

**S** EMIANNUAL

**R** EPORT

**2007**

February 1 to July 31, 2007



**SEKISUI HOUSE**

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## To Our Shareholders

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During the first half of fiscal 2007, the Japanese economy remained on a path of mild improvement as companies increased their capital expenditures, private consumption recovered thanks to an improved employment environment, and active investments in blue-chip properties within metropolitan areas continued to experience growth.

Nevertheless, uncertainties remained concerning the future of the economy, due primarily to the lack of any significant improvement in personal income, the continuously high prices of crude oil and other raw materials, and downside risks to the U.S. economy.

In the housing market, the percentage land price decrease continued to shrink across the country, and the prices of land began to rise in some metropolitan areas, with the result that the momentum of built-for-sale housing lost some of its steam. Meanwhile, the rental housing business fared well, but demand from owner-occupiers was weak overall, as the motivation of secondary acquisitions primarily for the purposes of rebuilding, exhibited a delayed recovery.

Against this backdrop, we put onto the market new lines that we expect to become our future mainstays and took a series of actions designed to enhance marketing expertise, including the reorganization of our marketing teams, while investing proactively in a new urban redevelopment project.

The Sekisui House Group has made a full-fledged launch of a project aimed at facilitating the distribution of secondary housing, in which we repurchase detached housing and low-rise apartments of our own development and drastically remodel them for resale along with our warranty since March 2007.

As a part of the efforts to fulfill our environmental responsibility, we made a test implementation of a next generation zero-emission system, which utilizes IC tags to transmit accurate feedback to our product development and production teams.

In Built to Order Housing business, we introduced to the market the seismic damping *Be Ecord* and *IS Order* lines, completing our full lineup of "earthquake-resistant," "seismic damping," and "base isolated structure" steel-frame detached houses. In our wood-framed lines, we added *Yukari no Ie*, featuring enhanced Japanese elegance, which are currently experiencing a growing demand. In response to the demand for low-rise apartments which is becoming increasingly individual and diverse, we launched *Village*, incorporating our know-how in detached housing and whose stately appearance matches with the surrounding landscape.

In built for sale housing business, we actively purchased land for sale in order to promote sales of quality housing complexes with high added values and also organized the sales promotional event *Machinami Sankan-bi* (visits to existing subdivisions with superior living environments) throughout the country.

In the condominiums business, we offered high-value-added lines both in terms of their facilities and surroundings. Going forward, we will continue to devote our resources to metropolitan and other areas where the demand for high-value-added condominiums is high, while enhancing our brand value even further.

In the urban redevelopment business, the sales of our retained interest in Akasaka Garden City office building contributed greatly to our performance. As shown by the recent decision concerning a large-scale urban redevelopment project in Tokyo, we will continue making aggressive investments in this business.

With maximizing synergies through a tighter alliance with Sekiwa Real Estate companies, management of leasing properties, such as block leasing, performed well. We also worked on creating quality stock by sustaining a high occupancy rate and extensive involvement in the maintenance of properties, directing the Group's entire energies to the strengthening of our proposal capacity.


For the remodeling business, we reached out to owners of our existing stock. Our proposals range from space design, namely, the alteration of room arrangements, to remodeling them into environmentally-friendly, energy-efficient housing.

For the exterior business, we promoted the creation of a rich natural environment that achieves harmony between humankind and nature, and provides an ecological link with surrounding woods and woodlot by planting trees of the original species and native varieties of the region in accordance with our "*Gohon no ki*" gardening concept.

As a result, consolidated net sales declined by 2.7% to 796,756 million yen (\$6,698,806 thousand). Consolidated operating income decreased by 39.4% to 46,510 million yen (\$391,037 thousand) and consolidated net income by 36.7% to 28,666 million yen (\$241,012 thousand).

The dividend for the interim period under review will be 12 yen (\$0.10) per share.

