S. dollars
2019	¥ 357	$ 3,282
2020	346	3,180
2021	333	3,061
2022	333	3,061
2023	334	3,070
2024 and thereafter	7,350	67,561
	¥ 9,053	$ 83,215

Future minimum lease receipts subsequent to January 31, 2018 under non-cancellable operating leases are summarized as follows:

Year ending January 31,	Millions of yen	Thousands of U.S. dollars
2019	¥ 7,595	$ 69,813
2020 and thereafter	13,160	120,967
	¥ 20,755	$ 190,780

Lease receivables and lease obligations in which the ownership of the leased assets is not transferred to the lessee as of January 31, 2018 and 2017 under sub-lease transactions are as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	**2018**
Lease receivables:			
Current	**¥ 4,349**	¥ 2,824	**$ 39,976**
Lease obligations:			
Current	**187**	117	**1,719**
Non-current	**4,368**	2,830	**40,151**

18. Amounts per Share

Per share amounts as of and for the years ended January 31, 2018 and 2017 are as follows:

	Yen		U.S. dollars
	2018	2017	**2018**
Profit attributable to owners of parent:			
Basic	**¥ 193.06**	¥ 175.48	**$ 1.77**
Diluted	**192.82**	175.22	**1.77**
Net assets	**1,731.60**	1,598.90	**15.92**
Cash dividends	**77.00**	64.00	**0.71**

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

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

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

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

Financial data for the computation of basic and diluted profit per share for the years ended January 31, 2018 and 2017 in the table above is summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	**2018**
Information on basic profit per share:			
Profit	**¥ 133,225**	¥ 121,853	**$1,224,607**
Profit not attributable to common stockholders	**–**	–	**–**
Adjusted profit attributable to common stockholders	**¥ 133,225**	¥ 121,853	**$1,224,607**

	Thousands of shares	
	2018	2017
Weighted-average number of shares of common stock outstanding during the year	**690,082**	694,392

	Millions of yen	
	2018	2017
Information on diluted profit per share for the years ended January 31, 2018 and 2017 in the table above is summarized as follows:		
Adjustments to profit attributable to common stockholders	**–**	–

	Thousands of shares	
	2018	2017
Increase in common stock:		
Bonds with stock subscription rights	**863**	815
Stock subscription rights	**–**	225

Financial data for the computation of net assets per share at January 31, 2018 and 2017 in the above table is summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	**2018**
Total net assets	**¥1,208,121**	¥1,118,264	**$ 11,105,074**
Deductions from total net assets:			
Stock subscription rights	**(762)**	(694)	**(7,004)**
Non-controlling interests	**(12,384)**	(14,211)	**(113,834)**
Total net assets attributable to common stockholders	**¥1,194,975**	¥1,103,359	**$ 10,984,236**

	Thousands of shares	
	2018	2017
Number of shares of common stock used in the calculation of net assets per share	**690,097**	690,073

19. Financial Instruments and Related Disclosures

The Group manages cash surpluses mainly through low-risk financial assets. The Group raises funds mainly through bank loans and direct finance such as issuance of bonds. The Group enters into derivative

transactions for the purpose of reducing risk and does not enter into derivative transactions for speculative or trading purposes.
Notes and accounts receivable, trade are exposed to credit risk in relation to customers. Short-term investments and investments in securities, which primarily consist of equity securities, held-to-maturity debt securities, certificates of deposits and investments in partnerships, are exposed to credit risk in relation to issuers and fluctuation risk of market price. Substantially all notes and accounts payable, trade have payment due dates within one year. Bank loans and bonds are utilized principally for working capital and capital investments. Bank loans are utilized with variable interest rates and are exposed to interest rate fluctuation risk.

Regarding derivative transactions, the Group enters into forward foreign exchange contracts and currency swap contracts to reduce the foreign currency exchange risk arising from trade receivables, payables, investments and loan receivables denominated in foreign currencies. The Group also enters into interest rate swap contracts to reduce the interest rate fluctuation risk. Further information regarding the method of hedge accounting, hedging instruments and hedged items, hedging policy, and the assessment of the effectiveness of hedging activities can be found in Note 2 (u).

