# ANNUAL REPORT 2001

For the year ended January 31, 2001

Sekisui House, Ltd.

# Our Corporate Profile

***Sekisui House, Ltd. is Japan's leading home builder, with profitability and dividends that well exceed the average for the industry. 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

Sekisui House, Ltd.
and Consolidated Subsidiaries

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2001** | 2000 | **2001** |
| **For the year:** | | | |
| Net sales | \ **1,364,801** | \ 1,330,284 | **$ 11,760,457** |
| Net income | **25,167** | (94,811) | **216,863** |
| **At year-ended:** | | | |
| Total assets | **1,459,491** | 1,453,547 | **12,576,398** |
| Shareholders' equity | **741,216** | 723,860 | **6,387,040** |
| | Yen | | U.S. dollars |
| | **2001** | 2000 | **2001** |
| **Per share:** | | | |
| Net income | \ **35.03** | \ (132.65) | **$ 0.30** |
| Cash dividends applicable to the year | **20.00** | 18.00 | **0.17** |

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 \ 116.05 = U.S. $1, effective at January 31, 2001.

**Net sales**
*Billions of yen*


**Net income**
*Billions of yen*


**Net income per share**
*Yen*

# A Message From The President

At the beginning of our fiscal 2000 signs were felt of self-sustained recovery in the domestic economy, notably in capital investment in the private sector, but consumers and individual investors stayed inactive in the latter half of the year, wary of the continuing adverse employment market situation and the bearish stock market situation. Thus, Japan's economy failed to get out of the doldrums again in our fiscal 2000.

The continuing low interest rates and the tax-cut measures by the Government contributed to increased housing starts in condominiums, tract houses and other houses built for sale. The main contributors were first-time homebuyers. Second-time buyers, however, who would have otherwise rebuilt or moved up into new houses took a wait-and-see attitude, worried by uncertain economic outlooks. In the meantime, a new law (Housing Quality Assurance Act) has come into force for homebuyers' protection, requiring the housing industry to pay higher-level and more delicate attention to their products relative to quality.

The Company set up task forces across the board in an attempt to increase profitability by cutting down on costs, allocating effective budgets among the departments and projects and so on. Sales people and offices were increased for more sales capacity. Closer ties have been further promoted between our sales and design people so that they could make more efficient and attractive offers to the market. With regard to our merchandise line-up, following our basic policy we made another step forward to specializing in middle- and high-class merchandise, and made effort toward bettering our product quality, well prior to the enforcement of the above-mentioned quality securing law. Since February last year, we have incorporated as a standard item heat-insulating window sashes into all of our houses newly supplied, with no price hikes. This was another addition of higher quality to our merchandise, offered at an affordable price, that had already incorporated a heat-insulating/repelling double pane. Furthermore, our 20-year after sales service started in April last year to promote customers' satisfaction.

Facilities were expanded to meet growing demand for remodeling as our houses were getting more durable. To promote proposals for better living environments with the house and its outdoor space to be considered as a whole, our energies were poured into business in exterior works and gardening. As regards rental housing, tenants tend to live longer in rental houses these days. So we marketed a rental house (named Sha-Maison) that feels quite like a detached house, and set up sales offices for that particular market. Human resources were reallocated to activate the organization in a move to streamline ourselves.

In technical aspects, we already have a unique earth-work technique involving piles, to cope with weak ground. Improving on these piles we have added knots to them so that they can be more effective in solidifying ground, to result in shorter and less piles — and less construction costs and inconvenience to the neighborhood, in what we now call the method involving improved shape of pile with knots.

In commemoration of the 40th anniversary of our founding, we put on the market in June last year Dynes VALUE a high-class detached house model incorporating a concrete exterior wall panel (Dyne Concrete as we call it), and Shlteq VALUE a three-story model incorporating another type of concrete exterior wall panel (Shelteq Concrete as we call it). And in October last year M' Chantoa VALUE a wood-frame house (SHA-wood House) was introduced to the market. The "VALUE" series represents higher quality housing models offered at an affordable price made possible through our continuous cost-cutting efforts. Among other models were Centrage Gallery a detached house model marketed in March last year with emphasis placed on the environment, which has made available design proposals of the house and its outdoor space considered as one whole, and in July last year M' Natura Plus a deluxe wood-frame model featuring various exterior appearances and unique "exposure" interior decoration (in which structural members such as beams, columns, and posts are purposely exposed as a style of interior decoration). In March last year GRANVERIE G3 a deluxe three-story rental house for permanent living was unveiled on the rental housing market and in October last year GRANCEED URBAN a deluxe rental house for urban life was introduced as a model that can flexibly meet changes in lifestyles.

Capital investment was made mainly in the production field for streamlining and labor saving as was in the previous terms. We also ardently carried out investment for protection of the environment in an attempt to achieve our goal of the zero emission of industrial wastes from our production lines. Investment was made in the initiative to build up a unified basic operation system utilizing IT (information technology) across the Company. This system will make communication faster and smoother between sales, design, construction, administration and after sales service departments and will help create new business opportunities for us.

Our sales were \1,364,801 million ($11,760,457 thousand), up 2.6%, comprising \1,081,057 million ($9,315,442 thousand) of sales from building contracts, down 0.7%, and \283,744 million ($2,445,015 thousand) of realty sales, up 17.2%. Operating income, however, increased 26.2% to \96,086 million ($827,971 thousand) thanks to reduced costs and the lucrative constitution in the realty transaction department realized after realty in possession was revalued downward at market price in fiscal 1999. Net profit after taxes amounted to \25,167 million ($216,863 thousand) (cf. loss of \94,811 million for fiscal 1999) after another \17,078 million ($147,161 thousand) was added to Provision with respect to change in accounting for employees' severance indemnities as a special loss in a moving-up attempt and also after \14,281 million ($123,059 thousand) was appropriated as another special loss for payment of Special contributions to pension fund to cope with the upcoming retirement benefit accounting to be applied in and after the next fiscal year.

The Company commemorated the 40th anniversary of its founding in August last year. What is more, at the end of January this year the Company hit a 1,500,000 housing unit mark in cumulative sales since its start of business in 1960 to be the first enterprise to achieve such a record in the housing industry. We are determined to keep on growing, basing on what we have achieved.

When we look to the future, a slowdown in housing starts is unavoidably expected because Japan is faced with a declining birth rate. There will be keener competition in the industry on account of the current poor economy and the expected housing start slowdown over the medium- and long-term period to come. We will, however, make every effort to make the Company stronger - by raising profitability and with effective use of assets. We will keep on supplying the market with our high-quality merchandise. Effort will be put into expanding SHA-wood house sales as well as sales of steel-frame houses - our mainstay. Rental house sales will be further increased in collaboration with our realtor subsidiary/affiliate companies by the name of Sekiwa Real Estate (respective Region), Ltd. Japanese houses today have a longer life span and this trend is getting more and more conspicuous. We understand that such a trend will give us good business chances in the field, among others, of remodeling and exterior work. With great zeal we will work in this field too.

On February 1, 2001 we absorbed in merger Sekisui House Hokuriku, Ltd., Sekisui House Shikoku, Ltd., Sekisui House Yamanashi, Ltd. and Sekisui House Sanin, Ltd. Business will be expanded there in the respective territories we took over with an efficient and effective allocation of resources.

I. Wada

Isami Wada
President & Representative Director

# Sekisui House Topics

## Sekisui House sold 1,500,000 houses in 40 years since foundation, first such achievement in industry.

Sekisui House, Ltd. celebrated its 40th anniversary of founding in August 2000 and at the end of its fiscal 2000 that ended January 31, 2001, registered 1,504,621 houses of cumulative sales since the founding, hitting the 1,500,000 housing unit mark as the industry's first such enterprise.

Since our founding in 1960, we, Sekisui House, have been engaged in a variety of business activities related to housing, including building towns, on the basis of design flexibility and with great attention paid to harmony with the streetscape. Affluent in exterior appearances and either in steel- or wood-frame structure Sekisui houses have been meeting the lifestyles and needs of various homebuyers.