September, 2007



Isami Wada  
President & CEO

# CONSOLIDATED BALANCE SHEETS

As of July 31 and January 31, 2007 and July 31, 2006

Assets	Millions of yen			Thousands of U.S. dollars
	July 31 2007	January 31 2007	July 31 2006	July 31 2007
<b>Current assets:</b>				
Cash and cash equivalents.....	¥ 104,226	¥ 229,499	¥ 236,360	\$ 876,290
Short-term investments.....	1,528	1,447	750	12,847
Notes and accounts receivable:				
Affiliate.....	154	137	178	1,295
Trade.....	64,237	84,303	91,902	540,079
Other.....	16,330	16,064	17,212	137,296
Less allowance for doubtful accounts .....	(2,035)	(1,904)	(1,968)	(17,110)
	78,686	98,600	107,324	661,560
Inventories.....	624,815	499,226	432,102	5,253,195
Deferred income taxes .....	47,168	55,034	54,913	396,570
Other current assets.....	13,699	15,251	10,277	115,176
Total current assets	870,122	899,057	841,726	7,315,638
 <b>Property, plant and equipment:</b>				
Land.....	99,598	88,497	90,370	837,380
Buildings and structures.....	192,589	180,375	174,342	1,619,212
Machinery and equipment.....	89,701	86,696	85,360	754,170
Construction in progress.....	4,073	3,567	2,759	34,244
	385,961	359,135	352,831	3,245,006
Less accumulated depreciation.....	(155,279)	(151,435)	(147,802)	(1,305,524)
Property, plant and equipment, net	230,682	207,700	205,029	1,939,482
 <b>Investments and other assets:</b>				
Long-term loans receivable.....	34,470	35,313	35,953	289,810
Less allowance for doubtful accounts .....	(1,605)	(1,609)	(1,419)	(13,494)
	32,865	33,704	34,534	276,316
Investments in securities.....	98,607	90,263	99,438	829,048
Investments in affiliates.....	2,014	1,388	1,213	16,933
Deferred income taxes .....	1,455	1,654	1,724	12,233
Intangible assets .....	7,633	7,214	7,395	64,175
Prepaid pension costs .....	2,194	-	-	18,446
Other assets .....	38,932	37,790	37,112	327,325
Total investments and other assets	183,700	172,013	181,416	1,544,476
	¥ 1,284,504	¥ 1,278,770	¥ 1,228,171	\$ 10,799,596

<b>Liabilities and net assets</b>	Millions of yen			Thousands of U.S. dollars
	<b>July 31 2007</b>	January 31 2007	July 31 2006	<b>July 31 2007</b>
<b>Current liabilities:</b>				
Notes and accounts payable:				
Affiliate.....	¥ 3,371	¥ 3,240	¥ 3,024	\$ 28,342
Trade.....	169,944	166,365	169,642	1,428,821
Short-term bonds payable.....	80,000	–	–	672,608
Accrued income taxes.....	10,852	38,464	26,379	91,239
Advances received on construction projects in progress.....	96,116	98,105	95,101	808,105
Allowance for employee' bonuses.....	14,928	20,241	14,479	125,509
Allowance for directors' bonuses.....	–	840	–	–
Other current liabilities.....	49,552	51,786	49,087	416,613
Total current liabilities	424,763	379,041	357,712	3,571,237
<b>Long-term liabilities:</b>				
Long-term debt, less current portion.....	20,196	20,049	–	169,800
Guarantee deposits received.....	54,845	53,145	53,465	461,115
Deferred income taxes.....	2,805	2,893	2,352	23,583
Accrued retirement benefits for employees .....	19,805	21,703	23,461	166,513
Accrued retirement benefits for directors and corporate auditors.....	1,119	1,099	967	9,408
Other liabilities .....	2,447	2,537	2,520	20,573
Total long-term liabilities	101,217	101,426	82,765	850,992
Contingent liabilities (Note 2)				
<b>Net assets :</b>				
<b>Shareholders' equity :</b>				
Common stock:				
Authorized -1,978,281,000 shares Issued: July 2007 and 2006, and January 2007 -709,385,078 shares.....	186,554	186,554	186,554	1,568,471
Capital surplus.....	254,133	254,133	254,131	2,136,649
Retained earnings.....	353,995	333,838	323,560	2,976,249
Less treasury stock, at cost.....	(58,451)	(662)	(368)	(491,433)
Total shareholders' equity	736,231	773,863	763,877	6,189,936
Valuation and translation adjustments:				
Net unrealized holding gain on securities.....	21,996	24,035	23,518	184,933
Deferred gains or losses on hedges.....	△1	–	–	△8
Translation adjustment.....	–	146	29	–
	21,995	24,181	23,547	184,925
Stock acquisition rights.....	23	–	–	194
Minority interests.....	275	259	270	2,312
Total net assets	758,524	798,303	787,694	6,377,367
	¥ 1,284,504	¥ 1,278,770	¥ 1,228,171	\$ 10,799,596