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

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

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

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

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

The carrying values of financial instruments on the accompanying consolidated balance sheets as of January 31, 2018 and 2017 and their estimated fair values are shown in the following table. The following table does not include financial instruments for which it is extremely difficult to determine the fair value.

	Millions of yen			Thousands of U.S. dollars		
	2018			2018		
	Carrying value	Estimated fair value	Difference	Carrying value	Estimated fair value	Difference
Cash and cash equivalents	¥ 324,693	¥324,693	¥ —	$ 2,984,585	$ 2,984,585	$ —
Notes and accounts receivable - trade	45,877			421,702		
Less allowance for doubtful accounts	(324)			(2,978)		
Sub total	45,553	45,553	—	418,724	418,724	—
Short-term investments and investments in securities and affiliates:						
Held-to-maturity debt securities	589	590	1	5,414	5,423	9
Investments in affiliates	3,444	2,548	(896)	31,658	23,422	(8,236)
Other securities	105,512	105,512	—	969,868	969,868	—
Total	479,791	478,896	(895)	4,410,249	4,402,022	(8,227)
Notes and accounts payable	172,815	172,815	—	1,588,519	1,588,519	—
Short-term loans	209,708	209,708	—	1,927,640	1,927,640	—
Bonds	250,000	250,198	198	2,298,005	2,299,825	1,820
Long-term loans including current portion	156,632	156,490	(142)	1,439,766	1,438,460	(1,306)
Total	¥ 789,155	¥ 789,211	¥ 56	$ 7,253,930	$ 7,254,444	$ 514
Derivative transactions (*)	¥ 204	¥ 204	¥ —	$ 1,875	$ 1,875	$ —

	Millions of yen		
	2017		
	Carrying value	Estimated fair value	Difference
Cash and cash equivalents	¥ 204,701	¥ 204,701	¥ —
Notes and accounts receivable - trade	49,031		
Less allowance for doubtful accounts	(284)		
Sub total	48,747	48,747	—
Short-term investments and investments in securities and affiliates:			
Held-to-maturity debt securities	1,989	1,995	6
Investments in affiliates	3,388	2,044	(1,344)
Other securities	98,672	98,672	—
Total	357,497	356,159	(1,338)
Notes and accounts payable	179,039	179,039	—
Short-term loans	150,863	150,863	—
Bonds	170,000	168,912	(1,088)
Long-term loans including current portion	130,729	130,728	(1)
Total	¥ 630,631	¥ 629,542	¥ (1,089)
Derivative transactions (*)	¥ 328	¥ 328	¥ —

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

The fair values of cash and cash equivalents and notes and accounts receivable – trade approximate their carrying values since these items are settled in a short period of time.

The fair values of short-term investments and investments in equity securities are determined based on quoted market prices. The fair value of debt securities is based on either quoted market price or the price provided by the counterparty financial institutions.

For further information of fair values of short-term investments and investments in securities by holding purposes, please refer to Note 3.

The fair values of notes and accounts payable and short-term loans approximate their carrying value since these items are settled in a short period of time.

The fair values of bonds are determined based on market prices.

The fair value of long-term loans including the current portion with variable interest rates approximates the carrying value. The fair value of long-term loans including the current portion with fixed interest rates is determined based on the discounted present value of the principal and interest payments using the corresponding fixed interest rate for new loans with the same terms and conditions.

Regarding derivative transactions, refer to Note 20.

Financial instruments for which it is extremely difficult to determine the fair value as of January 31, 2018 and 2017 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	**2018**
Unlisted stocks	**¥ 58,198**	¥ 50,810	**$ 534,957**
Investments in special purpose entities	**4,850**	590	**44,581**
Investments in silent partnership	**1,656**	2,357	**15,222**
Preferred stocks	**999**	999	**9,183**
Investments in investment limited liability partnerships	**165**	97	**1,517**
Unlisted bonds	**120**	120	**1,103**

Because no quoted market price is available and it is assumed that significant costs are involved in estimating the future cash flows, it is extremely difficult to determine the fair value.