By absorbing four of our sales subsidiary / affiliated companies in February 2000, we in name and reality, established a nationwide system that involves sales direct to homebuyers. Our construction subsidiaries (Sekiwa Constructions) totaling 80 in number across Japan are responsible for construction under our direct supervision, enabling us to offer delicate and elaborate services, as well as services as a consultant with the state-of-the-art building techniques developed by them and us. Thus we have established a system to fully satisfy our customers in all respects.

Our motto is to treasure relationships with customers. We have been trying to offer perfect after-sale service to our customers regardless of when they bought our houses, whether it is just now or scores of years ago, so that our customers can always enjoy a comfortable life with our houses. Located at 60 different places across Japan our Customer Service Centers are responsible for periodical examinations on the houses we sold, and repair work as well. Furthermore, our Remodeling Centers located at 20 places throughout the country offer remodeling services to the customers who need them after their lifestyles or family make-ups have changed.

We are determined to continue offering houses that satisfy homebuyers to their hearts' content. This would be possible because we can offer the highest quality and techniques as the leading company in the industry, and because we can create houses and environments full of humanity through our expertise acquired in the course of construction of 1,500,000 houses.

## Environmental Actions

In 1999, adopting an environment charter and basic environment policy, we, Sekisui House, Ltd. announced our "Action Program for the Environment " and made public the scope of our responsibilities as a leading homebuilder and a global citizen. Following this Action Program we deployed various approaches across the board in fiscal 2000. The following are some of our activities.

**Introduction of LCA Techniques**

For the first time in the industry, using the LCA (life cycle assessment) techniques we, in collaboration with 135 of our suppliers, collected data and assessed impacts of housing materials against the environment. By adopting the said techniques, we were able to establish criteria for future development of products with reduced environmental loads, and procurement of eco-friendly materials. It should be noted that our adoption of the evaluation technique by $LCCO_2$ represents an advanced approach in the industry.

**ISO 14001 Environmental Certification To Be Obtained in All Six factories**

We promoted the activities for obtaining the ISO 14001 Environmental Certification at our factories throughout Japan, and the certification was obtained in all six factories in March 2001.

**Zero-emission Project**

We are waging a zero-emission campaign to reduce to naught by 2005 landfill wastes discharged from our factories. We checked how much waste our factories were discharging, studied to develop recycling techniques, and actively went about separation, reuse, and recycling. As a result, landfill waste was reduced by 70% from the previous year. We will try to reduce waste by a target 50% each coming year from the previous year.

**Environmental Consideration in Products**

In order to cut energy consumption for air-conditioning that accounts for about 30% of the total $CO_2$ emitted when people live at home, we improved heat insulation efficiency in housing. We have incorporated as standard items heat-insulating/repelling double pane and heat-insulating window sashes into all of our houses newly supplied. We have positively adopted the "next-generation heat insulation specifications" that conform to the next-generation energy saving standard.

Our company has been positively involved with taking actions against increasing "the so-called sick-house syndrome" and established more severe standard than ever for formaldehyde and VOC (volatile organic compounds) contained in interior decoration materials. We have adopted as our standard the one that conforms to "Class 4," the top rank in the "Formaldehyde emission class" prescribed in the "Housing Quality Assurance Act."

With respect to the compulsory chemical treatment for prevention of termite damage, we have adopted the granular type soil termite prevention agent. This is because application of conventional liquid type chemicals is said to contaminate the soil and the indoor air.

In March 2001, Sekisui House released its environment report "ECO WORKS 2000" that reports on its across-the-board environmental activities for fiscal 2000 represented by the above-mentioned approaches.

# Management's Discussion and Analysis

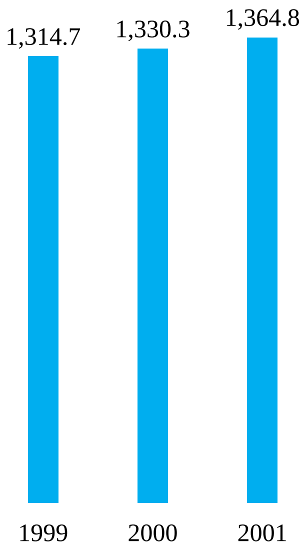
## Results of Operations

Years ended January 31, 2001, 2000, and 1999

| | Millions of yen (percentage change) | | | | | | |
|---|---|---|---|---|---|---|---|
| | | **2001** | | 2000 | | 1999 | |
| Net sales | \ | **1,364,801** | **(2.6)** | 1,330,284 | (1.2) | 1,314,696 | (−9.8) |
| Cost of sales | \ | **1,071,009** | **(−0.1)** | 1,072,196 | (0.1) | 1,071,408 | (−8.8) |
| Operating income | \ | **96,086** | **(26.2)** | 76,138 | (28.5) | 59,250 | (−32.4) |
| Net income | \ | **25,167** | | −94,811 | | 22,855 | (−42.4) |
| | Yen (percentage change) | | | | | | |
| Net income per share | \ | **35.03** | | −132.65 | | 31.99 | (−42.5) |

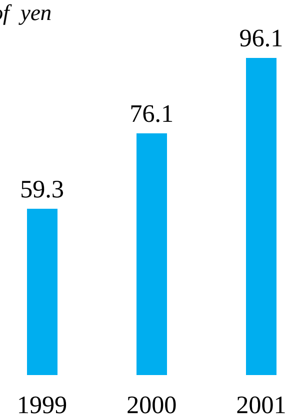
### Consolidated Net Sales

*billions of yen*



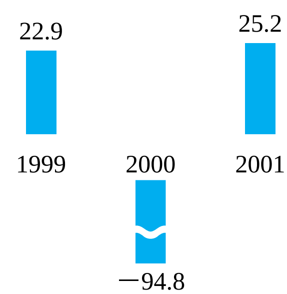

### Operating Income

*billions of yen*



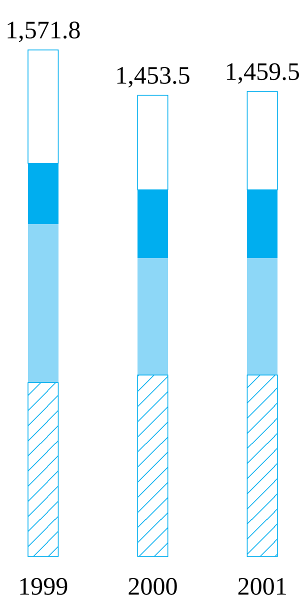

### Net Income

*billions of yen*




### Total Assets

*billions of yen*




## Financial Position

For the year ended January 31

| | % of total assets | | |
|---|---|---|---|
| | **2001** | 2000 | 1999 |
| Current assets | **65.2** | 65.1 | 62.2 |
| Inventories | **24.1** | 25.2 | 33.6 |
| Investments and other assets | **13.9** | 14.4 | 13.5 |
| Property, plant and equipment | **20.9** | 20.5 | 24.3 |
| Current liabilities | **27.1** | 27.8 | 26.4 |
| Short-term loans | — | 2.6 | 2.3 |
| Long-term liabilities | **20.9** | 22.0 | 20.7 |
| Long-term debt | **15.6** | 19.2 | 18.2 |
| Total shareholders' equity | **50.8** | 49.8 | 52.6 |

Property, plant and equipment
Inventories
Investments and other assets
Other current assets