# CONSOLIDATED STATEMENTS OF INCOME

Six months ended July 31, 2007 and 2006 and year ended January 31, 2007

	Millions of yen			Thousands of U.S. dollars
	July 31 2007	July 31 2006	January 31 2007	July 31 2007
<b>Net sales</b> .....	¥ 796,756	¥ 818,847	¥ 1,596,183	\$ 6,698,806
Cost of sales .....	640,465	634,269	1,267,995	5,384,774
Gross profit .....	156,291	184,578	328,188	1,314,032
<b>Selling, general and administrative expenses</b> .....	109,781	107,789	216,617	922,995
<b>Operating income</b> .....	46,510	76,789	111,571	391,037
<b>Other income (expenses):</b>				
Interest and dividend income .....	1,524	1,199	2,647	12,813
Interest expense .....	(261)	(25)	(106)	(2,194)
Loss on revaluation of real estate held for sale (Note 3) .....	(97)	(47)	(2,828)	(815)
Loss on revaluation of securities .....	-	(7)	(7)	-
Other, net .....	1,338	(364)	134	11,249
Income before income taxes and minority interests .....	49,014	77,545	111,411	412,090
<b>Income taxes :</b>				
Current .....	10,955	25,798	42,166	92,105
Deferred .....	9,376	6,442	6,581	78,830
Income before minority interests .....	20,331	32,240	48,747	170,935
Income before minority interests .....	28,683	45,305	62,664	241,155
Minority interests in earnings of subsidiaries .....	(17)	(11)	(1)	(143)
<b>Net income</b> .....	¥ 28,666	¥ 45,294	¥ 62,663	\$ 241,012

# CONSOLIDATED STATEMENTS OF CASH FLOWS

Six months ended July 31, 2007 and 2006 and year ended January 31, 2007

	Millions of yen			Thousands of U.S. dollars
	July 31 2007	July 31 2006	January 31 2007	July 31 2007
<b>Cash flows from operating activities</b>				
Income before income taxes and minority interests.....	¥ 49,014	¥ 77,545	¥ 111,411	\$ 412,090
Adjustments for:				
Depreciation and amortization.....	6,476	5,735	12,232	54,448
Reversal of retirement benefits.....	(1,898)	(2,682)	(4,440)	(15,958)
Increase in prepaid pension costs.....	(2,194)	-	-	(18,446)
Interest and dividend income.....	(1,524)	(1,199)	(2,647)	(12,813)
Interest expense.....	261	25	106	2,194
Loss on revaluation of real estate held for sale.....	97	47	2,828	816
Loss on revaluation of securities.....	-	7	7	-
Decrease in notes and accounts receivable.....	20,066	4,709	12,308	168,707
(Increase) decrease in inventories and advance payments.....	(126,000)	5,439	(66,862)	(1,059,358)
Increase in notes and accounts payable.....	2,054	6,908	4,299	17,269
(Decrease) increase in advances received.....	(1,989)	8,927	11,931	(16,723)
Other.....	(12,646)	(4,569)	4,427	(106,322)
Subtotal.....	(68,283)	100,892	85,600	(574,096)
Interest and dividends received.....	1,575	1,197	2,639	13,242
Interest paid.....	(249)	(25)	(49)	(2,093)
Income taxes paid.....	(38,137)	(6,836)	(11,236)	(320,641)
Net cash (used in) provided by operating activities.....	(105,094)	95,228	76,954	(883,588)
<b>Cash flows from investing activities</b>				
Proceeds from sales of short-term investments.....	50	117	217	420
Proceeds from sales of property, plant and equipment.....	21	47	119	177
Purchases of property, plant and equipment.....	(22,846)	(11,947)	(22,659)	(192,080)
Proceeds from sales of investments in securities.....	370	149	10,693	3,111
Purchases of investments in securities.....	(12,659)	(1,471)	(3,022)	(106,432)
Decrease in loans receivable.....	838	2,018	2,678	7,046
Other.....	160	(786)	(1,269)	1,345
Net cash used in investing activities.....	(34,066)	(11,873)	(13,243)	(286,413)
<b>Cash flows from financing activities</b>				
Increase in short-term bonds payable.....	80,000	-	-	672,608
Proceeds from long-term debt.....	147	-	20,049	1,236
Cash dividends paid.....	(8,508)	(6,663)	(13,755)	(71,532)
Increase in treasury stock.....	(57,760)	(180)	(480)	(485,623)
Proceeds from sales of treasury stock.....	-	64,794	64,794	-
Other.....	8	5	14	67
Net cash provided by financing activities.....	13,887	57,956	70,622	116,756
Effect of exchange rate changes on cash and cash equivalents.....	-	69	186	-
Net (decrease) increase in cash and cash equivalents.....	(125,273)	141,380	134,519	(1,053,245)
Cash and cash equivalents at beginning of period.....	229,499	94,980	94,980	1,929,536
<b>Cash and cash equivalents at end of period.....</b>	<b>¥ 104,226</b>	<b>¥ 236,360</b>	<b>¥ 229,499</b>	<b>\$ 876,291</b>

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

July 31, 2007 and 2006

## 1. Basis of Consolidated Financial Statements

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

The translation of Japanese yen amounts into U.S. dollars is included solely for the convenience of the reader and has been made at ¥118.94= U.S.\$1.00, the approximate rate of exchange in effect on July 31, 2007. This translation should not be construed as a representation that the Japanese yen amounts have been, could have been, or could in the future be, converted into U.S. dollar amounts at the above or any other rate.