The redemption schedules for cash and cash equivalents, notes and accounts receivable and short-term investments and investments in securities with maturities at January 31, 2018 are as follows:

	2018 Millions of yen			
	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
Cash and cash equivalents	¥ 324,693	¥ —	¥ —	¥ —
Notes and accounts receivable	45,877	1	—	—
Short-term investments and investments in securities:				
Held-to-maturity debt securities (National government bonds)	590	—	—	120
Other securities with maturities (Time deposit with a maturity in excess of three months)	1,141	—	—	—
Total	¥ 372,301	¥ 1	¥ —	¥ 120

	2018 Thousands of U.S. dollars			
	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
Cash and cash equivalents	$ 2,984,585	$ —	$ —	$ —
Notes and accounts receivable	421,703	9	—	—
Short-term investments and investments in securities:				
Held-to-maturity debt securities (National government bonds)	5,423	—	—	1,103
Other securities with maturities (Time deposit with a maturity in excess of three months)	10,488	—	—	—
Total	$3,422,199	$ 9	$ —	$ 1,103

The redemption schedules for long-term debt are disclosed in Note 9 "Short-Term Loans, Short-Term Bonds and Long-Term Debt."

20. Derivative Transactions and Hedging Activities

The contract value (notional principal amount) and the estimated fair value of the derivative instruments outstanding which did not qualify for deferral hedge accounting at January 31, 2018 and 2017 were as follows:

Currency-related transactions

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

		2017 Millions of yen			
Classification	Description of transaction	Contract value (notional principal amount)	Contract value (notional principal amount) (over 1 year)	Estimated fair value	Unrealized gain
Over-the-counter transactions	Currency swap contracts	¥ 2,526	¥ 1,915	¥ 328	¥ 328

		2018 Thousands of U.S. dollars			
Classification	Description of transaction	Contract value (notional principal amount)	Contract value (notional principal amount) (over 1 year)	Estimated fair value	Unrealized gain
Over-the-counter transactions	Currency swap contracts	$ 17,603	$ 17,603	$ 1,875	$ 1,875

The fair value of the above derivative transactions is determined based on the prices provided by counterparty financial institutions.

21. Segment Information

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

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

Details of the reportable segments are as follows:

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

	facilities, and management and operation of owned properties
Overseas:	Contracting of built-to-order detached houses, sale of houses and real estate, and development and sale of facilities, including condominiums and commercial facilities, in overseas markets

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

Information on net sales, income or loss, assets and other items by each reportable segment for the years ended January 31, 2018 and 2017 is outlined as follows:

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

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

	Millions of yen					
	2017					
	Reportable segments					
	Custom detached houses	Rental housing	Remodeling	Real estate management fees	Houses for sale	Condominiums
Sales to third parties	¥ 383,129	¥ 440,313	¥ 133,499	¥ 469,133	¥ 142,015	¥ 66,126
Intersegment sales and transfers	–	5,639	246	3,380	–	–
Net sales	383,129	445,952	133,745	472,513	142,015	66,126
Segment income	¥ 49,515	¥ 60,832	¥ 17,545	¥ 31,279	¥ 8,823	¥ 2,249
Segment assets	¥ 59,798	¥ 48,617	¥ 14,721	¥ 100,125	¥ 144,110	¥ 158,890
Other items:						
Depreciation and amortization	4,319	2,866	93	908	1,064	23
Increase in property, plant and equipment and intangible assets	3,953	1,996	59	972	901	54

	Millions of yen						
	2017						
	Reportable segments						
	Urban redevelopment	Overseas	Sub Total	Other	Total	Adjustments	Consolidated
Sales to third parties	¥ 130,491	¥ 182,127	¥ 1,946,833	¥ 80,099	¥ 2,026,932	¥ –	¥ 2,026,932
Intersegment sales and transfers	100	–	9,365	5,497	14,862	(14,862)	–
Net sales	130,591	182,127	1,956,198	85,596	2,041,794	(14,862)	2,026,932
Segment income	¥ 23,414	¥ 25,172	¥ 218,829	¥ 726	¥ 219,555	¥ (35,390)	¥ 184,165
Segment assets	¥590,985	¥825,507	¥ 1,942,753	¥ 18,016	¥ 1,960,769	¥ 224,126	¥ 2,184,895
Other items:							
Depreciation and amortization	9,754	673	19,700	913	20,613	2,512	23,125
Increase in property, plant and equipment and intangible assets	82,599	4,113	94,647	70	94,717	3,561	98,278