# Five-year Summary

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

| | Millions of yen and Thousands of U.S. dollars | | | | | |
|---|---|---|---|---|---|---|
| | **2001** | | 2000 | 1999 | 1998 | 1997 |
| Net sales | \ **1,364,801** | | 1,330,284 | 1,314,696 | 1,457,719 | 1,430,211 |
| | | **$ 11,760,457** | | | | |
| Construction | \ **1,081,057** | | 1,088,228 | 1,072,813 | 1,232,378 | 1,193,821 |
| | | **$ 9,315,442** | | | | |
| Real estate | \ **283,744** | | 242,056 | 241,883 | 225,341 | 236,390 |
| | | **$ 2,445,015** | | | | |
| Operating income | \ **96,086** | | 76,138 | 59,250 | 87,635 | 95,079 |
| | | **$ 827,971** | | | | |
| Net income | \ **25,167** | | −94,811 | 22,855 | 39,706 | 42,613 |
| | | **$ 216,863** | | | | |
| Total assets | \ **1,459,491** | | 1,453,547 | 1,571,784 | 1,635,201 | 1,789,499 |
| | | **$ 12,576,398** | | | | |
| Shareholders' equity | \ **741,216** | | 723,860 | 826,033 | 815,315 | 788,788 |
| | | **$ 6,387,040** | | | | |

| | Yen and U.S. dollars | | | | | |
|---|---|---|---|---|---|---|
| | **2001** | | 2000 | 1999 | 1998 | 1997 |
| **Amounts per share:** | | | | | | |
| Net income Basic | \ **35.03** | | −132.65 | 31.99 | 55.62 | 60.23 |
| | | **$ 0.30** | | | | |
| Diluted | \ **31.07** | | − | 27.96 | 47.49 | 51.60 |
| | | **$ 0.27** | | | | |
| Net assets | \ **1,027.71** | | 1,012.78 | 1,155.74 | 1,141.97 | 1,104.98 |
| | | **$ 8.86** | | | | |
| Dividends | \ **20.00** | | 18.00 | 18.00 | 18.00 | 18.00 |
| | | **$ 0.17** | | | | |

# Consolidated Balance Sheets

Sekisui House, Ltd. and Consolidated Subsidiaries
January 31, 2001 and 2000

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|---|---|---|---|
| | **2001** | 2000 | **2001** |
| **Assets** | | | |
| **Current assets:** | | | |
| Cash and cash equivalents (Note 7) | **\ 311,022** | \ 283,840 | **$ 2,680,069** |
| Short-term investments (Note 3) | **27,835** | 31,235 | **239,854** |
| Notes and accounts receivable: | | | |
| Unconsolidated subsidiaries and affiliates | **2,491** | 5,008 | **21,465** |
| Trade | **124,527** | 110,018 | **1,073,046** |
| Other | **18,671** | 19,761 | **160,888** |
| Less allowance for doubtful accounts | **(2,995)** | (3,789) | **(25,808)** |
| | **142,694** | 130,998 | **1,229,591** |
| Inventories (Note 4) | **351,843** | 365,986 | **3,031,822** |
| Deferred income taxes (Note 8) | **75,266** | 95,263 | **648,565** |
| Other current assets | **43,171** | 39,143 | **372,003** |
| Total current assets | **951,831** | 946,465 | **8,201,904** |
| **Property, plant and equipment:** | | | |
| Land (Note 7) | **151,678** | 147,868 | **1,307,005** |
| Buildings and structures (Note 7) | **204,117** | 191,552 | **1,758,871** |
| Machinery and equipment | **80,557** | 77,786 | **694,158** |
| Construction in progress | **859** | 731 | **7,402** |
| | **437,211** | 417,937 | **3,767,436** |
| Less accumulated depreciation | **(132,500)** | (120,207) | **(1,141,749)** |
| Property, plant and equipment, net | **304,711** | 297,730 | **2,625,687** |
| **Investments and other assets:** | | | |
| Long-term loans receivable | **71,059** | 76,047 | **612,313** |
| Less allowance for doubtful accounts | **(1,067)** | (1,006) | **(9,194)** |
| | **69,992** | 75,041 | **603,119** |
| Investments in securities (Notes 3 and 7) | **67,187** | 75,277 | **578,949** |
| Investments in and advances to unconsolidated subsidiaries and affiliates (Note 5) | **11,355** | 26,041 | **97,846** |
| Deferred income taxes (Note 8) | **9,584** | 3,209 | **82,585** |
| Other assets | **44,831** | 29,784 | **386,308** |
| Total investments and other assets | **202,949** | 209,352 | **1,748,807** |
| | **\ 1,459,491** | \ 1,453,547 | **$12,576,398** |

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|---|---|---|---|
| | **2001** | 2000 | **2001** |
| **Liabilities and shareholders' equity** | | | |
| **Current liabilities:** | | | |
| Short-term loans (Note 6) | — | \ 37,300 | — |
| Current portion of long-term debt (Note 6) | \ **51,206** | 7,053 | **$ 441,241** |
| Notes and accounts payable: | | | |
| Unconsolidated subsidiaries and affiliates | **75** | 405 | **647** |
| Trade | **208,070** | 203,510 | **1,792,934** |
| Accrued income taxes (Note 8) | **2,767** | 21,507 | **23,843** |
| Advances received | **78,737** | 77,672 | **678,475** |
| Other current liabilities (Note 7) | **54,931** | 56,390 | **473,339** |
| Total current liabilities | **395,786** | 403,837 | **3,410,479** |
| Long-term debt, less current portion (Note 6) | **227,415** | 279,131 | **1,959,629** |
| Severance indemnities (Note 11) | **30,650** | 12,189 | **264,110** |
| Other liabilities (Note 7) | **47,665** | 27,816 | **410,728** |
| Total liabilities | **701,516** | 722,973 | **6,044,946** |
| **Minority interests** | **16,759** | 6,714 | **144,412** |
| **Contingent liabilities (Note 12)** | | | |
| **Shareholders' equity (Note 9):** | | | |
| **Common stock,** \50 par value: | | | |
| Authorized - 2,000,000,000 shares | | | |
| Issued: 2001 - 721,235,443 shares | **186,058** | — | **1,603,257** |
| 2000 - 714,736,667 shares | — | 182,905 | — |
| Additional paid-in capital | **241,145** | 237,999 | **2,077,940** |
| Retained earnings (Note 18) | **314,576** | 302,966 | **2,710,694** |
| Translation adjustment | **(561)** | — | **(4,834)** |
| Less treasury stock, at cost | **(2)** | (10) | **(17)** |
| Total shareholders' equity | **741,216** | 723,860 | **6,387,040** |
| | **\1,459,491** | \1,453,547 | **$12,576,398** |

See notes to consolidated financial statements.

# Consolidated Statements of Operations

Sekisui House, Ltd. and Consolidated Subsidiaries
Years ended January 31, 2001 and 2000

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|---|---|---|---|
| | **2001** | 2000 | **2001** |
| **Net sales (Note 17)** | **\1,364,801** | \1,330,284 | **$11,760,457** |
| **Cost of sales** | **1,071,009** | 1,072,196 | **9,228,858** |
| Gross profit | **293,792** | 258,088 | **2,531,599** |
| **Selling, general and administrative expenses** | **197,706** | 181,950 | **1,703,628** |
| Operating income (Note 17) | **96,086** | 76,138 | **827,971** |
| **Other income (expenses):** | | | |
| Interest and dividend income | **4,445** | 5,545 | **38,302** |
| Interest expense | **(3,330)** | (5,265) | **(28,695)** |
| Loss on revaluation of land held for sale (Note 13) | — | (216,533) | — |
| Loss on revaluation of securities | **(8,756)** | (3,621) | **(75,450)** |
| Provision with respect to change in accounting for employees' severance indemnities | **(17,078)** | — | **(147,161)** |
| Special contributions to pension fund | **(14,281)** | (2,593) | **(123,059)** |
| Other, net | **(8,064)** | (5,757) | **(69,487)** |
| Income (loss) before income taxes and minority interests | **49,022** | (152,086) | **422,421** |
| **Income taxes (Note 8):** | | | |
| Current | **8,530** | 34,187 | **73,503** |
| Deferred | **13,787** | (92,140) | **118,802** |
| | **22,317** | (57,953) | **192,305** |
| Income (loss) before minority interests | **26,705** | (94,133) | **230,116** |
| Minority interests in consolidated subsidiaries | **(1,538)** | (678) | **(13,253)** |
| Net income (loss) | **\ 25,167** | \ (94,811) | **$ 216,863** |

See notes to consolidated financial statements.

