

A N N U A L

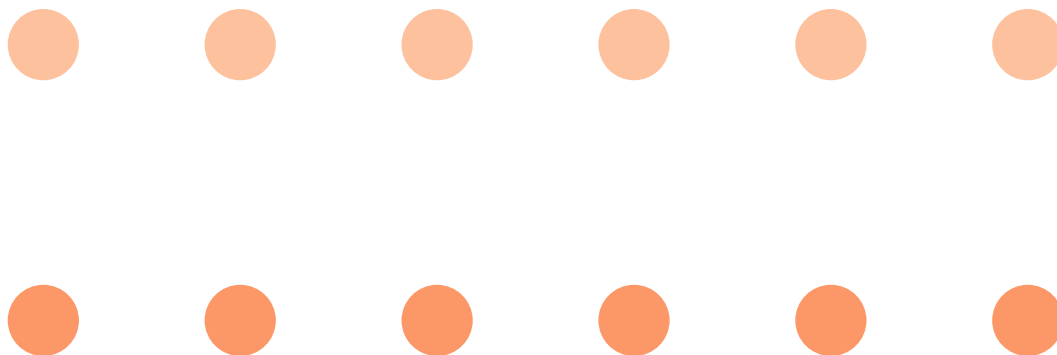
R E P O R T

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For the year ended January 31, 2010



SEKISUI HOUSE **50<sup>th</sup>**



Sekisui House, Ltd.

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## ***Our Corporate Profile***

As Japan's leading home builder, Sekisui House, Ltd. boasts a track record of more than two million homes built to date. Our base of business is the construction, sale, purchase and administration of residential properties; the design, execution, contracting and supervision of construction projects; real estate brokerage and landscaping.

Since our establishment in 1960, we at Sekisui House have achieved steady growth, becoming an ever-increasingly active participant in the Japanese construction industry.



### ***Contents***

Financial Highlights.....	1
To Our Shareholders.....	2
Sekisui House Topics .....	6
Management's Discussion and Analysis .....	10
Five-year Summary .....	11
Consolidated Balance Sheets.....	12
Consolidated Statements of Operations.....	14
Consolidated Statements of Changes in Net Assets.....	15
Consolidated Statements of Cash Flows.....	16
Notes to Consolidated Financial Statements.....	17
Report of Independent Auditors.....	27
Corporate Data .....	28

# Financial Highlights

Sekisui House, Ltd. and Subsidiaries

	Millions of yen					Thousands of U.S. dollars
	2010	2009	2008	2007	2006	2010
<b>For the year:</b>						
Net sales.....	¥ 1,353,186	¥ 1,514,172	¥ 1,597,807	¥ 1,596,183	¥ 1,501,857	\$ 15,073,922
Net (loss) income.....	(29,277)	11,517	60,352	62,663	43,029	(326,134)
<b>At year ended</b>						
Total assets.....	1,353,946	1,387,237	1,349,441	1,278,770	1,098,203	15,082,388
Net assets.....	716,296	754,130	770,963	798,303	686,034	7,979,236
	Yen					U.S. dollars
	2010	2009	2008	2007	2006	2010
<b>Per share:</b>						
Net (loss) income.....	¥ (43.32)	¥ 17.04	¥ 87.70	¥ 89.26	¥ 62.94	\$ (0.48)
Cash dividends applicable to the year .....	10.00	24.00	24.00	22.00	20.00	0.11

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 ¥89.77 = U.S. \$1, effective at January 31, 2010.

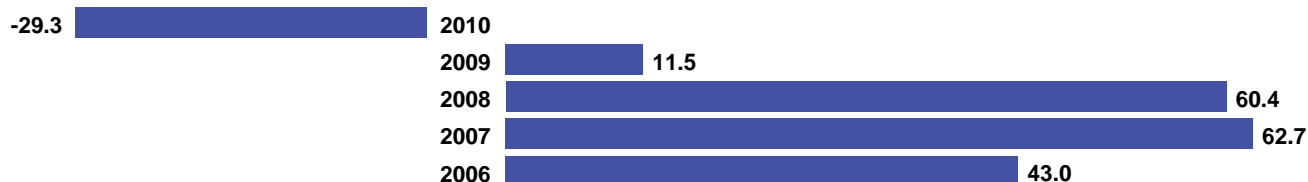
## Net Sales

Billions of yen



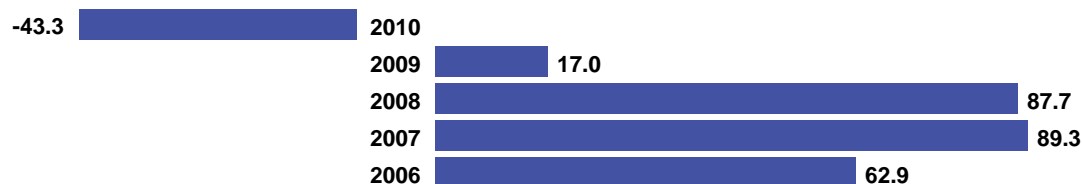
## Net Income

Billions of yen



## Net Income Per Share

Yen



## To Our Shareholders

# Commemorating our 50<sup>th</sup> Anniversary and Envisioning a New Growth Strategy Based on Environmental Technologies and a Customer Base of Two Million Homes



### Reaching Two Million Homes Sold to Date Our Customer Base is an Important Management Resource

In January 2010, Sekisui House reached two million homes sold to date. The number alone is not what we value; instead, quality is what we believe carries great significance. Importantly, we achieved the milestone of two million homes while staying true to our pursuit of quality in mid-range to high-end homes. We take pride in this fact and view our solid customer base as a valuable asset that will enable us to generate income from our stock of homes built under a new growth strategy moving forward.

In the following fiscal year ending January 2011, we celebrate our 50<sup>th</sup> anniversary and have positioned the year as a time to achieve new growth take a leap forward. On January 20, 2010, we have announced to promote our business through our FY2010 Mid-term Management Plan that was prepared targeting future business expansion and a recovery in earnings.

We positioned strengthening intragroup ties first among basic directions under our mid-term management plan. This is a priority initiative for growing a stock business that leverages our stock of two million homes built. Growth drivers and areas of promise include the remodeling business pursued by Sekisui House Remodeling, Sekiwa Construction and Sekiwa Real Estate, and the block leasing and management business for Sha-Maison low-rise apartments pursued by Sekiwa Real

Estate. Additionally, our *Green First* Strategy, which positions eco-friendly housing as a growth driver, is another major pillar of our mid-term management plan.

### Greater Things to Come from Eco-friendly Sekisui House Leveraging Green First

Since establishing our Environmental Future Plan in 1999, Sekisui House has marked many achievements related to the environment, including certification as an Eco-First Company from the Ministry of the Environment - a first for the homebuilding industry. Last year, we were awarded the Prime Minister's Award among 3R (Reduce, Reuse and Recycle) Awards for our efforts related to recycling resources. Moreover, The Nippon Foundation chose Sekisui House first among "100 Companies That Japan Should Be Proud Of", based on a qualitative analysis of our activities related to corporate social responsibilities (CSR). Our progressive endeavors harmonize with the needs of today, leading to high marks for our contributions to society.

Moreover, we have incorporated our environmental technologies into product development, resulting in *Green First* eco-friendly housing that combines comfort and economy with friendliness to the environment. Now *Green First* products account for more than 60% of our detached house orders. *Sha-Maison Green First* products, which are equipped with photovoltaic power generation systems, are also selling well. Moving forward, we will position *Green First* as a core component of business growth and actively work to increase sales. Environmentally friendly housing is also supported by a variety of government policies, from tax cuts on mortgages, subsidies and eco-points to a feed-in tariff system for purchasing solar power at fixed rates. Now is the time for an eco-friendly Sekisui House to launch.

### 50<sup>th</sup> Anniversary: A Major Milestone and Opportunity to Leverage our Strengths and Gain Momentum

Continuing structural reforms across the company, raising operational and production efficiencies and cutting costs are also basic directions set forth in our mid-term management plan. While we are generating solid results, we make greater efforts to strengthen our business structure. To that end, we are driving profitability improvements by strengthening our area marketing strategy and concentrating personnel in selected geographies.

As part of our foray into an overseas business, we have started

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condominium sales at Wentworth Point, near Sydney, which is one of three projects we have underway in Australia. Furthermore, we have decided to expand our operations overseas in China and Russia as new candidate countries. Our overseas strategy involves laying the groundwork for success 10 years down the road based on a mid- to long-term perspective.

From two million homes sold to date to our 50th anniversary, the year 2010 marks significant milestones for Sekisui House. Today, Sekisui House's strengths, namely our environmental technologies and *Green First* concept, have harmonized with the needs of society. As our strengths feed new growth, we hope to answer your expectations for Sekisui House that is gaining momentum.



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## Financial analysis

Over the fiscal year, Japan's economy showed signs of a recovery in exports and production, backed by a recovery in the global economy helped by fiscal stimulus packages implemented in each country. In Japan, economic policy contributed to signs of a recovery in demand in some parts mainly for durable goods such as automobiles and home appliances, which in turn heightened expectations for a bottom in corporate profitability. That said, however, uncertainties about the economic outlook, such as continued upward pressure on the yen and risk of depressed corporate profitability due to concerns about deflation, leave room to fear that the recovery in corporate earnings may slow.

In the housing market, the situation remains harsh. Land prices continue their fall nationwide and noticeable concerns about the employment outlook coupled with an erosion of personal income have dampened demand for home purchases. Occupancy rates in rental housing are declining, and financial institutions continue to use rigid lending standards.

However, year-on-year comparisons for housing starts on new owner-occupied homes have been improving since November 2009, and we appear to be approaching a bottom in housing investment. These developments are attributable to economic measures, such as tax incentives including expanded tax breaks on mortgages and subsidies for photovoltaic power generation and fuel cell aimed at driving penetration of eco-friendly housing. Additionally, a variety of measures related to housing are being implemented. Japan's 2009 supplemental budget introduced a housing eco-point system, and under fiscal 2010 tax code revisions, the tax exemption on the *inter vivos* gifting when a house is built is expanded.

Amidst such circumstances, we actively expanded sales of our eco-friendly *Green First* series detached homes and rental apartments. We also implemented a variety of sales initiatives to increase market share through attempts to capture new demand leveraging an expanded product lineup.

Furthering the ongoing company-wide business restructuring, we transferred some 500 people from the Head Office, branch offices, and factories to sales and service offices of the parent and group companies, thus strengthening our sales force and building a solid sales structure. Meanwhile, we endeavored to cut costs by curtailing advertising and promotion costs, reviewing operations, and containing personnel expenses by increasing efficiency through the introduction of computer systems. On the production site, we strove to reduce materials

purchasing costs and to increase the factory utilization rate by discontinuing production at the Shiga Factory and reviewing other production lines. Thanks to these measures, we have been able to reduce costs on a scale significantly larger than originally planned.