	Thousands of U.S. dollars					
	2018					
	Reportable segments					
	Custom detached houses	Rental housing	Remodeling	Real estate management fees	Houses for sale	Condominiums
Sales to third parties	$3,411,821	$4,070,650	$1,257,873	$4,503,089	$1,429,185	$ 712,363
Intersegment sales and transfers	–	75,301	2,270	30,977	–	–
Net sales	3,411,821	4,145,951	1,260,143	4,534,066	1,429,185	712,363
Segment income	$ 441,612	$ 559,647	$ 181,635	$ 304,559	$ 123,734	$ 84,833
Segment assets	$ 511,233	$ 426,252	$ 142,632	$1,032,016	$1,313,577	$1,625,701
Other items:						
Depreciation and amortization	36,235	23,798	1,030	8,999	10,672	294
Increase in property, plant and equipment and intangible assets	30,563	8,548	1,829	11,527	7,740	28

	Thousands of U.S. dollars						
	2018						
	Reportable segments						
	Urban redevelopment	Overseas	Sub Total	Other	Total	Adjustments	Consolidated
Sales to third parties	$ 953,920	$ 2,819,349	$19,158,250	$ 690,670	$19,848,920	$ –	$19,848,920
Intersegment sales and transfers	837	–	109,385	51,236	160,621	(160,621)	–
Net sales	954,757	2,819,349	19,267,635	741,906	20,009,541	(160,621)	19,848,920
Segment income	$ 156,209	$ 273,573	$ 2,125,802	$ 11,343	$ 2,137,145	$ (339,737)	$ 1,797,408
Segment assets	$5,358,709	$ 8,542,210	$18,952,330	$ 138,662	$19,090,992	$3,144,627	$22,235,619
Other items:							
Depreciation and amortization	81,873	7,933	170,834	7,142	177,976	24,092	202,068
Increase in property, plant and equipment and intangible assets	484,806	50,317	595,358	579	595,937	36,465	632,402

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

Adjustments in the above tables:

The adjustments of segment income in the amounts of ¥36,960 million ($339,737 thousand) and ¥35,390 million for the years ended January 31, 2018 and 2017 include eliminations of intersegment transactions of ¥3,274 million ($30,095 thousand) and ¥3,299 million and corporate expenses of ¥33,686 million ($309,642 thousand) and ¥32,092 million, respectively. The corporate expenses were mainly related to administration expenses and research and development costs.

The adjustments of segment assets in the amounts of ¥342,104 million ($3,144,627 thousand) and ¥224,126 million at January 31, 2018 and 2017, respectively, include corporate assets consisting of surplus funds held by the Company (cash and short-term investments), long-term investments (investments in securities) and assets of administration departments.

The adjustments of depreciation and amortization in the amounts of ¥2,621 million ($24,092 thousand) and ¥2,512 million for the years ended January 31, 2018 and 2017, respectively, consist of depreciation and amortization arising from corporate assets.

The adjustments of increase in property, plant and equipment and intangible assets in the amounts of ¥3,967 million ($36,465 thousand) and ¥3,561 million for the years ended January 31, 2018 and 2017, respectively, consist of the purchases of machinery and equipment by the Company.

The total amount of segment income in the above tables is adjusted to operating income of the accompanying consolidated statements of income for the years ended January 31, 2018 and 2017.

Related Information

Information on each product and service for the years ended January 31, 2018 and 2017 was omitted because it was identical to that of the reportable segment information.

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

	Millions of yen	Thousands of U.S. dollars
	2018	**2018**
Japan	¥ 1,852.647	$ 17,029,571
Overseas	306,717	2,,819,349
Total	¥ 2,159,364	$ 19,848,920

Geographical information on net sales for the year ended January 31, 2017 was omitted because there were no items that meet the disclosure criteria.

Geographical information on property, plant and equipment for the years ended January 31, 2018 and 2017 was omitted because there were no items that meet the disclosure criteria.

Sales information by major customer for the years ended January 31, 2018 and 2017 was omitted because there were no items that meet the disclosure criteria.