# Consolidated Statements of Shareholders' Equity

Sekisui House, Ltd. and Consolidated Subsidiaries
Years ended January 31, 2001 and 2000

| | | Millions of yen | | | | | |
|---|---|---|---|---|---|---|---|
| | Number of shares in issue | Common stock | Additional paid-in capital | Retained earnings | Translation adjustment | Treasury stock |
| **Balance at January 31, 1999** | **714,731,512** | **\ 182,902** | **\ 237,997** | **\ 405,142** | — | **\ (8)** |
| Net loss for the year | — | — | — | (94,811) | — | — |
| Prior year's adjustment for deferred income taxes | — | — | — | 5,821 | — | — |
| Conversion of convertible bonds | 5,155 | 3 | 2 | — | — | — |
| Cash dividends | — | — | — | (12,865) | — | — |
| Bonuses to directors and corporate auditors | — | — | — | (321) | — | — |
| Increase in treasury stock | — | — | — | — | — | (2) |
| **Balance at January 31, 2000** | **714,736,667** | **182,905** | **237,999** | **302,966** | — | **(10)** |
| Decrease in retained earnings resulting from addition of consolidated subsidiaries and affiliates accounted for by the equity method | — | — | — | (195) | — | — |
| Net income for the year | — | — | — | 25,167 | — | — |
| Conversion of convertible bonds | 6,498,776 | 3,153 | 3,146 | — | — | — |
| Cash dividends | — | — | — | (12,924) | — | — |
| Bonuses to directors and corporate auditors | — | — | — | (386) | — | — |
| Due to shareholders of merged subsidiaries | — | — | — | (52) | — | — |
| Translation adjustment | — | — | — | — | \ (561) | — |
| Decrease in treasury stock | — | — | — | — | — | 8 |
| **Balance at January 31, 2001** | **721,235,443** | **\ 186,058** | **\ 241,145** | **\ 314,576** | **\ (561)** | **\ (2)** |

| | Thousands of U.S. dollars (Note 1) | | | | |
|---|---|---|---|---|---|
| | Common stock | Additional paid-in capital | Retained earnings | Translation adjustment | Treasury stock |
| **Balance at January 31, 2000** | **$1,576,088** | **$2,050,831** | **$2,610,651** | — | **$ (86)** |
| Decrease in retained earnings resulting from addition of consolidated subsidiaries and affiliates accounted for by the equity method. | — | — | (1,680) | — | — |
| Net income for the year | — | — | 216,863 | — | — |
| Conversion of convertible bonds | 27,169 | 27,109 | — | — | — |
| Cash dividends | — | — | (111,366) | — | — |
| Bonuses to directors and corporate auditors | — | — | (3,326) | — | — |
| Due to shareholders of merged subsidiaries | — | — | (448) | — | — |
| Translation adjustment | — | — | — | $(4,834) | — |
| Decrease in treasury stock | — | — | — | — | 69 |
| **Balance at January 31, 2001** | **$1,603,257** | **$2,077,940** | **$2,710,694** | **$(4,834)** | **$ (17)** |

See notes to consolidated financial statements.

# Consolidated Statements of Cash Flows

Sekisui House, Ltd. and Consolidated Subsidiaries
Years ended January 31, 2001 and 2000

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|---|---|---|---|
| | **2001** | 2000 | **2001** |
| **Cash flows from operating activities** | | | |
| Income (loss) before income taxes and minority interests | \ **49,022** | \ (152,086) | **$ 422,421** |
| **Adjustments for:** | | | |
| Depreciation and amortization | **13,693** | 13,350 | **117,992** |
| Provision for severance indemnities | **18,125** | 815 | **156,183** |
| Equity in earnings of affiliates | **(401)** | (108) | **(3,455)** |
| Interest and dividend income | **(4,445)** | (5,545) | **(38,302)** |
| Interest expense | **3,330** | 5,265 | **28,695** |
| Loss on revaluation of land held for sale | — | 216,533 | — |
| Loss on revaluation of securities | **8,756** | 3,621 | **75,450** |
| (Increase)decrease in notes and accounts receivable | **(13,274)** | 3,542 | **(114,382)** |
| Decrease in inventories and advance payments | **18,899** | 71,167 | **162,852** |
| Increase in notes and accounts payable | **2,688** | 11,554 | **23,162** |
| (Decrease) increase in advances received | **(3,792)** | 4,239 | **(32,675)** |
| Other | **1,169** | 1,960 | **10,073** |
| Subtotal | **93,770** | 174,307 | **808,014** |
| Interest and dividends received | **4,564** | 5,999 | **39,328** |
| Interest paid | **(3,323)** | (5,840) | **(28,634)** |
| Income taxes paid | **(28,160)** | (25,419) | **(242,654)** |
| Net cash provided by operating activities | **66,851** | 149,047 | **576,054** |
| **Cash flows from investing activities** | | | |
| Proceeds from sales of short-term investments | **42,244** | 18,826 | **364,016** |
| Payments for purchases of short-term investments | **(34,047)** | (29,258) | **(293,382)** |
| Proceeds from sales of property, plant and equipment | **3,095** | 658 | **26,670** |
| Payments for purchases of property, plant and equipment | **(11,105)** | (9,076) | **(95,692)** |
| Proceeds from sales of investments in securities | **1,179** | 3,312 | **10,159** |
| Payments for purchase of investments in securities | **(527)** | (9,267) | **(4,541)** |
| Decrease in loans receivable | **5,200** | 7,058 | **44,808** |
| Payment for purchase of an insurance policy | **(10,000)** | — | **(86,170)** |
| Other | **(1,047)** | (185) | **(9,022)** |
| Net cash used in investing activities | **(5,008)** | (17,932) | **(43,154)** |
| **Cash flows from financing activities** | | | |
| (Decrease) increase in short-term loans | **(37,300)** | 400 | **(321,413)** |
| Proceeds from long-term debt | — | 500 | — |
| Repayment of long-term debt | **(1,377)** | (43,417) | **(11,866)** |
| Cash dividends paid | **(12,924)** | (12,865) | **(111,366)** |
| Other | **(253)** | (152) | **(2,180)** |
| Net cash used in financing activities | **(51,854)** | (55,534) | **(446,825)** |
| Effect of exchange rate changes on cash and cash equivalents | **36** | — | **310** |
| Net increase in cash and cash equivalents | **10,025** | 75,581 | **86,385** |
| Cash and cash equivalents at beginning of the year | **283,840** | 208,259 | **2,445,842** |
| Increase in cash and cash equivalents resulting from initial consolidation of subsidiaries | **17,157** | — | **147,842** |
| Cash and cash equivalents at end of the year | **\ 311,022** | \ 283,840 | **$2,680,069** |
| **Supplemental schedule of noncash financing activities** | | | |
| Conversion of convertible bonds | \ **6,299** | \ 5 | **$ 54,278** |

See notes to consolidated financial statements.

# Notes to Consolidated Financial Statements

Sekisui House, Ltd. and Consolidated Subsidiaries
January 31, 2001 and 2000

## 1. Basis of Presenting Consolidated Financial Statements

Sekisui House, Ltd. (the "Company") and its domestic subsidiaries maintain their accounts and records in accordance with the provisions set forth in the Commercial Code of Japan (the "Code") and the Securities and Exchange Law and in conformity with accounting principles and practices generally accepted and applied in Japan, which may differ in certain material respects from accounting principles and practices generally accepted in countries and jurisdictions other than Japan. The Company's overseas subsidiary maintains its accounts and records in conformity with the accounting principles generally accepted and the practices prevailing in its country of domicile. The accompanying consolidated financial statements are prepared based on the consolidated financial statements of the Company and its consolidated subsidiaries (the "Companies") which were filed with the Minister of Finance as required by the Securities and Exchange Law.

In addition, the notes to the consolidated financial statements include information which is not required under accounting principles generally accepted in Japan but is presented herein as additional information.