Looking at management results, we have seen a recovery in orders since our third quarter. Consolidated sales were ¥1,353,186 million (\$15,073,922 thousand). While cost reductions progressed smoothly, falling land prices resulting from recent stagnation in the real estate market have impacted profits. As a result, real estate for sale, such as lands owned by Sekisui House slated for urban redevelopment projects and condominiums, has been impacted significantly. We have booked ¥67,852 million (\$755,843 thousand) in inventories valuation losses under costs of sales, applying financial accounting standards for inventory valuation. That resulted in a loss of ¥38,755 million (\$431,714 thousand) on the operating level and a net loss of ¥29,277 million (\$326,134 thousand) for the period.

The Built to Order Housing Business booked consolidated sales of ¥590,377 million (\$6,576,551 thousand) and operating income of ¥48,564 million (\$540,982 thousand). Orders for detached homes bottomed and entered a recovery. For rental apartments, however, the situation remained harsh.

The Real Estate for Sale Business booked consolidated sales of ¥253,572 million (\$2,824,685 thousand). However, operating losses were ¥73,104 million (\$814,348 thousand) due to the booking of valuation losses on inventories under cost of sales. Orders for detached houses for sale remain stagnant, due to depressed demand for built for sale houses caused by falling land prices and eroding personal incomes.

The Real Estate for Leasing Business booked consolidated net sales of ¥364,218 million (\$4,057,235 thousand) and operating income of ¥14,181 million (\$157,971 thousand), owing to the increases in the number of units of *Sha-Maison* low-rise apartments for block leasing and management by Sekiwa Real Estate companies, while the occupancy rate declined due to the sluggish rental housing market.

For the Other Business, our remodeling business exhibited strong growth. Meanwhile, RC contracts business was placed under difficult conditions and thus performed slowly. As a whole, this segment booked consolidated net sales of ¥145,019 million (\$1,615,451 thousand) and operating income of ¥6,219

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million (\$69,278 thousand).

Our mid-term management plan sets forth four basic directions: 1) strengthen intragroup ties (strengthen core businesses and expand business portfolio); 2) position environmentally friendly housing as a driver of business growth; 3) continue to promote structural reforms across the company; and 4) raise operational and production efficiencies and cut costs. Under that direction, we seek to implement a variety of measures in the pursuit of our business.

The market for built-to-order housing is in a recovery trend. The situation, however, remains harsh. A driver of the recovery has been government policies focused on the shift from quantity to quality as well as tax advantages and expanded subsidies for environmentally-friendly measures. As a top runner in environmentally-friendly housing, Sekisui House will actively pursue business growth.

In the built-for-sale housing business, the decline in land prices has shown signs of moderating and we will focus on its strength in creating community townscapes. However, we will move to shrink our land bank to manage assets more efficiently and reduce holding risk. Meanwhile, in the condominium business, price erosion is making it difficult to sell off inventory. Considering such a situation, we will take a more cautious stance by applying more rigid selection standards when preparing project plans. Meanwhile, in the built-for-sale housing business, more prominent disparities in income has led to expansion in the market for smaller homes. To respond to this trend, the Sekiwa Real Estate Group has set out to expand sales of its *MAST* brand, based on targeted area analysis.

The market for real estate for leasing has yet to see a recovery in owners' demand for investment. That said, the latent demand for managing rental housing as part of a portfolio of assets is deeply rooted, and we strive to grow orders by making strong value propositions and maintaining high occupancy rates at properties managed by Sekiwa Real Estate Group with its expertise.

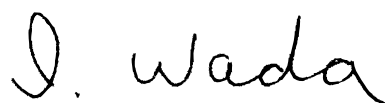
In our development business, in light of the deterioration in real estate prices, we will revisit our conventional business approach of selling immediately upon completion of construction. Instead, we will strive to grow future returns by holding assets over the near- to mid-term and generating earnings from a stock of properties. At the same time, we will consider opportunities for M&A, alliances and building

cooperative relationships to enhance our capabilities in development, leasing and exit strategies in our urban redevelopment business.

The remodeling business is a growth market. Instead of limiting ourselves to remodeling of homes we built, we will grow the business by targeting other existing homes, leveraging the capabilities of Sekiwa Construction companies. By doing so, as a group we will have all bases covered, with Sekisui House Remodeling targeting owners of Sekisui House homes, Sekiwa Real Estate Group targeting large-scale remodeling projects and tenant turnover-related remodeling in rental properties, and the Sekiwa Construction Group targeting other existing properties.

In the built-to-order detached house business as well, more prominent disparities in income has lead to expansion in the market for smaller homes. To respond to this trend, the Sekiwa Construction Group has set out to expand share by introducing its second brand to the market.

In regards to profit distribution, we regret to inform that we will forgo a year-end dividend due to the fact we suffered a net loss. For the year ending January 2011, we plan to pay out an interim dividend of ¥8 and commemorative dividend of ¥5 to celebrate our 50<sup>th</sup> anniversary as well as a year-end dividend of ¥8, totaling ¥21 over the full year.



Isami Wada  
Chairman & CEO



Toshinori Abe  
President & COO

# Sekisui House Topics

## Environmental and Social Responsibility

*In our efforts to help realize a sustainable society, Sekisui House, Ltd. announced the Environmental Future Plan in 1999 and proclaimed the Declaration of Sustainability in April 2005, setting sustainability as a cornerstone of our corporate activities. The following outlines some of our efforts so far.*

As a countermeasure against global warming, the Japanese government has announced to the world its ambitious target of a 25% reduction in greenhouse gas emissions by 2020 compared with 1990 levels. Accordingly, the national movement "Challenge 25 Campaign" has been kicked off to make this initiative a success. One of the most urgent issues now is to consider how we should go about reducing CO<sub>2</sub> emissions in Japan's residential sector, which are currently on the rise.

Sekisui House will commemorate its 50<sup>th</sup> anniversary since foundation in 2010. During the past fifty years, we have sold up to two million houses, making us the world's leading housing builder. Being fully aware of the responsibility of such a status, we believe that it is highly significant that we have set an advanced model for the supply of environmentally conscious housing as a countermeasure against global warming, so that others can follow suit both at home and abroad.



As an MOE-Certified Eco-First Company, **チャレンジ**  
Sekisui House is Committed to  
the Challenge 25 Campaign



### Driving forward the "Challenge 25 Campaign" as an "Eco-First" company

In order to advance environmental programs on the whole and raise the level of eco-friendliness in each industrial sector, Japan's Ministry of the Environment launched the Eco-First System. Through this system, the Ministry acknowledges companies in each sector that are forerunners in terms of environmental initiatives, who in turn pledge themselves to expedite their initiatives. As of January 31, 2010, only 23 companies have been acknowledged as such, and Sekisui House became the first and only company in the housing and construction industry to achieve the certification in June 2008. True to this recognition, we are promoting environmentally friendly programs while at the same time capitalizing on this reputation to enhance our brand value and build customer confidence. Furthermore, Sekisui House took part in the kick-off event for the Challenge 25 Campaign held on January 14, 2010 as one of the six representative member companies of the "Eco-First Promotion Council," which was formed to facilitate cooperation among Eco-First companies and promote the cross-sector campaign. With strong backing from the

government including subsidies and tax breaks for construction and remodeling of eco-friendly housing and the establishment of the eco-point system for housing, we will remain committed to suggesting ideas for eco-friendly housing and lifestyles as we aim to achieve the targets laid out in the Challenge 25 Campaign.

### Collaboration in the construction of Zero Emission House for the G8 Summit

In Spring 2008, Sekisui House put on the market *Carbon Neutral House*. This eco-friendly housing uses state-of-art energy conservation techniques in order to minimize CO<sub>2</sub> emission, which is then offset by generating power with such advanced technologies as fuel cells and photovoltaic power generation systems. Any surplus "clean energy" may be sold to power companies. With this development, we became the first among Japanese housing builders to introduce "carbon neutral" technology to its offerings.

Sekisui House was actively involved in the *Zero Emission House* exhibition organized by the Ministry of Economy, Trade and Industry of Japan for the G8 Hokkaido Toyako Summit in July 2008. At the exhibition, Sekisui House mounted a highly successful display of a main building and its related environmental technology, demonstrating to a global audience Japan's advanced technologies in this field. An improved version of the *Carbon Neutral House*, the *Zero Emission House* offsets CO<sub>2</sub> emissions not only when normally inhabited but throughout its life cycle, including the construction and demolition stages. The *Zero Emission House*, relocated to a Zero Emission Center adjacent to our Kanto Factory, where it is open to the public.



### Reducing CO<sub>2</sub> emissions in daily life: from the Carbon Neutral House to Green First

Reducing life cycle CO<sub>2</sub> (LCCO<sub>2</sub>) emissions from housing has been one of the priorities of Sekisui House. In 2000, we promoted adoption of double-glazed windows as standard installation for detached houses, and in 2003 we met next-generation energy saving standards for all detached houses for the first time in the industry. In 2005, we launched *Action Plan 20*, a voluntary program that we formulated to comply with the Kyoto Protocol, with the aim of reducing the actual level of emissions by 20% compared with the projected level of CO<sub>2</sub> emissions in 2010 (base year: 1990).



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Since March 2009, we have added *Green First* models to our lines of steel-framed and wooden houses, as well as rental apartments. *Green First* models, which come equipped with a photovoltaic power generation system and/or fuel cells and achieve the highest level of eco-friendliness, reducing CO<sub>2</sub> emissions by 60% - 100% when normally inhabited. In fiscal 2009, our orders for housing equipped with photovoltaic power generation systems grew by 240% to 7,030 houses. We also installed 1,222 fuel cells the largest number among housing builders in Japan. In addition, we received 870 orders for *Green First Premium* homes which come equipped with both photovoltaic power generation systems and fuel cells, and 371 orders for *Sha-Maison* low-rise apartments with photovoltaic power generation systems. As a result, we have successfully reduced CO<sub>2</sub> emissions by 44% compared to those in 1990, thus raising our level of environmental achievement.

*Green First* models are exactly what the Japanese government hopes to see spread throughout the country. Sekisui House also intends to promote the greater diffusion of *Green First* models to make them a de facto standard of eco-friendly housing, thereby making positive contributions to the prevention of global warming.

We have also been working to improve energy conservation in existing homes, and this plays a large part in decreasing CO<sub>2</sub> emissions in the household sector. Efforts are being made to create comfort for residents and enhance energy savings through the aggressive promotion of our remodeling technologies for improving heat insulation performance and energy saving equipment.



## Revitalizing of ecological networks: preserving bio-diversity through town development

We promote *Gohon no ki* gardening concept, which is designed to help maintain ecosystems by planting indigenous trees where wild birds can gather. Planting trees that attract wild birds and butterflies in the gardens of new houses or housing complexes can foster a small ecosystem, thus creating a network for interacting with the surrounding natural environment. With four distinguished seasons on land that stretches out long and thin from north to south, vegetation varies among different areas of this country with a largely moderate climate. We recommend what trees to plant in each region according to our own developed guidelines. We also created a mobile phone website, where people can easily learn about the relationships between trees and living things, thus providing the public with opportunities to observe nature and foster their awareness of nature conservation. In fiscal 2009, we planted approximately 710,000 trees. It can be said that this unique initiative attempts to conserve bio-diversity as part of regular business.