Information on loss on impairment of fixed assets by reportable segment for the years ended January 31, 2018 and 2017 was as follows:

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

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

	Millions of yen					
	Year ended January 31, 2017					
	Custom detached houses	Rental housing	Remodeling	Real estate management fees	Houses for sale	Condominiums
Loss on impairment of fixed assets	¥ –	¥ –	¥ –	¥ –	¥ –	¥ –

	Millions of yen					
	Year ended January 31, 2017					
	Urban redevelopment	Overseas	Other	Total	Eliminations and other	Consolidated
Loss on impairment of fixed assets	¥4,815	¥ –	¥ 134	¥ 4,949	¥ 206	¥ 5,155

	Thousands of U.S. dollars					
	Year ended January 31, 2018					
	Custom detached houses	Rental housing	Remodeling	Real estate management fees	Houses for sale	Condominiums
Loss on impairment of fixed assets	$ –	$ –	$ –	$ –	$ –	$ –

	Thousands of U.S. dollars					
	Year ended January 31, 2018					
	Urban redevelopment	Overseas	Other	Total	Eliminations and other	Consolidated
Loss on impairment of fixed assets	$57,983	$13,209	$ 423	$71,615	$ –	$71,615

Information on amortization of goodwill and the remaining balance by reportable segment as of and for the years ended January 31, 2018 and 2017 was as follows :

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

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

	Millions of yen					
	As of and for the year ended January 31, 2017					
	Custom detached houses	Rental housing	Remodeling	Real estate management fees	Houses for sale	Condominiums
Amortization of goodwill	¥ 30	¥ –	¥ –	¥ –	¥ 4	¥ –
Remaining balance	–	–	–	–	–	–

	Millions of yen					
	As of and for the year ended January 31, 2017					
	Urban redevelopment	Overseas	Other	Total	Eliminations and other	Consolidated
Amortization of goodwill	¥ –	¥ 24	¥ –	¥ 58	¥ –	¥ 58
Remaining balance	–	48	–	48	–	48

	Thousands of U.S. dollars					
	As of and for the year ended January 31, 2018					
	Custom detached houses	Rental housing	Remodeling	Real estate management fees	Houses for sale	Condominiums
Amortization of goodwill	$ –	$ –	$ –	$ –	$ –	$ –
Remaining balance	–	–	–	–	–	–

	Thousands of U.S. dollars					
	As of and for the year ended January 31, 2018					
	Urban redevelopment	Overseas	Other	Total	Eliminations and other	Consolidated
Amortization of goodwill	$ –	$ 11,453	$ –	$ 11,453	$ –	$ 11,453
Remaining balance	–	56,687	–	56,687	–	56,687

There was no information on gain on bargain purchase for the years ended January 31, 2018 and 2017.

22. Related Party Transactions

Principal transactions and balances between the Company and its related parties as of and for during the year ended January 31,2018 and 31, 2017 are summarized as follows:

		Transaction amount		Balances		
		2018		2018		
Names of related parties	Description	Millions of yen	Thousands of U.S. dollars	Account name	Millions of yen	Thousands of U.S. dollars
Isami Wada Chairman, Representative Director & CEO	Sales of condominium	¥ –	$ –	Advances received	¥ 16	$ 147

		Transaction amount	Balances	
		2017	2017	
Names of related parties	Description	Millions of yen	Account name	Millions of yen
Isami Wada Chairman, Representative Director & CEO	Sales of condominium	¥ –	Advances received	¥ 16
	Remodeling of house	11	–	–
Relative of Kengo Yoshida	Construction of house	35	–	–

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

Isami Wada was appointed as an advisor and director on February 1, 2018. Subsequently, on April 26, 2018, he retired from the position of advisor and director and was appointed as an advisor.

23. Other Comprehensive Income

The following table presents an analysis of other comprehensive income (loss) for the years ended January 31, 2018 and 2017.