Certain reclassifications of previously reported amounts have been made to the financial statements for the year ended January 31, 2000 to conform these to the 2001 presentation. These reclassifications had no effect on consolidated net loss or shareholders' equity.

The translation of the Japanese yen amounts into U.S. dollars is included solely for the convenience of the reader at ¥116.05 = U.S.$1.00, the approximate exchange rate in effect on January 31, 2001. These translations should not be construed as representations that the Japanese yen amounts have been, could have been, or could in the future be, converted into U.S. dollar amount at the above or any other rate of exchange.

## 2. Summary of Significant Accounting Policies

### (a) Principles of consolidation

The accompanying consolidated financial statements include the accounts of the Company and its ninety significant subsidiaries for the year ended January 31, 2000 and the accounts of the Company and all its subsidiaries for the year ended January 31, 2001. Under a revised accounting standard for consolidated financial statements which became effective February 1, 2000, the Company is required to consolidate all entities which are effectively controlled by the Company unless such control is considered temporary. The effect of the application of this new accounting standard on the consolidated financial statements was immaterial.

All significant intercompany transactions and accounts have been eliminated.

Investments in affiliates (companies over which the Company has the ability to exercise significant influence) are accounted for by the equity method.

The difference between the cost of investments in subsidiaries and affiliates and the equity in their net assets at their respective dates of acquisition is being amortized over a period of five years.

### (b) Foreign currency translation

Current monetary assets and liabilities denominated in foreign currencies are translated into yen at the rate of exchange in effect at the balance sheet date. Long-term monetary assets and liabilities denominated in foreign currencies are translated at the historical rate. However foreign currency receivables and payables covered by forward foreign exchange contracts are translated at the contracted rates. Revenues and expenses are translated at the rates of exchange prevailing when such transactions are recorded.

The financial statements of a foreign consolidated subsidiary are translated into yen at the rate of exchange in effect at the balance sheet date except that the components of shareholders' equity are translated at their historical exchange rates. Translation differences resulting from translating the financial statements of the foreign consolidated subsidiary are not included in the determination of net income, but are presented as translation adjustment in the consolidated balance sheets.

### (c) Consolidated statements of cash flows

Effective February 1, 2000, the Company adopted "Accounting Standards for Consolidated Statement of Cash Flows," which was issued by the Business Accounting Deliberation Council. A restated consolidated statement of cash flows for the year ended January 31, 2000 has been presented for comparative purposes.

For the purposes of the consolidated statement of cash flows, cash and cash equivalents comprise 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 quoted on securities exchanges which are included in short-term investments and investments in securities are stated at the lower of cost or market. Other investments are carried at cost determined by the moving average method.

### (e) Inventories

The individual cost method is applied to land held for sale, construction for sale and contracts in process.

Other inventories are stated at cost determined by the moving average method.

Interest on the funding for particularly large-scale development projects has been capitalized.

### (f) Property, plant and equipment

Property, plant and equipment is stated on the basis of cost. Depreciation is mainly computed by the declining-balance method at rates based on the estimated useful lives of the respective assets, except that the straight-line method is applied to buildings (except for the structures attached to the buildings).

**(g) Leases**

Finance leases other than those that are deemed to transfer the ownership of the leased assets to the lessees are accounted for by a method similar to that applicable to ordinary operating leases.

**(h) Allowance for doubtful accounts**

The allowance for doubtful accounts is determined at the maximum amount permitted under the Corporation Tax Law of Japan plus additional special provisions estimated by the Company for certain doubtful accounts.

**(i) 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. Effective February 1,1999, the Companies initially recognized the tax effect of temporary differences between assets and liabilities recognized for financial reporting purposes and for income tax purposes. The cumulative effect of this change up to the beginning of the year ended January 31,2000 has been reflected as prior year's adjustment for deferred income taxes in the consolidated statements of shareholders' equity.

**(j) Severance indemnities**

Employees of the Company and certain of its consolidated subsidiaries are covered by an employees' retirement allowances plan and an employees' pension plan. 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 the termination occurs. The employees' pension plan, which is a funded contributory plan, covers approximately 75% of the benefits under the retirement allowances plan for employees retiring after twenty or more years of service.

The liability for severance indemnities is stated at 100% of the amount which would be required to be paid if all employees covered by the retirement allowances plan voluntarily terminated their employment at the balance sheet date, less the benefits to be covered by the pension plan.

In addition, directors and corporate auditors are customarily entitled to lump-sum payments under the unfunded retirement allowances plan. The provision for retirement allowances for these officers has been made at estimated amounts based on the Company's rules.

**Change in method of accounting**

Effective February 1, 2000, the Companies changed their method of accounting for employees' severance indemnities to recording the liability at 100% instead of 40% of the amount which would be required to be paid if all employees covered by the retirement allowances plan voluntarily terminated their employment at the balance sheet date, less the benefits to be covered by the pension plan. This change was made in order to provide a more accurate allocation of retirement benefit costs, to present a more accurate retirement benefit obligation and to enhance the financial status of the Companies. The change has been reflected as provision with respect to change in accounting for employees' severance indemnities in the consolidated statements of operations. The effect of this change was to decrease operating income by \678million ($5,842thousand), income before income taxes and minority interests by \17,755million ($152,994thousand) and net income by \10,340million ($89,100thousand) for the year ended January 31, 2001 from the corresponding amounts which would have been recorded under the method applied in the previous year.

**(k) Research and development expenditures and computer software**

Research and development expenditures are charged to income as incurred.

Expenditures relating to computer software developed for internal use are charged to income when incurred, except if the software will contribute to the future generation of income or cost savings. Such expenditures are capitalized as assets and amortized by the straight-line method over 5 years.

Effective February 1, 2000, the Companies adopted "Accounting Standards for Research and Development Costs, etc." which was issued by the Business Accounting Deliberation Council.

**(l) Accounting for warranty expenses**

The Company provides after sales service for twenty years against structural defects on detached houses and low-rise apartment buildings as well as a ten-year warranty under the "Housing Quality Assurance Act", except for buildings other than houses.

Expenses in connection with repair services or warranties are charged to manufacturing overhead as incurred and have had no material effect on net income (loss).

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

Short-term investments and investments in securities at January 31, 2001 and 2000 were as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2001** | 2000 | **2001** |
| Short-term investments: | | | |
| Marketable equity securities | **\ 3,819** | \ 4,066 | **$ 32,908** |
| Bonds and other | **24,016** | 27,169 | **206,946** |
| | **\ 27,835** | \ 31,235 | **$ 239,854** |
| Investments in securities: | | | |
| Marketable equity securities | **\ 52,785** | \ 61,074 | **$ 454,847** |
| Nonmarketable equity securities and other securities | **14,402** | 14,203 | **124,102** |
| | **\ 67,187** | \ 75,277 | **$ 578,949** |

The carrying and market values of marketable equity securities at January 31, 2001 and 2000 are summarized as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2001** | 2000 | **2001** |
| Short-term investments: | | | |
| Carrying value | **\ 3,819** | \ 4,066 | **$ 32,908** |
| Acquisition cost | **7,651** | 7,680 | **65,928** |
| Market value | **6,550** | 12,629 | **56,441** |
| Investments in securities: | | | |
| Carrying value | **\ 52,785** | \ 61,074 | **$ 454,847** |
| Acquisition cost | **83,752** | 83,460 | **721,689** |
| Market value | **58,149** | 75,528 | **501,069** |

## 4. Inventories

Inventories at January 31, 2001 and 2000 were as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2001** | 2000 | **2001** |
| Land held for sale, including land held for development | \ **255,343** | \ 254,076 | **$ 2,200,284** |
| Construction for sale, including projects under construction | **34,328** | 34,402 | **295,804** |
| Contracts in process | **57,709** | 72,992 | **497,277** |
| Other | **4,463** | 4,516 | **38,457** |
| | \ **351,843** | \ 365,986 | **$ 3,031,822** |

## 5. Investments in and Advances to Unconsolidated Subsidiaries and Affiliates

Investments in and advances to unconsolidated subsidiaries and affiliates at January 31, 2001 and 2000 were as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2001** | 2000 | **2001** |
| Investments in capital stock, at cost | \ **3,007** | \ 9,059 | **$ 25,911** |
| Equity in undistributed earnings since acquisition, net | **8,348** | 14,441 | **71,935** |
| Advances | — | 2,541 | — |
| | \ **11,355** | \ 26,041 | **$ 97,846** |

## 6. Short-Term Loans and Long-Term Debt

### (a) Short-term loans

Short-term loans outstanding generally represent unsecured one-year notes issued by the Company to banks at annual interest rates ranging from 0.39% to 1.38% at January 31, 2000.