Sekisui House is one of the 34 companies from six countries that are endorsing the 'Biodiversity in Good Company' Initiative, which helps to conserve the ecosystem. We are among the private enterprises which have expressed their support of the 10<sup>th</sup> Conference of the Parties to the Convention on Biological Diversity (CBD COP 10) scheduled to be held in Nagoya in 2010.

## Establishing brands for urban development

Sekisui House set out the Urban Development Charter to build towns that are pleasant to live in, in cooperation with residents, as part of our efforts to strengthen our nationwide real estate for sale business. With this guideline, we have voluntarily gone one step beyond of what is required by law or administrative guidance. Our goal is to build beautiful, quality towns where residents will want to stay. In addition to designing buildings with due regard given to the environment, we typically develop land by retaining as much of the topography and trees of the district as possible, arrange fieldstones, and create a waterfront environment, with the most detailed attention being given to layout, colors, and materials, as well as to building designs and the surrounding landscape. The aforementioned *Gohon no ki* plays an integral part in this urban development planning.

Based on this companywide concept, we have hosted *Machinami Sankan-bi* since 2006, opening to prospective customers our houses and housing complexes nationwide. Through these initiatives, we will establish a brand for our housing complexes that fosters community in such a way that

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local culture and characteristics are given full precedence.

A large-scale urban redevelopment project in Tokyo, *Gotenyama Project* will feature an office building with an intentionally low height so that it blends in well with the surrounding environment and landscape. Along Osaka's Midosuji Boulevard we have initiated yet another large-scale project, the *Hommachi Garden City*, a complex structure that stands out among the townscape, a core tenant being the premium hotel chain St. Regis Hotel. These are just a few examples of such high-value-added projects, which will tap into our proven skills that we have accumulated as a leading housing developer and remain in harmony with the surrounding environment and landscape.

### **Implementing resource recycling: developing zero emissions system**

We are making constant efforts to reduce construction waste and promote efficient use of resources by living up to the principle of "Reduce, Reuse, and Recycle." As the first company in the industry to be authorized by the Minister of the Environment to dispose of construction site waste across administrative boundaries, we created a unique recycling system and achieved zero emission of waste material at our new house construction sites in 2005, and at our remodeling sites in 2007. We are currently attempting to achieve zero emission of waste materials at demolition sites as well.

In this unique system, waste is firstly sorted into 27 different types at construction sites. Next, it is sorted again into about 60 types at our recycling centers at our factories, from where it goes back into our previously developed zero emission recycling system. Thus we were also able to develop high traceability in the system due to our consistent waste disposal practices at our facilities. In fiscal 2010, we are planning to introduce a waste management system using IC tags throughout the country, whose performance has been proven through trial introduction.

Coupled with the efforts to reduce the volume of waste material generated at our new house construction sites, this system has proven effective in achieving zero emission. In 2000, the average amount of waste was about 2,900kg per house built, but it is now about 1,323kg, and we will intend to reduce it still further.

### **Anticipating the government's policy to extend the life of housing as a social infrastructure**

Both the physical and social life of housing in Japan is

significantly shorter than that in Western countries, averaging approximately thirty years. As society matures and environmental concerns increase, however, the focus of Japan's housing policies is shifting from quantity to quality, partly to improve quality of life for the people. In 2006, the Basic Act for Housing was enacted, and the long-life quality housing scheme commenced in June 2009. The underlying concept of such policies coincides perfectly with our long-held basic philosophy, namely the concept of "skeleton & infill" in which separate construction of durable and quality structural frames (skeletons) and adaptable interior components (infill) enable houses to be enjoyed by many generations with careful maintenance.

### **EVERLOOP - repurchase of housing sold by the Company for reusing purposes**

Since Japan has yet to develop a social system for assessing fair value of existing housing, and the secondary housing market is smaller than its counterparts in Western countries, it has become an issue of national importance to develop a system which would make it possible for people to live in quality housing over the course of several generations.

In anticipation of these moves in society, we launched *EVERLOOP*, a new business of repurchasing housing of our own development in 2007, rejuvenating such homes with our unique remodeling techniques, and enhancing their attractiveness and performance for resale. So far, we have sold more than 80 such homes, and are shifting more resources into the repurchasing side of the business. With this business, we aim to stimulate the fledging existing home market in Japan, and at the same time increase customers' asset value. This initiative has become possible because of our confidence in the durable structure and quality of our prefabricated houses, as well as our unique systems for extended warranty and after-sales services. For the sake of efficient use of resources and development of social infrastructures, it is truly significant that Sekisui House - Japan's largest housing builder - has launched this initiative.

### **Developing procurement guidelines**

In the hopes of further improving the quality of our supply chain management and traceability, we have established guidelines for the procurement of wood and chemical substances ahead of our competitors in 2007, through close cooperation with international NGOs. The guidelines demand that we endorse the preferred use of FairWood with a view towards preventing illegal lumbering, while also giving due attention to regional economies, environments, and ecosystems. In 2009, we received the Japan Awards for Biodiversity for this program.

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With regard to chemical substances, we have decided to voluntarily abolish the use of those chemical substances whose use are not banned, and ensure the strict self-management of those which must be monitored.

### **Commencing Smart House demonstration experiments and R&D activities**

On the R&D front for innovative environmental technologies, we conducted "Smart House" demonstration experiments at our Comprehensive Housing R&D Institute in Kyoto. Through the combination of a photovoltaic power generation system, fuel cells, and storage batteries, the "Smart House" optimizes energy consumption by managing it efficiently. We hope to step up to a larger experiment as a part of our research into a smart grid, etc. Meanwhile, in Tokyo we built an experimental housing that is open to the public, where we conduct experiments to test sustainability, e.g., incorporating nature into the design of a house in an urban setting, and making use of domestically-produced timbers and recycled construction materials. In addition, one of our factories is conducting a demonstration experiment on biomass gasification power generation systems in a bid to utilize remainder materials as fuel.

Through close cooperation with universities including Osaka University, Chiba University and Chiba Institute of Technology, Sekisui House is involved in R&D of interdisciplinary subjects that are of great importance for sustainability, such as environmental engineering, resource recycling technology, healthcare, and the most ideal concepts of housing and community.

### **Activities for a better lifestyle culture**

One of our social responsibilities is to provide society with the broad knowledge and experience we have acquired through our housing business and to help create housing and an environment with a rich sense of humanity. At the Comprehensive Housing R&D Institute, the largest of its kind in Japan, "*Nattoku Kobo* (Home Amenities Experience Studio)", and at the "*Sumai-no-Yume-Kojo*" experiment-based facilities built at six locations around the country, visitors are invited to use all five senses to learn about housing. These facilities are open to the public, including architecture professionals, welfare professionals, and general residents, as well as builders, and also contribute to college-level specialized education. The total visitor count has already exceeded 650,000. We also focus on consumer education by holding courses for local residents and school students on housing and lifestyles, and how these two can help us to prevent global warming and conserve the ecosystem.

### **Promotion of CSR**

It has been six years since we established the CSR committee, an advisory body to the board of directors which is chaired by the Company's CEO Isami Wada. The committee includes three outside members: the ex-CEO of a private enterprise, a business professor, and a lawyer. These people meet four times a year to hold lively discussions and exchange views, making the company aware of the public eye and its opinions, thereby encouraging it to accelerate its programs in a positive manner. While conducting internal opinion surveys and other monitoring programs, as well as training seminars and committee activities at individual workplaces, we are determined to fulfill its social responsibilities by promoting compliance and diversity-conscious business, and enhancing communication with stakeholders.

The aforementioned activities are representative of our "Sustainability Report 2010," which we released to report on our across-the-board activities in fiscal 2009, regarding the environment and our social responsibilities.

The English version of Sustainability Report 2010 will be released in June 2010 and be available on the URL below.

<http://www.sekisuihouse.co.jp/english/sustainabilityreport/2010.html>

# Management's Discussion and Analysis

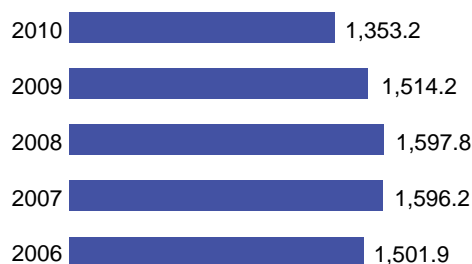
## Results of Operations

For the year ended January 31

	Millions of yen (percentage change)				
	2010	2009	2008	2007	2006
Net sales.....	¥ 1,353,186 (-10.6)	1,514,172 (-5.2)	1,597,807 (0.1)	1,596,183 (6.3)	1,501,857 (9.4)
Cost of sales.....	¥ 1,196,849 (-2.1)	1,222,923 (-3.6)	1,269,243 (0.1)	1,267,995 (4.5)	1,213,190 (10.4)
Operating (loss) income.....	¥ (38,755) -	73,960 (-32.6)	109,728 (-1.7)	111,571 (39.5)	79,981 (4.4)
Net (loss) income.....	¥ (29,277) -	11,517 (-80.9)	60,352 (-3.7)	62,663 (45.6)	43,029 (81.9)
	Yen (percentage change)				
Net (loss) income per share (Note 18)..	¥ (43.32) -	17.04 (-80.6)	87.70 (-1.7)	89.26 (41.8)	62.94 (86.2)

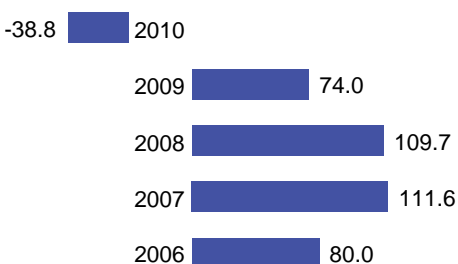
### Net Sales

Billions of yen



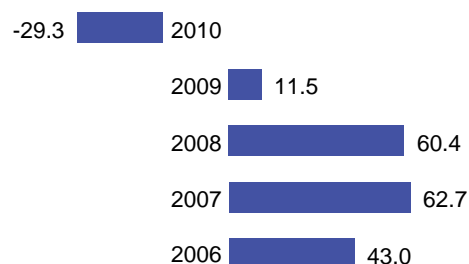
### Operating Income

Billions of yen



### Net Income

Billions of yen



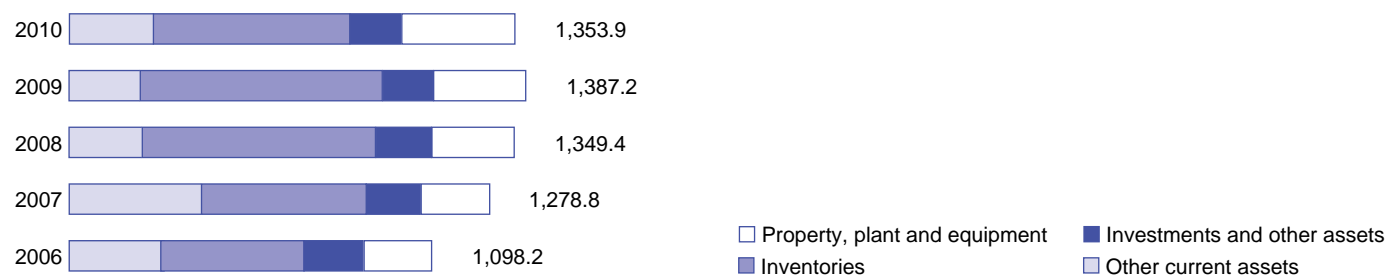
## Financial Position

For the year ended January 31

	% of total assets				
	2010	2009	2008	2007	2006
Current assets.....	62.8	68.6	68.7	70.3	64.9
Inventories.....	44.1	53.2	52.6	39.0	39.8
Investments and other assets.....	11.9	11.4	13.2	13.5	16.7
Property, plant and equipment.....	25.3	20.0	18.1	16.2	18.4
Current liabilities.....	34.0	21.8	28.1	29.7	29.8
Long-term liabilities.....	13.1	23.8	14.8	7.9	7.8
Long-term debt.....	6.6	18.0	8.9	1.6	-
Total net assets.....	52.9	54.4	57.1	62.4	62.4