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Net unrealized holding gain on securities:			
Amount arising during the year	¥ 13,806	¥ 15,522	$ 126,896
Tax effect	(4,133)	(4,068)	(37,981)
Net unrealized holding gain on securities	9,673	11,454	88,915
Deferred gain on hedges:			
Amount arising during the year	–	18	–
Before tax effect	–	18	–
Tax effect	–	(5)	–
Deferred gain on hedges	–	13	–
Translation adjustments:			
Amount arising during the year	6,265	(21,226)	57,588
Reclassification adjustments for loss included in profit	(3,671)	–	(33,744)
Translation adjustment	2,594	(21,226)	23,844
Retirement benefits liability adjustments:			
Amount arising during the year	4,411	3,399	40,546
Reclassification adjustments for gains included in profit	(12,945)	(9,484)	(118,991)
Before tax effect	(8,534)	(6,085)	(78,445)
Tax effect	2,603	2,460	23,927
Retirement benefits liability adjustments	(5,931)	(3,625)	(54,518)
Share of other comprehensive gain (loss) of affiliates accounted for by the equity method:			
Amount arising during the year	1,652	(975)	15,185
Reclassification adjustments for gains included in profit	42	70	386
Share of other comprehensive gain (loss) of affiliates accounted for by the equity method	1,694	(905)	15,571
Total other comprehensive income (loss)	¥ 8,030	¥ (14,289)	$ 73,812

24. Supplemental Information to Consolidated Statements of Cash Flows

The major components of assets and liabilities of Woodside Homes Company, LLC included in consolidation following the purchase of its shares as well as the reconciliation of the difference between the acquisition cost and the net payment for the acquisition for the year ended January 31, 2018 are as follows:

	Millions of yen	Thousands of U.S. dollars
Current assets	¥ 92,806	$ 853,075
Non-current assets	2,700	24,818
Goodwill	7,343	67,497
Current liabilities	(50,849)	(467,405)
Acquisition cost	52,000	477,985
Cash and cash equivalents held by the subsidiary	(4,212)	(38,717)
Net payments for the acquisition of shares of common stock	¥ 47,788	$ 439,268

The major components of assets and liabilities of Sekisui House No.2 (Shenyang) Co., Ltd. and other two companies excluded from consolidation following the sales of its shares as well as the reconciliation of the difference between the proceeds from sales of shares of common stock and the net proceeds for the year ended January 31, 2018, are as follows:

	Millions of yen	Thousands of U.S. dollars
Current assets	¥ 21,236	$ 195,202
Non-current assets	1	9
Current liabilities	(677)	(6,223)
Translation adjustments	(3,401)	(31,262)
Investment accounts after sales of shares	(2,114)	(19,432)
Incidental costs of sales of shares	701	6,444
Gain on sales of shares	9,589	88,142
Proceeds from sales of shares	25,335	232,880
Incidental costs of sales of shares	(701)	(6,444)
Cash and cash equivalents held by the subsidiaries	(6,525)	(59,978)
Net proceeds from sales of shares	¥ 18,109	$ 166,458

During the year ended January 31, 2017, stock subscription rights were exercised and the related convertible bonds converted to common stock without any cash settlement. Details of the movement resulting from the exercise of stock subscription rights are as follows:

	Millions of yen
Loss on disposal of treasury stock	¥ (1,167)
Decrease in treasury stock	2,297
Decrease in convertible bonds	¥ 1,130

During the year ended January 31, 2017, the Company acquired shares by contribution in kind. Details of the movement resulting from the acquisition of shares by contribution in kind are as follows:

	Millions of yen
Decrease in long-term loan receivables	¥ 11,420
Decrease in accounts receivables - other	431
Increase in investments in securities	¥ 11,851

There are no corresponding items related to non cash financing activities to be disclosed for the year ended January 31, 2018.

25. Business Combination and Business Divestiture

(Business combination through acquisition)

1.Outline of the business combination
(1) Name and business description of the acquired company
Name of the acquired company : Woodside Homes Company, LLC ("WHC")
Business description : WHC is a holding company which owns shares in companies involved in the production and sales of detached housing and related businesses.
(2) Major reason for the business combination
In the overseas business, to expand future business development in the United States, the Company recognizes that the current housing environment in the United States offers the best chance to expand its business using environmental technologies of the Company and so it determined to enter into the housing business, and make WHC a consolidated subsidiary.
(3) Date of the business combination
March 1, 2017 (February 28, 2017 in the United States)
(4) Legal form of the business combination
SH Residential Holdings, LLC ("SHRH"), consolidated subsidiary of Sekisui House acquired all shares of WHC for a cash consideration, through a merger with Crayon Special Vehicle-I, LLC ("CSV"), a wholly-owned subsidiary of SHRH.
(5) Company name after the business combination
There is no change.
(6) Percentage of shares with voting rights acquired
100%
(7) Major reason for determining the acquiring company
SHRH acquired all shares of WHC for a cash consideration.