### (b) Long-term debt

Long-term debt less the current portion thereof at January 31, 2001 and 2000 is summarized as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2001** | 2000 | **2001** |
| Manufacturing industries, insurance companies and others | \ **35,316** | \ 35,828 | **$ 304,316** |
| Notes | **40,000** | 40,000 | **344,680** |
| Convertible bonds | **152,099** | 203,303 | **1,310,633** |
| | \ **227,415** | \ 279,131 | **$ 1,959,629** |

A breakdown of selected items from the above table of long-term debt is as follows:

(1) Loans from manufacturing industries, insurance companies and others at January 31, 2001 and 2000 were as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2001** | 2000 | **2001** |
| 1.68% to 4.5% unsecured loans from insurance companies, due 2004 | \ **20,000** | \ 20,700 | **$ 172,339** |
| 1.4% unsecured loan from an agricultural financing institution, due 2002 | **500** | 500 | **4,308** |
| 0% to 6.0% unsecured loans from manufacturing industries and others, due 2001—2007 | **14,822** | 15,336 | **127,721** |
| | **35,322** | 36,536 | **304,368** |
| Less current portion | **(6)** | (708) | **(52)** |
| | \ **35,316** | \ 35,828 | **$ 304,316** |

(2) Notes

Notes outstanding at January 31, 2001 and 2000 were as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2001** | 2000 | **2001** |
| 2.4% yen unsecured notes, due 2005 | \ **10,000** | \ 10,000 | **$ 86,170** |
| 1.92% yen unsecured notes, due 2005 | **10,000** | 10,000 | **86,170** |
| 1.76% yen unsecured notes, due 2004 | **10,000** | 10,000 | **86,170** |
| 1.79% yen unsecured notes, due 2005 | **10,000** | 10,000 | **86,170** |
| | \ **40,000** | \ 40,000 | **$ 344,680** |

(3) Convertible bonds

Convertible bonds outstanding at January 31, 2001 and 2000 were as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2001** | 2000 | **2001** |
| 1.7% unsecured bonds for \50,000,000,000, due 2002 | \ **49,280** | \ 49,283 | **$ 424,644** |
| 1.6% unsecured bonds for \30,000,000,000, due 2003 | **12,820** | 12,820 | **110,470** |
| 2.5% unsecured bonds for \20,000,000,000, due 2002 | **11,200** | 11,201 | **96,510** |
| 2.4% unsecured bonds for \20,000,000,000, due 2000 | — | 6,345 | — |
| 0.9% unsecured bonds for \50,000,000,000, due 2003 | **39,999** | 39,999 | **344,670** |
| 0.8% unsecured bonds for \50,000,000,000, due 2001 | **40,000** | 40,000 | **344,679** |
| 0.3% unsecured bonds for \50,000,000,000, due 2003 | **50,000** | 50,000 | **430,849** |
| | **203,299** | 209,648 | **1,751,822** |
| Less current portion | **(51,200)** | (6,345) | **(441,189)** |
| | \ **152,099** | \ 203,303 | **$ 1,310,633** |

Conversion prices and periods of convertible bonds at January 31, 2001 were as follows:

| | Conversion price per share | Conversion period up to |
|---|---|---|
| 1.7% unsecured bonds for \50,000,000,000, due 2002 | \ 2,124.20 | July 30, 2002 |
| 1.6% unsecured bonds for \30,000,000,000, due 2003 | 1,729.60 | January 30, 2003 |
| 2.5% unsecured bonds for \20,000,000,000, due 2002 | 969.00 | January 30, 2002 |
| 0.9% unsecured bonds for \50,000,000,000, due 2003 | 1,507.00 | July 30, 2003 |
| 0.8% unsecured bonds for \50,000,000,000, due 2001 | 1,507.00 | July 30, 2001 |
| 0.3% unsecured bonds for \50,000,000,000, due 2003 | 1,312.00 | July 30, 2003 |

*The total number of shares issuable upon conversion of all outstanding convertible bonds as of January 31, 2001 was 133,364,439 shares.*

*The conversion prices are subject to adjustment under certain circumstances including stock splits.*

The aggregate annual maturities of long-term debt subsequent to January 31, 2001 are summarized as follows:

| Year ending January 31, | Millions of yen | Thousands of U.S. dollars |
|---|---|---|
| 2002 | \ 51,206 | $ 441,241 |
| 2003 | 62,604 | 539,457 |
| 2004 | 90,001 | 775,536 |
| 2005 | 30,002 | 258,526 |
| 2006 | 44,807 | 386,101 |
| 2007 and thereafter | 1 | 9 |
| | \ 278,621 | $ 2,400,870 |

## 7. Mortgaged and Pledged Assets

The following assets, shown at net book value at January 31, 2001 and 2000, were either mortgaged or pledged for guarantees of bank loans and long-term deposits received and other, and totaled \9,146million ($78,811 thousand) and \6,506million, respectively:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2001** | 2000 | **2001** |
| Cash equivalents | **\ 2,450** | \ 2,000 | **$ 21,112** |
| Land | **28,274** | 26,604 | **243,636** |
| Buildings | **1,338** | — | **11,530** |
| Investments in securities | **230** | 190 | **1,982** |
| | **\ 32,292** | \ 28,794 | **$ 278,260** |

## 8. Income Taxes

The Company and its domestic subsidiaries are subject to several taxes based on income which, in the aggregate, resulted in statutory tax rates of approximately 41.7% and 47.3% for the years ended January 31, 2001 and 2000, respectively. The foreign subsidiary is subject to the income taxes of the country in which it operates.

The difference between income tax expense for the years ended January 31, 2001 and 2000 and the amounts calculated by applying the statutory income tax rates to income before income taxes is summarized as follows:

| | 2001 | 2000 |
|---|---|---|
| Statutory tax rates | **41.7%** | 47.3% |
| Change in statutory tax rate | — | (8.1) |
| Entertainment expenses, not deductible | **3.2** | (1.1) |
| Dividend income, not taxable | **(1.4)** | 0.4 |
| Inhabitants' per capita taxes | **1.0** | (0.3) |
| Other | **1.0** | (0.1) |
| | **45.5%** | 38.1% |

The significant components of the Companies' deferred tax assets at January 31, 2001 and 2000 are summarized as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2001** | 2000 | **2001** |
| Loss on revaluation of land held for sale | **\ 71,834** | \ 90,293 | **$ 618,992** |
| Accrued enterprise tax | **195** | 1,880 | **1,680** |
| Severance indemnities for employees | **8,283** | 351 | **71,374** |
| Allowance for doubtful accounts | **1,149** | 1,566 | **9,901** |
| Accrued bonuses | **2,126** | 1,187 | **18,320** |
| Other | **1,263** | 3,195 | **10,883** |
| | **\ 84,850** | \ 98,472 | **$ 731,150** |

## 9. Shareholders' Equity

The Commercial Code of Japan provides that an amount equivalent to at least 10% of all cash appropriations of retained earnings be appropriated to the legal reserve until such reserve equals 25% of the common stock. This reserve is not available for dividends but may be used to eliminate or reduce a deficit by approval of the shareholders or may be transferred to common stock by resolution of the Board of Directors. Retained earnings include the legal reserve provided in accordance with the provisions of the Commercial Code of Japan. The legal reserve of the Company included in retained earnings at January 31, 2001 and 2000 amounted to \21,653 million ($186,583 thousand) and \20,346 million, respectively.