### Total Assets

Billions of yen



# Five-year Summary

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

	Millions of yen					Thousands of U.S. dollars
	2010	2009	2008	2007	2006	2010
Net sales.....	¥ <b>1,353,186</b>	1,514,172	1,597,807	1,596,183	1,501,857	\$ <b>15,073,922</b>
Operating (loss) income.....	¥ <b>(38,755)</b>	73,960	109,728	111,571	79,981	\$ <b>(431,714)</b>
Net (loss) income.....	¥ <b>(29,277)</b>	11,517	60,352	62,663	43,029	\$ <b>(326,134)</b>
Total assets .....	¥ <b>1,353,946</b>	1,387,237	1,349,441	1,278,770	1,098,203	\$ <b>15,082,388</b>
Net assets .....	¥ <b>716,296</b>	754,130	770,963	798,303	686,034	\$ <b>7,979,236</b>

Segment information (Note 23):	Millions of yen					Thousands of U.S. dollars
	2010	2009	2008	2007	2006	2010
Built to order housing.....	¥ <b>598,761</b>	692,273	715,097	725,869	726,920	\$ <b>6,669,945</b>
Real estate for sale.....	¥ <b>253,795</b>	317,293	403,083	421,064	347,724	\$ <b>2,827,169</b>
Real estate for leasing.....	¥ <b>366,056</b>	359,633	336,228	311,881	292,672	\$ <b>4,077,710</b>
Other.....	¥ <b>150,955</b>	160,895	160,123	150,607	142,913	\$ <b>1,681,576</b>

\*Sales composition for each segment includes intragroup sales and transfers.

Amounts per share (Note 18):	Yen					U.S. dollars
	2010	2009	2008	2007	2006	2010
Net (loss) income per share.....	¥ <b>(43.32)</b>	17.04	87.70	89.26	62.94	\$ <b>(0.48)</b>
Diluted.....	¥ -	17.03	87.68	89.25	-	\$ -
Net assets.....	¥ <b>1,059.18</b>	1,115.20	1,139.63	1,125.75	1,028.46	\$ <b>11.80</b>
Dividends.....	¥ <b>10.00</b>	24.00	24.00	22.00	20.00	\$ <b>0.11</b>

\*See notes to consolidated financial statements.

# Consolidated Balance Sheets

Sekisui House, Ltd. and Subsidiaries  
January 31, 2010 and 2009

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2010	2009	2010
<b>Assets</b>			
<b>Current assets:</b>			
Cash and cash equivalents (Note 10).....	¥ 148,630	¥ 124,518	\$ 1,655,676
Short-term investments (Note 5).....	1,975	2,050	22,001
Notes and accounts receivable :			
Affiliates.....	76	134	846
Trade (Note 4).....	11,391	13,180	126,891
Other.....	13,223	12,862	147,299
Less allowance for doubtful accounts.....	(2,137)	(1,473)	(23,805)
	22,553	24,703	251,231
Inventories (Notes 6 and 10).....	597,444	737,872	6,655,275
Deferred income taxes (Note 11).....	65,787	45,505	732,839
Other current assets.....	14,545	16,553	162,025
<b>Total current assets</b>	<b>850,934</b>	<b>951,201</b>	<b>9,479,047</b>
<b>Property, plant and equipment, at cost:</b>			
Land (Notes 7 and 10).....	189,362	127,713	2,109,413
Buildings and structures (Notes 7 and 10).....	234,463	221,601	2,611,819
Machinery, equipment and other (Note 7).....	87,702	91,506	976,963
Construction in progress.....	6,161	4,859	68,631
	517,688	445,679	5,766,826
Less accumulated depreciation.....	(175,455)	(167,870)	(1,954,495)
<b>Property, plant and equipment, net</b>	<b>342,233</b>	<b>277,809</b>	<b>3,812,331</b>
<b>Investments and other assets:</b>			
Long-term loans receivable.....	32,792	32,491	365,289
Less allowance for doubtful accounts.....	(1,483)	(1,386)	(16,520)
	31,309	31,105	348,769
Investments in securities (Note 5).....	63,757	58,507	710,226
Investments in affiliates (Notes 8 and 10).....	3,653	3,270	40,693
Deferred income taxes (Note 11).....	17,274	12,374	192,425
Intangible assets.....	9,071	9,182	101,047
Prepaid pension cost (Note 14).....	-	4,893	-
Other assets.....	35,715	38,896	397,850
<b>Total investments and other assets</b>	<b>160,779</b>	<b>158,227</b>	<b>1,791,010</b>
	¥ 1,353,946	¥ 1,387,237	\$15,082,388

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2010	2009	2010
<b>Liabilities and net assets</b>			
<b>Current liabilities:</b>			
Notes and accounts payable:			
Affiliates.....	¥ 3,554	¥ 4,029	\$ 39,590
Trade.....	132,105	145,906	1,471,594
Current portion of long-term debt and lease obligations (Note 9).....	173,013	–	1,927,292
Accrued income taxes (Note 11).....	4,810	5,957	53,581
Advances received on construction projects in progress.....	90,426	84,727	1,007,308
Allowance for employees' bonuses.....	6,177	12,337	68,809
Allowance for directors' and corporate auditors' bonuses.....	–	595	–
Other current liabilities (Note 10).....	50,381	49,026	561,223
Total current liabilities	460,466	302,577	5,129,397
<b>Long-term liabilities:</b>			
Long-term debt and lease obligations (Notes 9 and 10).....	90,190	249,982	1,004,679
Guarantee deposits received (Note 10).....	54,439	55,611	606,428
Accrued retirement benefits for employees (Note 14).....	29,347	21,561	326,913
Accrued retirement benefits for directors and corporate auditors.....	1,126	1,223	12,543
Other liabilities.....	2,082	2,153	23,192
Total long-term liabilities	177,184	330,530	1,973,755
<b>Contingent liabilities (Note 15)</b>			
<b>Net assets:</b>			
<b>Shareholders' equity (Note 12):</b>			
Common stock:			
Authorized: 1,978,281,000 shares			
Issued: 676,885,078 shares in 2010 and 2009.....	186,554	186,554	2,078,133
Capital surplus.....	237,523	237,523	2,645,906
Retained earnings.....	287,738	331,895	3,205,280
Less treasury stock, at cost.....	(1,386)	(1,355)	(15,439)
Total shareholders' equity	710,429	754,617	7,913,880
<b>Valuation and translation adjustments:</b>			
Net unrealized holding gain (loss) on securities.....	3,152	(961)	35,112
Deferred gain (loss) on hedges (Note 17).....	5	(8)	56
Translation adjustments.....	2,152	–	23,972
Total valuation and translation adjustments	5,309	(969)	59,140
<b>Stock subscription rights (Note 12).....</b>	<b>232</b>	<b>158</b>	<b>2,584</b>
<b>Minority interests.....</b>	<b>326</b>	<b>324</b>	<b>3,632</b>
Total net assets	716,296	754,130	7,979,236
	¥ 1,353,946	¥ 1,387,237	\$15,082,388

\*See notes to consolidated financial statements.

# Consolidated Statements of Operations

Sekisui House, Ltd. and Subsidiaries  
Years ended January 31, 2010 and 2009

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2010	2009	2010
<b>Net sales</b> .....	<b>¥ 1,353,186</b>	¥ 1,514,172	<b>\$15,073,922</b>
<b>Cost of sales</b> .....	<b>1,196,849</b>	1,222,923	<b>13,332,394</b>
Gross profit	<b>156,337</b>	291,249	<b>1,741,528</b>
<b>Selling, general and administrative expenses</b> .....	<b>195,092</b>	217,289	<b>2,173,242</b>
Operating (loss) income	<b>(38,755)</b>	73,960	<b>(431,714)</b>
<b>Other income (expenses):</b>			
Interest and dividend income.....	<b>1,934</b>	2,661	<b>21,544</b>
Interest expense.....	<b>(2,965)</b>	(2,618)	<b>(33,029)</b>
Loss on revaluation of investments in securities .....	<b>(874)</b>	(9,299)	<b>(9,736)</b>
Cost of business structure improvement (Notes 7 and 19).....	<b>(4,822)</b>	–	<b>(53,715)</b>
Loss on revaluation of real estate held for sale (Note 20).....	–	(34,883)	–
Loss resulting from changes in business plan (Note 21).....	–	(2,818)	–
Loss on impairment of fixed assets (Note 7).....	–	(980)	–
Other, net .....	<b>(940)</b>	1,601	<b>(10,472)</b>
(Loss) income before income taxes and minority interests	<b>(46,422)</b>	27,624	<b>(517,122)</b>
<b>Income taxes (Note 11):</b>			
Current .....	<b>8,699</b>	15,519	<b>96,903</b>
Deferred .....	<b>(25,870)</b>	554	<b>(288,181)</b>
	<b>(17,171)</b>	16,073	<b>(191,278)</b>
(Loss) income before minority interests	<b>(29,251)</b>	11,551	<b>(325,844)</b>
Minority interests in earnings of subsidiaries .....	<b>(26)</b>	(34)	<b>(290)</b>
Net (loss) income	<b>¥ (29,277)</b>	¥ 11,517	<b>\$ (326,134)</b>

\*See notes to consolidated financial statements.