## 2. Contingent Liabilities

The Company and its subsidiaries had the contingent liabilities at July 31, 2007:

	Millions of yen	Thousands of U.S. dollars
Guarantees of housing loans to customers.....	¥ 74,557	\$ 626,846
Guarantees of bank loans of third parties and other.....	1,075	9,038
	¥ 75,632	\$ 635,884

## 3. Loss on Revaluation of Real Estate Held for Sale

Real estate held for sale at July 31, 2007 and 2006, and January 31, 2007, the market value of which has declined significantly from its carrying value, has been written down to its fair market value.

## 4. Amounts per Share

	Yen			U.S. dollars
	July 31 2007	July 31 2006	January 31 2007	July 31 2007
Net income:				
Basic .....	¥ 41.04	¥ 65.07	¥ 89.26	\$ 0.35
Diluted .....	41.04	65.06	89.25	0.35
Net assets.....	1,121.21	1,110.51	1,125.75	9.43
Cash dividends.....	12.00	10.00	22.00	0.10

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## CORPORATE DATA

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(As of July 31, 2007)

### Corporate Officers

#### President & CEO

Isami Wada

#### Executive Vice President & Director

Tadashi Iwasaki

Kazuo Yoshimitsu

#### Director

Akira Morimoto

Sumio Wada

Shiro Inagaki

Yoshiro Kubota

Toshinori Abe

Yuzo Matsumoto

Fumiaki Hirabayashi

Toshiharu Arakawa

Kiyohide Hirabayashi

Takashi Uchida

#### Standing Corporate Auditors

Hiroshi Itawaki

Kenichi Kawauchi

#### Corporate Auditors

Takaharu Dohi

Katsuya Kittaka

#### Executive Vice President & Officer

Tadashi Iwasaki

Kazuo Yoshimitsu

#### Senior Managing Executive Officer

Akira Morimoto

Sumio Wada

Shiro Inagaki

Yoshiro Kubota

Toshinori Abe

#### Managing Executive Officer

Yuzo Matsumoto

Fumiaki Hirabayashi

Toshiharu Arakawa

Kiyohide Hirabayashi

Takashi Uchida

Junichi Terada

Mikio Ishikawa

Tetsuo Iku

#### Executive Officer

Hisashi Murao

Daiji Kuroki

Kenji Imamura

Takaaki Shigematsu

Mitsugu Iijima

Shinichi Yamada

Katsuaki Shimoda

Kenji Hatanaka

Hidehiro Yamaguchi

Akihisa Terasaki

### Outline of the Company

(As of July 31, 2007)

#### Established

August 1, 1960

#### Capital Stock Issued

¥ 186,554 million

#### Employees

16,664 (As of April 1, 2007)

#### Head Office

Tower East Umeda Sky Building

1-88 Oyodonaka 1-chome Kita-ku Osaka

531-0076 Japan

Phone: 81-6-6440-3111

Facsimile: 81-6-6440-3369

#### Factories

Shiga, Ibaraki, Shizuoka, Yamaguchi,

Miyagi and Hyogo

#### Laboratory

Kyoto

#### Domestic Subsidiaries and Affiliates

Sekiwa Real Estate, Ltd.

Sekiwa Real Estate Kansai, Ltd.

Sekiwa Real Estate Chubu, Ltd.

Sekiwa Real Estate Chugoku, Ltd.

Sekiwa Real Estate Kyushu, Ltd.

Sekiwa Real Estate Tohoku, Ltd.

Sekiwa Real Estate Sapporo, Ltd.

Sekisui House Umeda Operation Co., Ltd.

SGM Operation Co., Ltd. etc

All 88 subsidiaries and 5 affiliates.

#### Stock Listing

Tokyo Stock Exchange

Osaka Securities Exchange

Nagoya Stock Exchange

#### American Depositary Receipts

Depositary:

The Bank of New York



## **SEKISUI HOUSE, LTD.**

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