Under the Commercial Code, upon the issuance and sale of new shares of common stock, the entire amount of the issue price 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 issue price of the new shares as additional paid-in capital.

Interim cash dividends may be declared and paid subject to a resolution of the Board of Directors. The Commercial Code imposes a limit on the amount which may be paid as interim dividends. An interim dividend of \9.0 ($0.08) per share totaling \6,491 million ($55,933 thousand) was paid on September 29, 2000.

## 10. Research and Development Costs

Research and development costs charged to income amounted to \7,743 million ($66,721 thousand) and \7,488 million for the years ended January 31, 2001 and 2000 respectively.

## 11. Severance Indemnities

Amounts charged to income with respect to the retirement allowances plan and the pension plan and included in selling, general and administrative expenses for the years ended January 31, 2001 and 2000 were as follows:

| Millions of yen | | Thousands of U.S. dollars |
|---|---|---|
| **2001** | 2000 | **2001** |
| **\ 6,947** | \ 4,508 | **$ 59,862** |

The assets of the pension fund at March 31, 2000, the most recent valuation date, amounted to \124,442 million ($1,072,314 thousand).

## 12. Contingent Liabilities

The Companies had the following contingent liabilities at January 31, 2001:

| | Millions of yen | Thousands of U.S. dollars |
|---|---|---|
| Guarantees of housing loans to customers | \ 105,128 | $ 905,885 |
| Guarantees of bank loans of third parties and other | 3,008 | 25,920 |
| | \ 108,136 | $ 931,805 |

## 13. Loss on Revaluation of Land Held for Sale

Land held for sale at January 31,2000, the market value of which has declined significantly from its carrying value, has been written down to its fair market value.

## 14. Leases

The following pro forma amounts present the acquisition costs and accumulated depreciation of property leased to the Companies at January 31, 2001 and 2000, which would have been reflected in the consolidated balance sheets if finance leases other than those which transfer the ownership of the leased property (which are currently accounted for as operating leases) were capitalized.

| | Millions of yen | | | | | |
|---|---|---|---|---|---|---|
| | **2001** | | | 2000 | | |
| | Acquisition costs | Accumulated depreciation | Net leased property | Acquisition costs | Accumulated depreciation | Net leased property |
| Buildings and structures | **\ 52,171** | **\ 32,365** | **\ 19,806** | \ 54,707 | \ 32,632 | \ 22,075 |
| Machinery and equipment | **11,592** | **6,988** | **4,604** | 10,167 | 6,553 | 3,614 |
| Other | **3,292** | **1,513** | **1,779** | 1,377 | 791 | 586 |
| | **\ 67,055** | **\ 40,866** | **\ 26,189** | \ 66,251 | \ 39,976 | \ 26,275 |

| | Thousands of U.S. dollars | | |
|---|---|---|---|
| | **2001** | | |
| | Acquisition costs | Accumulated depreciation | Net leased property |
| Buildings and structures | **$ 449,556** | **$ 278,888** | **$ 170,668** |
| Machinery and equipment | **99,888** | **60,215** | **39,673** |
| Other | **28,367** | **13,038** | **15,329** |
| | **$ 577,811** | **$ 352,141** | **$ 225,670** |

Lease payments relating to finance leases other than those which transfer the ownership of the leased property amounted to \10,242 million ($88,255 thousand) and \9,957 million for the years ended January 31, 2001 and 2000, respectively.
Future minimum lease payments (including the interest position thereon) subsequent to January 31, 2001 for finance leases other than those which transfer the ownership of the leased property were as follows:

| Year ending January 31, | Millions of yen | Thousands of U.S. dollars |
|---|---|---|
| 2002 | \ 9,543 | $ 82,232 |
| 2003 and thereafter | 16,646 | 143,438 |
| | \ 26,189 | $ 225,670 |

## 15. Derivatives and Hedging Activities

Derivative financial instruments are utilized by the Company to reduce the risk of interest rate and foreign exchange rate fluctuation. The Company has 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 does not speculate in derivatives for trading purposes.
The Company is exposed to certain market risks arising from its forward exchange contracts and swap agreements. The Company is also exposed to the risk of credit loss in the event of nonperformance by the counterparties to currency-related and interest-related derivatives; however, the Company does not anticipate nonperformance by any of these counterparties all of whom are financial institutions with high credit ratings.
At January 31, 2001, the forward foreign exchange contracts outstanding were as follows:

| | Millions of yen | | |
|---|---|---|---|
| | Notional amount | Market value | Unrealized loss |
| Forward foreign exchange: | | | |
| Contracts to buy U.S. dollars | \ 371 | \ 369 | \ (2) |

| | Thousands of U.S. dollars | | |
|---|---|---|---|
| | Notional amount | Market value | Unrealized loss |
| Forward foreign exchange: | | | |
| Contracts to buy U.S. dollars | $ 3,197 | $ 3,180 | $ (17) |

At January 31, 2001, the outstanding interest rate swap positions were as follows:

| | Millions of yen | |
|---|---|---|
| | Notional amount | Unrealized gain |
| Interest-rate swap agreements: | | |
| Fixed-rate into variable-rate Obligations | \ 15,000 | \ 564 |
| Variable-rate into fixed-rate Obligations | \ 15,000 | \ 354 |

| | Thousands of U.S. dollars | |
|---|---|---|
| | Notional amount | Unrealized gain |
| Interest-rate swap agreements: | | |
| Fixed-rate into variable-rate Obligations | $ 129,255 | $ 4,860 |
| Variable-rate into fixed-rate Obligations | $ 129,255 | $ 3,050 |

## 16. Amounts per Share

| | Yen | | U.S. dollars |
|---|---|---|---|
| | **2001** | 2000 | **2001** |
| Net income (loss): | | | |
| Basic | **\ 35.03** | \ (132.65) | **$ 0.30** |
| Diluted | **31.07** | — | **0.27** |
| Net assets | **1,027.71** | 1,012.78 | **8.86** |
| Cash dividends | **20.00** | 18.00 | **0.17** |

The computation of basic net income (loss) per share is based on the weighted average number of shares of common stock outstanding during each year. The average number of shares used in the computation was 718,524 thousand and 714,724 thousand for the years ended January 31 2001 and 2000, respectively. Diluted net income per share is computed based on the weighted average number of shares of common stock outstanding each year after giving effect to the dilutive potential of the common stock to be issued upon the conversion of convertible bonds. No diluted net loss per share for the year ended January 31, 2000 has been presented because a net loss was recorded.
Net assets per share are based on 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.

## 17. Segment Information

The Company and its consolidated subsidiaries are primarily engaged in the construction, purchase, administration and sales of residential properties; the design, contracting, execution, and supervision of construction projects; real estate brokerage, and landscaping.