# Consolidated Statements of Changes in Net Assets

Sekisui House, Ltd. and Subsidiaries  
Years ended January 31, 2010 and 2009

	Number of shares in issue	Millions of yen									
		Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Net unrealized holding gain (loss) on securities	Deferred gain (loss) on hedges	Translation adjustments	Stock subscription rights	Minority interests	Total net assets
<b>Balance at January 31, 2008</b>	<b>709,385,078</b>	<b>¥186,554</b>	<b>¥254,127</b>	<b>¥377,565</b>	<b>¥(58,531)</b>	<b>¥10,893</b>	<b>¥(4)</b>	<b>¥ —</b>	<b>¥67</b>	<b>¥292</b>	<b>¥770,963</b>
Net income for the year.....	—	—	—	11,517	—	—	—	—	—	—	11,517
Cash dividends.....	—	—	—	(16,233)	—	—	—	—	—	—	(16,233)
Purchases of treasury stock.....	—	—	—	—	(569)	—	—	—	—	—	(569)
Retirement of treasury stock.....	(32,500,000)	—	(16,604)	(40,833)	57,437	—	—	—	—	—	—
Sale of treasury stock.....	—	—	—	(121)	308	—	—	—	—	—	187
Other changes.....	—	—	—	—	—	(11,854)	(4)	—	91	32	(11,735)
<b>Balance at January 31, 2009</b>	<b>676,885,078</b>	<b>¥186,554</b>	<b>¥237,523</b>	<b>¥331,895</b>	<b>¥(1,355)</b>	<b>¥(961)</b>	<b>¥(8)</b>	<b>¥ —</b>	<b>¥158</b>	<b>¥324</b>	<b>¥754,130</b>
Net loss for the year.....	—	—	—	(29,277)	—	—	—	—	—	—	(29,277)
Cash dividends.....	—	—	—	(14,871)	—	—	—	—	—	—	(14,871)
Purchases of treasury stock.....	—	—	—	—	(54)	—	—	—	—	—	(54)
Sale of treasury stock.....	—	—	—	(9)	23	—	—	—	—	—	14
Other changes.....	—	—	—	—	—	4,113	13	2,152	74	2	6,354
<b>Balance at January 31, 2010</b>	<b>676,885,078</b>	<b>¥186,554</b>	<b>¥237,523</b>	<b>¥287,738</b>	<b>¥(1,386)</b>	<b>¥3,152</b>	<b>¥5</b>	<b>¥2,152</b>	<b>¥232</b>	<b>¥326</b>	<b>¥716,296</b>

	Thousands of U.S. dollars (Note 1)									
	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Net unrealized holding gain (loss) on securities	Deferred gain (loss) on hedges	Translation adjustments	Stock subscription rights	Minority interests	Total net assets
<b>Balance at January 31, 2009</b>	<b>\$2,078,133</b>	<b>\$2,645,906</b>	<b>\$3,697,171</b>	<b>\$(15,094)</b>	<b>\$(10,705)</b>	<b>\$(89)</b>	<b>\$ —</b>	<b>\$ 1,760</b>	<b>\$ 3,609</b>	<b>\$8,400,691</b>
Net loss for the year.....	—	—	(326,134)	—	—	—	—	—	—	(326,134)
Cash dividends.....	—	—	(165,657)	—	—	—	—	—	—	(165,657)
Purchases of treasury stock.....	—	—	—	(602)	—	—	—	—	—	(602)
Sale of treasury stock.....	—	—	(100)	257	—	—	—	—	—	157
Other changes.....	—	—	—	—	45,817	145	23,972	824	23	70,781
<b>Balance at January 31, 2010</b>	<b>\$2,078,133</b>	<b>\$2,645,906</b>	<b>\$3,205,280</b>	<b>\$(15,439)</b>	<b>\$ 35,112</b>	<b>\$ 56</b>	<b>\$23,972</b>	<b>\$ 2,584</b>	<b>\$ 3,632</b>	<b>\$7,979,236</b>

\*See notes to consolidated financial statements.

# Consolidated Statements of Cash Flows

Sekisui House, Ltd. and Subsidiaries  
Years ended January 31, 2010 and 2009

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2010	2009	2010
<b>Cash flows from operating activities</b>			
(Loss) income before income taxes and minority interests.....	¥ (46,422)	¥ 27,624	\$ (517,122)
Adjustments for:			
Depreciation and amortization.....	16,579	15,392	184,683
Loss on impairment of fixed assets.....	—	980	—
Increase in accrued retirement benefits.....	7,785	1,453	86,722
Decrease in prepaid pension cost.....	4,893	2,024	54,506
Interest and dividend income.....	(1,934)	(2,661)	(21,544)
Interest expense.....	2,965	2,618	33,029
Loss on revaluation of real estate held for sale.....	—	34,883	—
Loss on revaluation of investments in securities.....	874	9,299	9,736
Decrease in notes and accounts receivable.....	1,797	71,062	20,018
Decrease (increase) in inventories.....	85,962	(73,989)	957,580
Decrease in notes and accounts payable.....	(13,331)	(13,690)	(148,502)
Increase (decrease) in advances received on construction projects in progress...	5,699	(2,193)	63,485
Other.....	(905)	5,467	(10,081)
Subtotal	63,962	78,269	712,510
Interest and dividends received.....	1,989	2,719	22,157
Interest paid.....	(3,106)	(2,239)	(34,600)
Income taxes paid.....	(12,590)	(41,745)	(140,247)
Income taxes refunded.....	5,147	—	57,335
Net cash provided by operating activities	55,402	37,004	617,155
<b>Cash flows from investing activities</b>			
Proceeds from sales of short-term investments.....	2,050	140	22,836
Proceeds from sales of property, plant and equipment.....	174	74	1,938
Purchases of property, plant and equipment.....	(21,631)	(39,954)	(240,960)
Proceeds from sales of investments in securities.....	26	—	290
Purchases of investments in securities.....	(2,651)	(6,906)	(29,531)
(Increase) decrease in loans receivable.....	(37)	1,284	(412)
Other (Note 22).....	(4,403)	(990)	(49,048)
Net cash used in investing activities	(26,472)	(46,352)	(294,887)
<b>Cash flows from financing activities</b>			
Decrease in short-term bonds payable.....	—	(40,000)	—
Proceeds from long-term debt.....	8,201	130,245	91,356
Repayment of long-term debt.....	(206)	—	(2,295)
Cash dividends paid.....	(14,871)	(16,233)	(165,657)
Increase in treasury stock.....	(54)	(569)	(602)
Other.....	(39)	187	(434)
Net cash (used in) provided by financing activities	(6,969)	73,630	(77,632)
Effect of exchange rate changes on cash and cash equivalents.....	2,151	—	23,961
Net increase in cash and cash equivalents.....	24,112	64,282	268,597
Cash and cash equivalents at beginning of the year.....	124,518	60,236	1,387,078
Cash and cash equivalents at end of the year	¥148,630	¥124,518	\$1,655,676

\*See notes to consolidated financial statements.

# Notes to Consolidated Financial Statements

Sekisui House, Ltd. and Subsidiaries  
January 31, 2010 and 2009

## 1. Basis of Preparation

Sekisui House, Ltd. (the "Company") and its domestic subsidiaries maintain their accounts and records in accordance with the provisions set forth in the 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 subsidiaries maintain their accounts and records in conformity with the accounting principles generally accepted and the practices prevailing in their countries of domicile.

The accompanying consolidated financial statements have been compiled from the consolidated financial statements prepared by the Company as required by the Financial Instruments and Exchange Law 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.

The translation of Japanese yen amounts into U.S. dollars is included solely for the convenience of the reader and has been made at ¥89.77 = U.S.\$1.00, the approximate rate of exchange in effect on January 31, 2010. This translation should not be construed as a representation that the Japanese yen amounts have been, could have been, or could in the future be, converted into U.S. dollar amounts at the above or any other rate.

## 2. Summary of Significant Accounting Policies

### (a) Principles of consolidation

The accompanying consolidated financial statements include the accounts of the Company and all its subsidiaries (collectively, the "Group") 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.

The balance sheet date of one domestic subsidiary is March 31. For consolidation purposes, the financial statements of the subsidiary were prepared as of and for the year ended January 31, 2010.

The balance sheet date of 27 overseas 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.

Goodwill and negative goodwill are amortized using the straight-line method over their respective determinable useful lives or a period of five years if the useful lives are indeterminable. Goodwill and negative goodwill are charged or credited to income in the year of acquisition if immaterial.

### (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.

The financial statements 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. Differences resulting from translating the financial statements of the overseas subsidiaries have not been included in the determination of net income (loss).

### (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 net assets. Non-marketable securities classified as other securities are carried at cost determined by the moving average method.

Under the Corporation Law of Japan, 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 and contracts in process are stated at the lower of cost or net selling value, determined by the individual cost method. Other inventories are stated at the lower of cost or net selling value, determined by the moving average method.

### (f) Property, plant and equipment

Property, plant and equipment is stated on the basis of cost.

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

#### *Supplementary information*

Effective February 1, 2008, in accordance with the 2007 revision of the Corporation Tax Law, the method of accounting for depreciation of property, plant and equipment acquired before March 31, 2007 was changed. Property, plant and equipment acquired before March 31, 2007 which have been depreciated to their respective residual values are depreciated to memorandum value by the straight-line method over a period of 5 years.

The effect of this change was to decrease operating income, and income before income taxes and minority interests by ¥356 million for the year ended January 31, 2009 from amounts which would have been recorded under the previous method.

#### **(g) Intangible assets**

Amortization of intangible assets is calculated by the straight-line method over the estimated useful lives of the respective assets.

#### **(h) 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.

Finance lease transactions commencing on or before January 31, 2009 other than those in which the ownership of the leased assets is transferred to the lessee continue to be accounted for as operating leases.

#### **(i) Allowance for doubtful accounts**

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

#### **(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) Allowance for employees' bonuses**

Allowance for 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.

#### **(l) Allowance for warranties for completed construction**

Allowance for warranties for completed construction is provided for anticipated future costs based on past experience arising from

warranties on completed construction and sold buildings. The balances of the allowance at January 31, 2010 and 2009, which were included in other current liabilities in the accompanying consolidated balance sheets, were ¥2,390 million (\$26,624 thousand) and ¥2,660 million, respectively.

#### **(m) Allowance for directors' and corporate auditors' bonuses**

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

#### **(n) Accrued retirement benefits**

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

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

Actuarial gain or loss is amortized in the year following the year in which 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 the certain domestic subsidiaries are customarily entitled to lump-sum payments under an unfunded retirement allowances plan. The provision for retirement allowances for these officers has been made at an estimated amount based on each subsidiary's internal regulations.

#### **(o) Recognition of revenue derived from finance lease transactions as a lessor**

Revenue from financial lease transactions and its related cost are recognized on a cash basis.

#### **(p) Research and development cost**

Research and development cost is charged to income as incurred.

#### **(q) 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 year ended January 31, 2010, interest expenses capitalized and included in land held for sale and land held for development were ¥338 million (\$3,765 thousand) and ¥396 million (\$4,411 thousand), respectively.

### 3. Changes in Accounting Policies

#### (a) Accounting Standard for Measurement of Inventories

Effective the year ended January 31, 2010, the Company and its domestic subsidiaries have adopted "Accounting Standard for Measurement of Inventories" (Accounting Standards Board of Japan (ASBJ) Statement No.9 issued on July 5, 2006). As a result of the adoption of this accounting standard, operating loss and loss before income taxes and minority interests increased by ¥67,852 million (\$755,843 thousand) for the year ended January 31, 2010 as compared to the corresponding amounts which would have been recorded under the method applied in the previous year.