2. Period for which the financial results of the acquired company included in the consolidated financial statements
March 1, 2017 to December 31, 2017

3. Acquisition cost and type of consideration paid for the acquired company

	Millions of yen	Thousands of U.S. dollars
	2018	2018
Cash payment for acquisition of shares	¥ 52,000	$ 477,985
Acquisition cost	¥ 52,000	$ 477,985

4. Details and amount of major acquisition-related costs
Fees for advisory services, etc.: ¥ 624 million ($ 5,736 thousand)

5. Amount of goodwill recognized arising from the acquisition, reason for recognition, and amortization method and period
(1) Amount of goodwill arising from the acquisition
¥7,343 million ($67,497 thousand)
(2) Reason for recognition
Goodwill was recognized because the acquisition cost at the acquisition date exceeded the fair value of the net assets acquired.
(3) Amortization method and period
Straight-line method over a period of 5 years

6. The amounts and major breakdown of assets acquired and liabilities assumed on the acquisition date

	Millions of yen	Thousands of U.S. dollars
	2018	2018
Current assets	¥ 92,806	$ 853,075
Non-current assets	2,700	24,818
Total assets	95,506	877,893
Current liabilities	50,849	467,405
Total liabilities	50,849	467,405

7. Approximate amount of impact on the consolidated statement of income for the year ended January 31, 2018 assuming that the business combination was completed at the beginning of the fiscal year ended January 31, 2018, and the calculation method

Net sales ¥9,607 million ($88,308 thousand)
Operating income ¥40 million ($368 thousand)

(Method of calculating the proforma information)

Impact amount is calculated at the difference between the amounts of net sales and profit and loss assuming that the business combination was completed at the beginning of the fiscal year ended January 31, 2018 and the amount of net sales and profits and loss on the consolidated statement of income.
In addition, amortization is calculated by assuming the goodwill and other intangible assets recognized upon the business combination were recognized at the beginning of the fiscal year ended January 31, 2018.
This information is unaudited.

(Business divestiture)

1. Outline of the business divestiture
(1) Name of the company to which businesses were transferred
Sino-Ocean Group Holding Ltd.
(2) Names and business description of the transferred businesses
Subsidiaries: Sekisui House No.2 (Shenyang) Co., Ltd.
Sekisui House Real Estate (Wuxi) Co., Ltd.
Sekisui House Yuqin Real Estate (Wuxi) Co., Ltd.
Business description : Development and sale of condominiums, town houses and commercial facilities in China
(3) Major reason for the business divestiture
Certain subsidiaries in China postponed the beginning of construction in view of the real estate market conditions etc. after acquiring land, but the Company was approached by Sino-Ocean Group Holding Ltd. about purchasing an equity interest and reached an agreement. As a result, the Company transferred all shares of Sekisui House No.2 (Shenyang) Co.,

Ltd., and 80% of shares of Sekisui House Real Estate (Wuxi) Co., Ltd. and Sekisui House Yuqin Real Estate (Wuxi) Co., Ltd., respectively.

(4) Date of the business divestiture

November 27, 2017 : Sekisui House Real Estate (Wuxi) Co., Ltd.
Sekisui House Yuqin Real Estate (Wuxi) Co., Ltd

November 28, 2017 : Sekisui House No.2 (Shenyang) Co., Ltd.

(5) Legal form and other matters related to the transaction

Transfer of business for a cash consideration, etc. only

2. Outline of the accounting treatment applied

(1) Amount of gain or loss on business transfer

Gain on sales of shares of subsidiaries and affiliate in the amount of ¥9,589 million ($88,142 thousand)

(2) Book value and major breakdown of the assets and liabilities transferred

	Millions of yen	Thousands of U.S. dollars
	2018	**2018**
Current assets	¥ 21,236	$ 195,202
Non-current assets	1	9
Total assets	¥ 21,237	$ 195,211
Current liabilities	¥ (677)	$ (6,223)
Non-current liabilities	–	–
Total liabilities	¥ (677)	$ (6,223)

(3) Accounting treatment

The difference between the book value of transferred shares and the selling amount is accounted for in other income as “Gain on sales of shares of subsidiaries and affiliate”.