The business segment information of the Company and its consolidated subsidiaries for the years ended January 31, 2001 and 2000 is outlined as follows:

| | Millions of yen | | | | |
|---|---|---|---|---|---|
| | 2001 | | | | |
| | Construction | Real estate | Total | Eliminations and other | Consolidated |
| Sales to third parties | \ 1,081,057 | \ 283,744 | \ 1,364,801 | — | \ 1,364,801 |
| Inter-group sales and transfers | 518 | — | 518 | \ (518) | — |
| Total sales | 1,081,575 | 283,744 | 1,365,319 | (518) | 1,364,801 |
| Operating expenses | 953,912 | 287,440 | 1,241,352 | 27,363 | 1,268,715 |
| Operating income (loss) | \ 127,663 | \ (3,696) | \ 123,967 | \ (27,881) | \ 96,086 |
| Assets | \ 318,554 | \ 677,731 | \ 996,285 | \ 463,206 | \ 1,459,491 |
| Depreciation and amortization | \ 7,031 | \ 4,742 | \ 11,773 | \ 1,920 | \ 13,693 |
| Capital expenditures | \ 8,318 | \ 2,687 | \ 11,005 | \ 2,963 | \ 13,968 |

| | Millions of yen | | | | |
|---|---|---|---|---|---|
| | 2000 | | | | |
| | Construction | Real estate | Total | Eliminations and other | Consolidated |
| Sales to third parties | \ 1,088,228 | \ 242,056 | \ 1,330,284 | — | \ 1,330,284 |
| Inter-group sales and transfers | 531 | — | 531 | \ (531) | — |
| Total sales | 1,088,759 | 242,056 | 1,330,815 | (531) | 1,330,284 |
| Operating expenses | 955,287 | 275,107 | 1,230,394 | 23,752 | 1,254,146 |
| Operating income (loss) | \ 133,472 | \ (33,051) | \ 100,421 | \ (24,283) | \ 76,138 |
| Assets | \ 311,545 | \ 679,794 | \ 991,339 | \ 462,208 | \ 1,453,547 |
| Depreciation and amortization | \ 7,138 | \ 4,705 | \ 11,843 | \ 1,507 | \ 13,350 |
| Capital expenditures | \ 7,636 | \ 5,251 | \ 12,887 | \ 682 | \ 13,569 |

| | Thousands of U.S. dollars | | | | |
|---|---|---|---|---|---|
| | 2001 | | | | |
| | Construction | Real estate | Total | Eliminations and other | Consolidated |
| Sales to third parties | $ 9,315,442 | $ 2,445,015 | $ 11,760,457 | — | $ 11,760,457 |
| Inter-group sales and transfers | 4,464 | — | 4,464 | $ (4,464) | — |
| Total sales | 9,319,906 | 2,445,015 | 11,764,921 | (4,464) | 11,760,457 |
| Operating expenses | 8,219,837 | 2,476,863 | 10,696,700 | 235,786 | 10,932,486 |
| Operating income (loss) | $ 1,100,069 | $ (31,848) | $ 1,068,221 | $ (240,250) | $ 827,971 |
| Assets | $ 2,744,972 | $ 5,839,991 | $ 8,584,963 | $ 3,991,435 | $ 12,576,398 |
| Depreciation and amortization | $ 60,586 | $ 40,862 | $ 101,448 | $ 16,544 | $ 117,992 |
| Capital expenditures | $ 71,676 | $ 23,154 | $ 94,830 | $ 25,532 | $ 120,362 |

As mentioned in Note 2(j), the Companies changed their method of accounting for employees' severance indemnities. The effect of this change increased operating expenses in the construction business segment by \516 million ($4,446 thousand) and increased operating expenses in the real estate business segment by \98 million ($844 thousand) for the year ended January 31, 2001 from the amounts which would have been recorded under the method of accounting for employees' severance indemnities applied in the previous year.

As more than 90% of the consolidated net sales for the year ended January 31, 2001 were made in Japan, the disclosure of geographical segment information and overseas sales information has been omitted.

As no consolidated net sales for the year ended January 31, 2000 were recorded, the disclosure of geographical segment information and overseas sales information has been omitted.

## 18. Subsequent Events

(a) The following appropriations of retained earnings of the Company, which have not been reflected in the accompanying consolidated financial statements for the year ended January 31, 2001, were approved at a shareholders' meeting held on April 26, 2001:

| | Millions of yen | Thousands of U.S. dollars |
|---|---|---|
| Year-end cash dividends of \11.0 ($0.09) per share | \ 7,934 | $ 68,367 |
| Transfer to legal reserve | \ 817 | $ 7,040 |
| Bonuses to directors and corporate auditors | \ 240 | $ 2,068 |

(b) On September 8, 2000, the Company entered into a merger agreement with Sekisui House Hokuriku Ltd., Sekisui House Shikoku Ltd., Sekisui House Yamanashi Ltd. and Sekisui House Sanin Ltd., all of which are consolidated subsidiaries and affiliates of the Company. The planned merger became effective on February 1, 2001. The aggregate total assets and net assets of Sekisui House Hokuriku Ltd., Sekisui House Shikoku Ltd., Sekisui House Yamanashi Ltd. and Sekisui House Sanin Ltd. as of January 31, 2001 were \32,684 million ($281,637 thousand) and \19,109 million ($164,662 thousand), respectively.

# Report of Independent Certified Public Accountants

The Board of Directors
Sekisui House, Ltd.

We have audited the consolidated balance sheets of Sekisui House, Ltd. and consolidated subsidiaries as of January 31, 2001 and 2000, and the related consolidated statements of operations, shareholders' equity, and cash flows for the years then ended, all expressed in yen. Our audits were made in accordance with auditing standards, procedures and practices generally accepted and applied in Japan and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated financial statements, expressed in yen, present fairly the financial position of Sekisui House, Ltd. and consolidated subsidiaries at January 31, 2001 and 2000, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles, and practices generally accepted in Japan consistently applied during the period except for the change, with which we concur, in the method of accounting for employees' severance indemnities as described in Note 2 (j) to the consolidated financial statements.

As described in Note 2 (a) to the consolidated financial statements, Sekisui House, Ltd. and subsidiaries have adopted a new accounting standard for consolidation in the preparation of their consolidated financial statements for the year ended January 31, 2001.

The U.S. dollar amounts in the accompanying consolidated financial statements 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.

Osaka, Japan
April 26, 2001

Century Ota Showa & Co.

**Century Ota Showa & Co.**
**Certified Public Accountants**

See Note 1 which explains the basis of preparing the consolidated financial statements of Sekisui House, Ltd. under Japanese accounting principles and practices.

# Corporate Data

**DIRECTORS AND CORPORATE AUDITORS**
(As of April 30, 2001)

**Chairman & Representative Director**
Isao Okui

**President & Representative Director**
Isami Wada

**Senior Managing Directors**
Kazutoshi Sugimura
Hideyuki Tonomura
Mikio Yamada

**Managing Directors**
Hiroyuki Ikeda
Shichiro Iwane
Isao Bando
Hiroshi Itawaki
Akira Morimoto

**Directors**
Hiroshi Watanabe
Kazuya Sunahara
Keiichi Oe
Takahiko Ashibe
Tadashi Iwasaki
Chojiro Yamamoto
Yasuaki Yamamoto
Yukio Fujisawa
Kazuji Yamazaki
Sumio Wada
Saburo Matsuyoshi
Yoshiro Kubota
Tetsuhiro Kamae
Kunitada Suzuki
Masanori Noritomi
Masahiko Watanabe
Yuzo Matsumoto
Kenichi Moriuchi

**Standing Corporate Auditors**
Hiroshi Tada
Yusei Kataoka

**Corporate Auditors**
Kazuhiko Mishina
Shigeru Muranaka

**OUTLINE OF THE COMPANY**
(As of April 30, 2001)

**Established**
August 1, 1960

Capital Stock Issued
¥186,550,695,514

Employees
15,710
(As of April 1, 2001)

**Head Office**
Tower East Umeda Sky Building
1-88, Oyodonaka 1-chome, Kita-ku, Osaka
531-0076, Japan
Phone: 81-6-6440-3111
Facsimile: 81-6-6440-3331

**Factories**
Shiga, Ibaraki, Shizuoka, Yamaguchi, Miyagi and Hyogo

**Laboratory**
Kyoto

**Overseas Subsidiaries**
Sekisui Deutschland Bau G.m.b.H.

**Domestic 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.
Kobe Rokko Island Co., Ltd.
Nishinomiya Marina City Development Co., Ltd.
Sekisui House Umeda Operation Co., Ltd.
SGM Operation Co., Ltd. and 94 other subsidiaries.

**Stock Listing**
Tokyo Stock Exchange
Osaka Securities Exchange
Nagoya Stock Exchange
Frankfurt Stock Exchange
(Global Bearer Certificate)
EURONEXT

**American Depositary Receipts**
Depositary:
The Bank of New York

SEKISUI HOUSE

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