#### (b) Accounting Standard for Lease Transactions

Until the year ended January 31, 2009, finance leases other than those which transfer the ownership of the leased assets to the lessee were accounted for as operating leases.

Effective the year ended January 31, 2010, the Company and its domestic subsidiaries have adopted "Accounting Standard for Lease Transactions" (ASBJ Statement No.13 originally issued by the First Committee of the Business Accounting Council on June 17, 1993 and revised on March 30, 2007) and "Guidance on Accounting Standard for Lease Transactions" (ASBJ Guidance No.16 originally issued by the Accounting System Committee of the Japanese Institute of Certified Public Accountants on January 18, 1994 and revised on March 30, 2007). Under the new accounting standards, such transactions are accounted for as ordinary sale and purchase transactions.

Finance lease transactions commencing on or before January 31, 2009 other than those in which the ownership of the leased assets is transferred to the lessee are accounted for in the same manner as operating leases.

The effect of this adoption on operating result was immaterial for the year ended January 31, 2010.

#### (c) Changes in Accounting Policies Applied to Overseas Subsidiaries

Effective the year ended January 31, 2010, "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements" (ASBJ Practical Issues Task Force No.18, May 17, 2006), has been applied.

The effect of this adoption on operating result was immaterial for the year ended January 31, 2010.

### 4. Notes Receivable

The balance sheet date for the year ended January 31, 2010 fell on a bank holiday. Consequently, notes receivable - trade of ¥1 million (\$11 thousand) with a maturity date of January 31, 2010 were included in the account balance and were settled on the next business day.

### 5. Short-Term Investments and Investments in Securities

Held-to-maturity debt securities and other securities at January 31, 2010 and 2009 were as follows:

	Millions of yen							
	Held-to-maturity debt securities							
	2010				2009			
Book value	Gross unrealized gain	Gross unrealized loss	Estimated fair value	Book value	Gross unrealized gain	Gross unrealized loss	Estimated fair value	
Market value determinable:								
Bonds	¥ 1,331	¥ 5	¥ (0)	¥ 1,336	¥ 1,322	¥ 9	¥ -	¥ 1,331
	<u>¥ 1,331</u>	<u>¥ 5</u>	<u>¥ (0)</u>	<u>¥ 1,336</u>	<u>¥ 1,322</u>	<u>¥ 9</u>	<u>¥ -</u>	<u>¥ 1,331</u>
Market value not determinable:								
Bonds	¥ 5,000	-	-	-	¥ 7,000	-	-	-
	<u>¥ 5,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>¥ 7,000</u>	<u>-</u>	<u>-</u>	<u>-</u>

	Thousands of U.S. dollars			
	Held-to-maturity debt securities			
	2010			
Book value	Gross unrealized gain	Gross unrealized loss	Estimated fair value	
Market value determinable:				
Bonds	\$ 14,827	\$ 56	\$ (0)	\$ 14,883
	<u>\$ 14,827</u>	<u>\$ 56</u>	<u>\$ (0)</u>	<u>\$ 14,883</u>
Market value not determinable:				
Bonds	\$ 55,698	-	-	-
	<u>\$ 55,698</u>	<u>-</u>	<u>-</u>	<u>-</u>

	Millions of yen							
	Other securities							
	2010				2009			
Acquisition cost	Gross unrealized gain	Gross unrealized loss	Book value (estimated fair value)	Acquisition cost	Gross unrealized gain	Gross unrealized loss	Book value (estimated fair value)	
Market value determinable:								
Equity securities	¥42,378	¥ 9,640	¥ (6,389)	¥45,629	¥42,378	¥ 4,101	¥ (5,612)	¥40,867
	<u>¥42,378</u>	<u>¥ 9,640</u>	<u>¥ (6,389)</u>	<u>¥45,629</u>	<u>¥42,378</u>	<u>¥ 4,101</u>	<u>¥ (5,612)</u>	<u>¥40,867</u>
Market value not determinable:								
Equity securities	¥ 2,723	-	-	-	¥ 3,569	-	-	-
Investments in special purpose company	9,350	-	-	-	6,800	-	-	-
Other	999	-	-	-	999	-	-	-
	<u>¥ 13,072</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>¥ 11,368</u>	<u>-</u>	<u>-</u>	<u>-</u>

	Thousands of U.S. dollars			
	Other securities			
	2010			
Acquisition cost	Gross unrealized gain	Gross unrealized loss	Book value (estimated fair value)	
Market value determinable:				
Equity securities	\$472,073	\$107,386	\$(71,171)	\$508,288
	<u>\$472,073</u>	<u>\$107,386</u>	<u>\$(71,171)</u>	<u>\$508,288</u>
Market value not determinable:				
Equity securities	\$30,333	-	-	-
Investments in special purpose company	104,155	-	-	-
Other	11,128	-	-	-
	<u>\$145,616</u>	<u>-</u>	<u>-</u>	<u>-</u>

Sales of other securities for the years ended January 31, 2010 and 2009 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Sales	¥ 26	¥ -	\$ 290
Gross realized gain	6	-	67

The redemption schedule subsequent to January 31, 2010 for securities with maturities is summarized as follows:

	Millions of yen			
	Due within one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years and thereafter
Government and municipal bonds	¥ 1,274	¥ 55	¥ -	¥ -
Other	-	-	-	5,000
<b>Total</b>	<b>¥ 1,274</b>	<b>¥ 55</b>	<b>¥ -</b>	<b>¥ 5,000</b>

	Thousands of U.S. dollars			
	Due within one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years and thereafter
Government and municipal bonds	\$ 14,192	\$ 613	\$ -	\$ -
Other	-	-	-	55,698
<b>Total</b>	<b>\$ 14,192</b>	<b>\$ 613</b>	<b>\$ -</b>	<b>\$ 55,698</b>

## 6. Inventories

Inventories at January 31, 2010 and 2009 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Land held for sale	¥357,322	¥517,003	\$3,980,417
Land held for development	71,090	66,700	791,912
Construction for sale, including projects under construction	115,643	105,557	1,288,214
Contracts in process	47,541	42,565	529,587
Other	5,848	6,047	65,145
<b>Total</b>	<b>¥597,444</b>	<b>¥737,872</b>	<b>\$6,655,275</b>

## 7. Impairment of Fixed Assets

The Company and one domestic subsidiary recognized loss on impairment of fixed assets for the years ended January 31, 2010 and 2009 as follows:

2010				
Location	Use	Classification	Millions of yen	Thousands of U.S. dollars
Ritto, Shiga Prefecture	Factory	Buildings and structures	¥ 488	\$ 5,436
		Machinery	954	10,627
		Other	30	334
			¥ 1,472	\$ 16,397
2009				
Location	Use	Classification	Millions of yen	
Higashiibaraki District, Ibaraki Prefecture and other areas	Facilities for education and other	Buildings and structures	¥ 544	
		Land	419	
		Other	17	
			¥ 980	

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

For the year ended January 31, 2010, the Company has written down certain fixed assets, which were discontinued, to their respective net recoverable values. Consequently, the Company recorded a loss on impairment of fixed assets of ¥1,472 million (\$16,397 thousand) and accounted for such cost as cost of business structure improvement in the accompanying consolidated statements of operations for the year ended January 31, 2010.

For the year ended January 31, 2009, the Company and one domestic subsidiary wrote down certain fixed assets, which are planned to be sold or are determined to be available for sale rather than for lease due to the changes in the business plan, to their respective net recoverable values. Consequently, the Company and its subsidiaries recorded a loss on impairment of fixed assets of ¥980 million as a component of other income (expenses) in the accompanying consolidated statements of operations for the year ended January 31, 2009.

The recoverable value of the above impaired fixed assets was measured at estimated net selling value. The net selling value amount is measured at the valuation for property tax purposes or nil for the year ended January 31, 2010 and on the basis of appraisals conducted by real estate appraisers for the year ended January 31, 2009.

## 8. Investments in Affiliates

Investments in affiliates at January 31, 2010 and 2009 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Investments in capital stock, at cost	¥ 2,936	¥ 2,686	\$ 32,706
Equity in undistributed earnings since acquisition, net	717	584	7,987
<b>Total</b>	<b>¥ 3,653</b>	<b>¥ 3,270</b>	<b>\$ 40,693</b>

## 9. Long-Term Debt and Lease Obligations

Long-term debt and lease obligations at January 31, 2010 and 2009 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Interest rates ranging from 1.1% to 1.6% on unsecured loans from banks, due 2010	¥ 170,000	¥170,000	\$ 1,893,728
Interest rate of 1.6% on unsecured loans from a bank, due 2011	20,000	20,000	222,792
Nonrecourse loans at interest rates ranging from 7.0% to 7.7% from a bank, due 2012	11,680	-	130,110
1.37% yen unsecured bonds, due 2012	59,986	59,982	668,219
Lease obligations	1,537	-	17,122
	263,203	249,982	2,931,971
Less current portion	(173,013)	-	(1,927,292)
<b>Total</b>	<b>¥ 90,190</b>	<b>¥249,982</b>	<b>\$ 1,004,679</b>

The aggregate annual maturities of long-term debt and lease obligations subsequent to January 31, 2010 are summarized as follows:

Year ending January 31,	Millions of yen	Thousands of U.S. dollars
2011	¥ 173,013	\$ 1,927,292
2012	28,890	321,823
2013 and thereafter	61,300	682,856
	¥ 263,203	\$ 2,931,971

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, 2010 was as follows:

	Millions of yen	Thousands of U.S. dollars
	2010	2010
Lines of credit	¥ 50,000	\$ 556,979
Credit utilized	-	-
Available credit	¥ 50,000	\$ 556,979

## 10. Mortgaged and Pledged Assets

The following assets, recorded at net book value at January 31, 2010 and 2009, were either mortgaged or pledged for guarantees of a third party bank loan, guarantee deposits received, long-term debt, including current portion, and other current liabilities, and totaled ¥12,464 million (\$138,844 thousand) and ¥3,117 million, respectively.

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Cash and cash equivalents	¥ 200	¥ 759	\$ 2,228
Inventories	22,549	3,371	251,186
Land	3,544	192	39,479
Buildings and structures	634	661	7,063
Investments in affiliates	17	14	189
	¥ 26,944	¥ 4,997	\$ 300,145

## 11. Income Taxes

The Company and its domestic subsidiaries are subject to several taxes based on income which, in the aggregate, resulted in a statutory tax rate of approximately 40.4% for the years ended January 31, 2010 and 2009. Overseas subsidiaries are subject to the income taxes of the countries in which they operate.

The reconciliation between the statutory tax rate and effective tax rate as of January 31, 2010 are omitted because loss before income taxes and minority interests was recorded for the year ended January 31, 2010.