3. Name of the reportable segment corresponding to the transferred businesses

Overseas businesses

4. Estimated amount of income or loss associated with the transferred businesses reported in the consolidated statement of income for the fiscal year ended January 31, 2018

It was omitted because the amount was immaterial.

Independent Auditor's Report

The Board of Directors
Sekisui House, Ltd.

We have audited the accompanying consolidated financial statements of Sekisui House, Ltd. and subsidiaries, which comprise the consolidated balance sheet as at January 31, 2018, and the consolidated statements of income, comprehensive income, changes in net assets, and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

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

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

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

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

Opinion
In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Sekisui House, Ltd. and subsidiaries as at January 31, 2018, and their consolidated financial performance and cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

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

April 26, 2018
Osaka, Japan

Ernst & Young ShinNihon LLC

Ernst & Young ShinNihon LLC
Auditors

Corporate Data

Outline of the Company

(As of January 31, 2018)

Established
August 1, 1960

Capital Stock Issued
¥202,591 million

Employees
24,391 (Consolidated)

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

Factories
Ibaraki, Shizuoka, Yamaguchi, Miyagi and Hyogo

Laboratory
Comprehensive Housing R & D Institute (Kyoto)

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

Stock Information

(As of January 31, 2018)

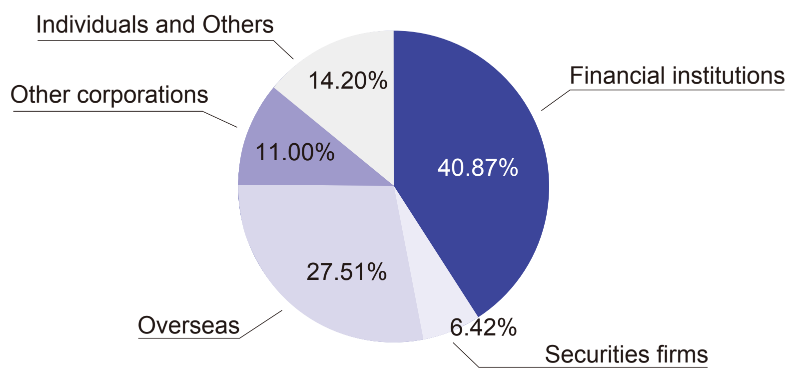
Stock Listing
Tokyo, Nagoya

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

Major Shareholders

	Name	Number of shares	Shareholding ratio (%)
1	The Master Trust Bank of Japan, Ltd. (Trust account)	54,547,900	7.90
2	Sekisui Chemical Co., Ltd.	42,168,727	6.11
3	Japan Trustee Services Bank, Ltd. (Trust account)	38,531,300	5.58
4	Employees' Stockholding	14,366,163	2.08
5	Japan Trustee Services Bank, Ltd. (Trust account 5)	13,901,200	2.01
6	The Bank of Tokyo-Mitsubishi UFJ, Ltd.	13,624,515	1.97
7	The Dai-ichi Life Insurance Company, Limited	12,158,730	1.76
8	JPMorgan Securities Japan Co., Ltd.	11,484,705	1.66
9	Japan Trustee Services Bank, Ltd. (Trust account 7)	10,745,300	1.56
10	SMBC Nikko Securities Inc.	10,569,500	1.53

Stock Composition



Directors and Corporate Auditors

(As of April 26, 2018)

Chairman & Representative Director
Toshinori Abe

Vice Chairman & Representative Director
Shiro Inagaki

President & Representative Director
Yoshihiro Nakai

Executive Vice President & Representative Director
Takashi Uchida

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

Standing Corporate Auditors
Haruyuki Iwata
Hisao Yamada

Corporate Auditors
Yoshinori Shinohara
Takashi Kobayashi
Hisako Makimura
Ryuichi Tsuruta

Executive Officers

(As of April 26, 2018)

Senior Managing Officers
Fumiyasu Suguro
Kunpei Nishida
Yosuke Horiuchi

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

Executive Officers
Michio Yoshizaki
Takakazu Koi
Yutaka Amemiya
Masayoshi Ishii
Midori Ito
Fujio Arai
Masato Kudoh
Sachio Nitta
Haruhiko Toyoda
Kohei Joki
Keizo Yoshimoto

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