The effective tax rate reflected in the accompanying consolidated statements of operations for the year ended January 31, 2009 differs from the above statutory tax rate for the following reasons:

	2009
Statutory tax rate	40.4%
Non-deductible entertainment expenses	6.4
Non-taxable dividend income	(0.8)
Inhabitants' per capita taxes	2.2
Valuation allowance	11.8
Other	(1.8)
Effective tax rate	58.2%

The significant components of the Group's deferred tax assets (liabilities) at January 31, 2010 and 2009 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Loss on revaluation of real estate held for sale	¥ 55,783	¥ 41,433	\$ 621,399
Accrued retirement benefits for employees	12,224	9,066	136,170
Loss on impairment of fixed assets	8,846	4,459	98,541
Tax loss carryforwards	5,175	-	57,647
Loss on revaluation of investments in securities	2,742	3,977	30,545
Allowance for employees bonuses	2,507	5,011	27,927
Net unrealized holding (gain) loss on securities	(71)	610	(791)
Other	7,379	4,508	82,199
Less valuation allowance	(11,524)	(11,185)	(128,373)
Net deferred tax assets	¥ 83,061	¥ 57,879	\$ 925,264

## 12. Shareholders' Equity

The Corporation Law of Japan (the "Law"), which superseded most of the provisions of the Commercial Code of Japan (the "Code"), went into effect on May 1, 2006. The Law provides that 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) be transferred 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, 2010 and 2009 amounted to ¥23,129 million (\$257,647 thousand) and ¥23,129 million, respectively.

Under the Law, upon the issuance and sale 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-based compensation plan

In accordance with the Law, on June 9, 2009, the Company granted certain stock options (the 2009 plan) to directors and executive officers of the Company based on the approval of a resolution by the Board of Directors at a meeting held on May 21, 2009. Under the terms of this

plan, 106,000 shares of common stock have been reserved at an exercise price of ¥1 per share. The options became exercisable on June 10, 2009 and are scheduled to expire on June 9, 2029.

In accordance with the Law, on June 6, 2008, the Company granted certain stock options (the 2008 plan) to directors and executive officers of the Company based on the approval of a resolution by the Board of Directors at a meeting held on May 15, 2008. Under the terms of this plan, 108,000 shares of common stock have been reserved at an exercise price of ¥1 per share. The options became exercisable on June 7, 2008 and are scheduled to expire on June 6, 2028.

In accordance with the Law, on June 7, 2007, the Company granted certain stock options (the 2007 plan) to directors and executive officers of the Company based on the approval of a resolution by the Board of Directors at a meeting held on May 17, 2007. Under the terms of this plan, 55,000 shares of common stock have been reserved at an exercise price of ¥1 per share. The options became exercisable on June 8, 2007 and are scheduled to expire on June 7, 2027.

In accordance with the Code, a stock option plan (the 2006 plan) for directors and executive officers of the Company was approved at the annual general meeting of the shareholders held on April 27, 2006. Under the terms of this plan, 48,000 shares of common stock have been reserved at an exercise price of ¥1 per share. The options became exercisable on April 28, 2006 and are scheduled to expire on April 27, 2026.

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

	The 2009 plan	The 2008 plan	The 2007 plan	The 2006 plan
Number of stock options:				
Outstanding at February 1, 2008	-	-	55,000	47,000
Granted	-	108,000	-	-
Cancelled	-	-	-	-
Exercised	-	-	1,000	1,000
Outstanding at January 31, 2009	-	108,000	54,000	46,000
Granted	106,000	-	-	-
Cancelled	2,000	-	-	-
Exercised	-	-	2,000	1,000
Outstanding at January 31, 2010	104,000	108,000	52,000	45,000
Fair value of stock options as of the grant date	¥ 681	¥ 876	¥ 1,571	-

#### Treasury stock

Movements in treasury stock during the years ended January 31, 2010 and 2009 are summarized as follows:

	Number of shares			
	2010			
	January 31, 2009	Increase	Decrease	January 31, 2010
Treasury stock	1,089,368	66,767	18,471	1,137,664
	2009			
	January 31, 2008	Increase	Decrease	January 31, 2009
Treasury stock	33,196,226	606,335	32,713,193	1,089,368

### 13. Research and Development Cost

Research and development cost charged to income amounted to ¥5,087 million (\$56,667 thousand) and ¥6,191 million for the years ended January 31, 2010 and 2009, respectively.

### 14. Accrued Retirement Benefits

The following table sets forth the funded and accrued status of the pension plans, and the amounts recognized in the accompanying consolidated balance sheets at January 31, 2010 and 2009 for the Group's defined benefit pension plans:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Retirement benefit obligation at end of year	¥(213,958)	¥(213,784)	\$ (2,383,402)
Fair value of plan assets at end of year	147,779	135,289	1,646,196
Unfunded retirement benefit obligation	(66,179)	(78,495)	(737,206)
Unrecognized actuarial loss	36,832	61,827	410,293
Net retirement benefit obligation	(29,347)	(16,668)	(326,913)
Prepaid pension cost	-	4,893	-
Accrued retirement benefits	¥ (29,347)	¥ (21,561)	\$ (326,913)

The components of net retirement benefit expenses for the years ended January 31, 2010 and 2009 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Service cost	¥ 9,940	¥ 13,200	\$ 110,727
Interest cost	5,196	5,069	57,881
Expected return on plan assets	(5,219)	(6,961)	(58,137)
Amortization:			
Actuarial loss	11,662	2,690	129,910
Prior service cost	-	(501)	-
Retirement benefit obligation at transition	-	77	-
Additional retirement benefits paid	3,155	-	35,145
Other	19	15	212
Retirement benefit expenses	¥ 24,753	¥ 13,589	\$ 275,738

The assumptions used in accounting for the defined benefit pension plans for the years ended January 31, 2010 and 2009 were as follows:

	2010	2009
Discount rate	2.5%	2.5%
Expected rate of return on plan assets	4.0%	4.0%

### 15. Contingent Liabilities

The Group had the following contingent liabilities at January 31, 2010:

	Millions of yen	Thousands of U.S. dollars
	Guarantees of housing loans to customers	¥ 81,859
Guarantees of bank loans of a third party	743	8,277
	¥ 82,602	\$920,152



## 16. Leases

### (Lessee)

Finance lease transactions commencing on or before January 31, 2009 other than those in which the ownership of the leased assets is transferred to the Company or its subsidiaries are accounted for in the same manner as operating leases.

The following *pro forma* amounts represent the acquisition costs, accumulated depreciation and net book value of property leased to the Group at January 31, 2010 and 2009, which would have been reflected in the accompanying consolidated balance sheets if finance leases other than those which transfer the ownership of the leased property (currently accounted for as operating leases) were capitalized:

	Millions of yen					
	2010			2009		
	Acquisition costs	Accumulated depreciation	Net book value	Acquisition costs	Accumulated depreciation	Net book value
Buildings and structures	¥ 23,387	¥ 21,275	¥ 2,112	¥ 27,820	¥ 22,572	¥ 5,248
Machinery and equipment	5,894	4,739	1,155	7,633	5,640	1,993
Intangible assets	896	722	174	1,374	934	440
	<u>¥ 30,177</u>	<u>¥ 26,736</u>	<u>¥ 3,441</u>	<u>¥ 36,827</u>	<u>¥ 29,146</u>	<u>¥ 7,681</u>

	Thousands of U.S. dollars		
	2010		
	Acquisition costs	Accumulated depreciation	Net book value
Buildings and structures	\$260,522	\$236,995	\$ 23,527
Machinery and equipment	65,656	52,790	12,866
Intangible assets	9,981	8,043	1,938
	<u>\$336,159</u>	<u>\$297,828</u>	<u>\$ 38,331</u>

Future minimum lease payments subsequent to January 31, 2010 for finance leases other than those which transfer the ownership of the leased property are summarized as follows:

Year ending January 31,	Millions of yen	Thousands of U.S. dollars
2011	¥ 2,539	\$ 28,283
2012 and thereafter	1,273	14,181
	<u>¥ 3,812</u>	<u>\$ 42,464</u>

Lease payments relating to finance leases accounted for as operating leases and depreciation/amortization and interest expense, which have not been reflected in the consolidated statements of operations for the years ended January 31, 2010 and 2009 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Lease payments	¥ 4,428	¥ 5,638	\$ 49,326
Depreciation/amortization	4,090	5,155	45,561
Interest expense	166	251	1,849

Depreciation and amortization is calculated by the straight-line method over the respective lease terms assuming a nil residual value.

No loss on impairment of leased assets was recorded for the years ended January 31, 2010 and 2009.

Future minimum lease payments subsequent to January 31, 2010 under operating leases are summarized as follows:

Year ending January 31,	Millions of yen	Thousands of U.S. dollars
2011	¥ 18	\$ 200
2012 and thereafter	26	290
	<u>¥ 44</u>	<u>\$ 490</u>

### (Lessor)

Finance lease receivables as of January 31, 2010 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2010		2010
Current assets:			
Gross finance lease receivables	¥ 1,553		\$ 17,300
Less unearned interest income	(71)		(791)
Finance lease receivables, net	<u>¥ 1,482</u>		<u>\$ 16,509</u>

Contractual maturities of gross finance lease receivables subsequent to January 31, 2010 are as follows:

Year ending January 31,	Millions of yen		Thousands of U.S. dollars
	2010		2010
2011	¥ 74		\$ 824
2012	74		824
2013	74		824
2014	74		824
2015	74		824
2016 and thereafter	1,183		13,180
	<u>¥ 1,553</u>		<u>\$ 17,300</u>

Finance lease receivables and payables recorded in the accompanying consolidated balance sheets as of January 31, 2010 under sub-lease transactions are as follows:

	Millions of yen		Thousands of U.S. dollars
	2010		2010
Finance lease receivables:			
Current	¥ 1,256		\$ 13,991
Finance lease payables:			
Current	43		479
Non-current	1,213		13,512

## 17. Derivatives and Hedging Activities

The Company utilizes derivative financial instruments to reduce the risk arising from foreign exchange rate fluctuations. In addition, certain overseas subsidiaries utilize derivative financial instruments to reduce the risk arising from interest rate fluctuations. The Company and certain overseas subsidiaries have established a control environment which includes policies and procedures for risk assessment and for the approval, reporting and monitoring of transactions involving derivative financial instruments. The Company and certain overseas subsidiaries do not enter into derivatives transactions for speculative trading purposes.

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

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. Derivatives 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.

## 18. Amounts per Share

Per share amounts as of and for the years ended January 31, 2010 and 2009 are as follows:

	Yen		U.S. dollars
	2010	2009	2010
Net (loss) income:			
Basic	¥ (43.32)	¥ 17.04	\$ (0.48)
Diluted	-	17.03	-
Net assets	1,059.18	1,115.20	11.80
Cash dividends	10.00	24.00	0.11

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

Diluted net income per share is computed based on the net income 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. Diluted net loss per share for the year ended January 31, 2010 is omitted because the Group recorded net loss.

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 net (loss) income per share for the years ended January 31, 2010 and 2009 in the table above are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Information on basic net (loss) income per share:			
Net (loss) income	¥ (29,277)	¥ 11,517	\$ (326,133)
Adjusted net (loss) income attributable to common stockholders	¥ (29,277)	¥ 11,517	\$ (326,133)
	Thousands of shares		
	2010	2009	
Weighted-average number of shares of common stock outstanding during the year	675,772	676,039	

Financial data for the computation of net assets per share at January 31, 2010 and 2009 in the above table is summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Total net assets	¥ 716,296	¥ 754,130	\$ 7,979,236
Deductions from total net assets:			
Stock subscription rights	232	158	2,584
Minority interests	326	324	3,632
Total net assets available to common stockholders	¥ 715,738	¥ 753,648	\$ 7,973,020
	Thousands of shares		
	2010	2009	
Number of shares of common stock used in the calculation of net assets per share	675,747	675,795	

## 19. Cost of Business Structure Improvement

The Company suspended production at the Shiga factory on March 31, 2009 in order to integrate its factories and improve productivity. As a result, the Company recorded ¥4,822 million (\$53,715 thousand) of losses on disposal, relocation and impairment of its facilities, and additional retirement benefits paid with regard to an early retirement scheme as cost of business structure improvement in the consolidated statement of operations for the year ended January 31, 2010.

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

Real estate held for sale at January 31, 2009, the market value of which has declined significantly from its carrying value, has been written down to its fair market value.

## 21. Loss Resulting from Changes in Business Plan

The Company updated its business plan during the year ended January 31, 2009. As a result, the grace period for payment of the special land holding tax was no longer in effect, and the Company was obliged to pay such tax and related interest. The Company accounted for these obligations as loss resulting from changes in business plan in the accompanying consolidated statement of operations for the year ended January 31, 2009.

## 22. Supplementary Cash Flow Information

The Company purchased shares of one company and initially consolidated its accounts for the year ended January 31, 2010. The assets and liabilities included in consolidation and the relationship between investment cost and net cash disbursements for the acquisition are summarized as follows:

	Millions of yen	Thousands of U.S. dollars
	<b>2010</b>	<b>2010</b>
Current assets	¥ 4,363	\$ 48,602
Non-current assets	0	0
Current liabilities	(491)	(5,470)
Long-term liabilities	(2,431)	(27,080)
Investment cost for subsidiary's shares	1,441	16,052
Cash and cash equivalents of the company acquired	(8)	(89)
Cash disbursement	<u>¥ 1,433</u>	<u>\$ 15,963</u>

## 23. Segment Information

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

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

Business segment information of the Group for the years ended January 31, 2010 and 2009 is outlined as follows:

	Millions of yen						
	2010						
	Built-to-order housing	Real estate for sale	Real estate for leasing	Other	Total	Eliminations and other	Consolidated
Sales to third parties	¥ 590,377	¥ 253,572	¥ 364,218	¥ 145,019	¥ 1,353,186	-	¥ 1,353,186
Intragroup sales and transfers	8,384	223	1,838	5,936	16,381	¥ (16,381)	-
Net sales	598,761	253,795	366,056	150,955	1,369,567	(16,381)	1,353,186
Operating expenses	550,197	326,899	351,875	144,736	1,373,707	18,234	1,391,941
Operating income (loss)	¥ 48,564	¥ (73,104)	¥ 14,181	¥ 6,219	¥ (4,140)	¥ (34,615)	¥ (38,755)
Total assets	¥ 140,042	¥ 614,067	¥ 339,886	¥ 22,577	¥ 1,116,572	¥ 237,374	¥ 1,353,946
Depreciation and amortization	¥ 7,355	¥ 800	¥ 5,330	¥ 362	¥ 13,847	¥ 2,732	¥ 16,579
Loss on impairment of fixed assets	¥ 1,472	¥ -	¥ -	¥ -	¥ 1,472	¥ -	¥ 1,472
Capital expenditures	¥ 6,019	¥ 107	¥ 75,058	¥ 57	¥ 81,241	¥ 904	¥ 82,145

	Millions of yen						
	2009						
	Built-to-order housing	Real estate for sale	Real estate for leasing	Other	Total	Eliminations and other	Consolidated
Sales to third parties	¥ 682,862	¥ 317,279	¥ 357,075	¥ 156,956	¥ 1,514,172	-	¥ 1,514,172
Intragroup sales and transfers	9,411	14	2,558	3,939	15,922	¥ (15,922)	-
Net sales	692,273	317,293	359,633	160,895	1,530,094	(15,922)	1,514,172
Operating expenses	633,551	284,016	340,950	158,044	1,416,561	23,651	1,440,212
Operating income	¥ 58,722	¥ 33,277	¥ 18,683	¥ 2,851	¥ 113,533	¥ (39,573)	¥ 73,960
Total assets	¥ 147,777	¥ 737,291	¥ 264,746	¥ 19,384	¥ 1,169,198	¥ 218,039	¥ 1,387,237
Depreciation and amortization	¥ 7,219	¥ 762	¥ 4,682	¥ 389	¥ 13,052	¥ 2,340	¥ 15,392
Loss on impairment of fixed assets	¥ -	¥ -	¥ 158	¥ -	¥ 158	¥ 822	¥ 980
Capital expenditures	¥ 9,468	¥ 303	¥ 45,832	¥ 51	¥ 55,654	¥ 1,778	¥ 57,432

	Thousands of U.S. dollars						
	2010						
	Built-to-order housing	Real estate for sale	Real estate for leasing	Other	Total	Eliminations and other	Consolidated
Sales to third parties	\$ 6,576,551	\$ 2,824,685	\$ 4,057,235	\$ 1,615,451	\$ 15,073,922	-	\$ 15,073,922
Intragroup sales and transfers	93,394	2,484	20,475	66,125	182,478	¥ (182,478)	-
Net sales	6,669,945	2,827,169	4,077,710	1,681,576	15,256,400	(182,478)	15,073,922
Operating expenses	6,128,963	3,641,517	3,919,739	1,612,298	15,302,517	203,119	15,505,636
Operating income (loss)	\$ 540,982	\$ (814,348)	\$ 157,971	\$ 69,278	\$ (46,117)	\$ (385,597)	\$ (431,714)
Total assets	\$ 1,560,009	\$ 6,840,448	\$ 3,786,187	\$ 251,498	\$ 12,438,142	\$ 2,644,246	\$ 15,082,388
Depreciation and amortization	\$ 81,932	\$ 8,912	\$ 59,374	\$ 4,032	\$ 154,250	\$ 30,433	\$ 184,683
Loss on impairment of fixed assets	\$ 16,397	\$ -	\$ -	\$ -	\$ 16,397	\$ -	\$ 16,397
Capital expenditures	\$ 67,049	\$ 1,192	\$ 836,115	\$ 635	\$ 904,991	\$ 10,070	\$ 915,061

As described in Note 3(a), effective the year ended January 31, 2010, the Group has adopted "Accounting Standard for Measurement of Inventories" (ASBJ Statement No.9 issued on July 5, 2006). As a result of this change, operating income in the real estate for sale segment decreased by ¥67,852 million (\$755,843 thousand) for the year ended January 31, 2010 as compared to the corresponding amount which would have been recorded under the previous method.

As more than 90% of the consolidated net sales for the years ended January 31, 2010 and 2009 were made in Japan, the disclosure of geographical segment information and overseas sales information has been omitted.

## 24. Subsequent Event

Based on a resolution approved at a meeting of the Board of Directors held on March 18, 2010, the Company determined to issue bonds on April 14, 2010. Details of the bond issuance are as follows:

Description	The 13th Series of unsecured straight bonds
Total issuance amount	¥70,000 million (\$779,771 thousand)
Annual interest rate	0.703%
Issue price	¥100 (\$1) with a face value of ¥100 (\$1)
Maturity period	5 years
Redemption method	All the bonds are redeemed at maturity.
Issuance date	April 21, 2010
Usage of funds	Repayment of long-term debt

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## Report of Independent Auditors

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The Board of Directors  
Sekisui House, Ltd.

We have audited the accompanying consolidated balance sheets of Sekisui House, Ltd. and subsidiaries as of January 31, 2010 and 2009, and the related consolidated statements of operations, changes in net assets, and cash flows for the years then ended, all expressed in yen. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Sekisui House, Ltd. and subsidiaries at January 31, 2010 and 2009, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

### *Supplemental Information*

As described in Note 3(a) to the consolidated financial statements, effective the year ended January 31, 2010, the Company and its domestic subsidiaries have adopted the accounting standard for measurement of inventories.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended January 31, 2010 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1.

April 28, 2010

*Ernst & Young Shin Nihon LLC*

Ernst & Young Shin Nihon & Co.  
Auditors

# Corporate Data

## Corporate Officers

(As of April 28, 2010)

### Chairman, Representative Director & CEO

Isami Wada

### President, Representative Director & COO

Toshinori Abe

### Directors

Katsuhiko Machida

Sumio Wada

Shiro Inagaki

Fumiaki Hirabayashi

Takashi Uchida

Junichi Terada

Tetsuo Iku

Daiji Kuroki

Kengo Yoshida

### Standing Corporate Auditors

Tadashi Iwasaki

Yoshiro Kubota

### Corporate Auditors

Takaharu Dohi

Teruyuki Saegusa

Eiji Mansho

### Senior Managing Officers

Sumio Wada

Shiro Inagaki

### Managing Officers

Fumiaki Hirabayashi

Takashi Uchida

Junichi Terada

Tetsuo Iku

Daiji Kuroki

Kengo Yoshida

Shinichi Yamada

Akihisa Terasaki

### Executive Officers

Mitsugu Iijima

Hidehiro Yamaguchi

Yoshikazu Takatsuka

Tsutomu Motomura

Naoki Ishii

Takanobu Ishioka

Masaaki Oikawa

Atsuyuki Miyamoto

Fumiyasu Suguro

Michio Yoshizaki

Keigo Nakano

Kotaro Asano

Hisao Yamada

Yuichi Matsushima

Motohiko Fujiwara

Kazushi Mitani

Koji Nakata

Haruyuki Iwata

## OUTLINE OF THE COMPANY

(As of January 31, 2010)

### Established

August 1, 1960

### Capital Stock Issued

¥186,554 million

### Employees

15,374 (As of April 1, 2010)

### 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

Kyoto

### Subsidiaries and Affiliates

Sekiwa Real Estate Tohoku, Ltd.

Sekiwa Real Estate, Ltd.

Sekiwa Real Estate Chubu, Ltd.

Sekiwa Real Estate Kansai, Ltd.

Sekiwa Real Estate Chugoku, Ltd.

Sekiwa Real Estate Kyushu, Ltd.

Sekisui House Remodeling, Ltd.

Sekiwa Construction Higashi-Tokyo, Ltd.

Sekisui House Umeda Operation Co., Ltd.

SGM Operation Co., Ltd.

Sekisui House Australia Holdings Pty Limited, etc

All 84 subsidiaries and 8 affiliates

### Stock Listing

Tokyo Stock Exchange

Osaka Securities Exchange

Nagoya Stock Exchange

### American Depositary Receipts

Symbol: SKHSY

CUSIP: 816078307

Ratio: 1:1

Exchange: OTC (Over-The-Counter)

Depositary: The Bank of New York Mellon

BNY Mellon Shareowner Services

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