

A N N U A L

R E P O R T

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For the year ended January 31, 2007



Sekisui House, Ltd.

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## ***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.



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# Financial Highlights

Sekisui House, Ltd. and Subsidiaries

	Millions of yen					Thousands of U.S. dollars
	2007	2006	2005	2004	2003	2007
<b>For the year:</b>						
Net sales.....	¥ 1,596,183	¥ 1,501,857	¥ 1,372,244	¥ 1,326,039	¥ 1,300,237	\$ 13,112,487
Net income.....	62,663	43,029	23,659	37,762	34,547	514,770
<b>At year ended</b>						
Total assets.....	1,278,770	1,098,203	1,140,231	1,181,013	1,258,980	10,504,970
Net assets.....	798,303	686,034	687,917	689,349	665,245	6,557,981
	Yen					U.S. dollars
	2007	2006	2005	2004	2003	2007
<b>Per share:</b>						
Net income.....	¥ 89.26	¥ 62.94	¥ 33.80	¥ 53.30	¥ 48.71	\$ 0.73
Cash dividends applicable to the year .....	22.00	20.00	18.00	18.00	18.00	0.18

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 121.73 yen = U.S. \$1, effective at January 31, 2007.

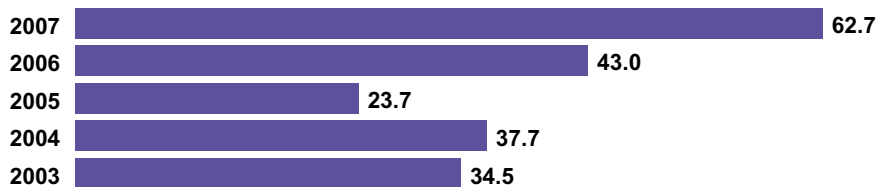
## Net Sales

Billions of yen



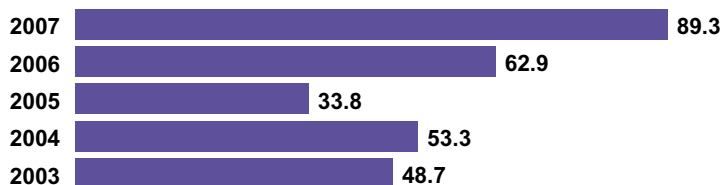
## Net Income

Billions of yen



## Net Income Per Share

Yen



## A Message From The President



During Fiscal 2006 the Japanese economy experienced a mild recovery, as companies made aggressive capital expenditures and the employment environment improved on the back of brisk corporate profits. Meanwhile, active investing in blue-chip properties within Tokyo and other metropolitan areas continued to experience growth. Nevertheless, with raw materials prices hovering high, lingering concerns over rising interest rates, and, slowing consumer income growth as evidenced by the low labor's relative share, uncertainties about the future economic outlook have yet to be resolved.

In the housing market, the percentage decrease in land prices became more noticeable across the board, with the prices of land beginning to rise in some metropolitan areas. Furthermore, with interest rates remaining low, the motivation of first time buyers who seek quality housing, including people of middle age or older, was still going strong. Housing starts grew by 4.4% year on year to 1.29 million units, primarily driven by the brisk performance of built for sale housing. Demand from owner-occupiers, on the other hand, has yet to experience a full-fledged recovery, although the motivation of middle-aged and elderly customers, which accounts for secondary acquisitions for rebuilding, showed signs of recovery.

Against this backdrop, we took a series of actions designed to reinforce Build to Order Housing Business and peripheral businesses, including the enhancement of corporate resilience and marketing expertise as well as strengthening our lifestyle solution business model.

Through the supply of housing that meets customer satisfaction, Sekisui House is committed to contributing to the building of a sustainable society while aiming to be a leading creator of homes and environments in such society. To this end, we will effectively operate our business by paying well-balanced attention to four values; economic value, environmental value, social value, and dwellers value. With this "Sustainable Vision" forming our foundation, we will ensure that evenly balanced attention is paid to every stakeholder in our future undertakings.

As a part of our continued commitment to conservation of the environment, we announced a voluntary action plan in compliance with the Kyoto Protocol, which features a drive to promote energy-efficient houses that cut down on CO<sub>2</sub> emissions released from occupied houses. Also, we are increasing our efforts on CSR related activities to preserve the natural environment with a view toward communicating with local communities and conserving forests. Going forward, while taking a responsible approach to resources recycling under the thoroughgoing voluntary environmental management system, we will accelerate our initiatives designed to improve all aspects of the living environment, such as longer life of housing, development of easily recyclable materials, and reducing environmental stress from inhabited homes.

In Built to Order Housing Business, we implemented a series of measures designed to enhance our marketing expertise, including the thorough implementation of a *Consulting Sales* model. In terms of product development, on the other hand, we expanded the built to order line that gives customers more freedom when choosing design and appearance details. Thus, we have laid the foundations for strengthening our lifestyle solution business model.

In order to meet a broad range of customer lifestyles, we brought new offerings to the market, including housing specifically designed for couples in their autumnal years living together with unmarried daughters, as well as housing for an emerging group of people who enjoy their hobbies, such as films, music, and spectator sports, as an important part of their lives.

Meanwhile, we developed a new rental housing line with a flexible plan, which allows dwellers to alter their room arrangements according to their current stage in life and family composition, in an effort to meet the demands of dwellers with different sets of needs.

With a view towards inviting prospective customers to deepen their understanding of the Group's high technical skills and quality control, as well as our wealth of housing development know-how, we reinforced even further the marketing activities at our experience-based facilities. Located near our 6 factories, *Sumai-no-Yume-Kojo* offer customers a variety of simulated experiences concerning how the natural environment changes and how their own physical ability changes as they grow old, so that they may develop a better idea of what they need to know when deciding on housing specifications, and see firsthand the high performance and quality of our housing.

In Real Estate for Sale Business, we actively purchased land for sale and promoted sales of quality housing complexes with enhanced security and disaster-mitigation features. With the goal of creating a community that residents develop their attachment to over time and where they will want to continue to live for generations to come, we have established the Urban Development Charter, thus promoting the creation of an eco-friendly community where regional culture and communications within the community are fostered.

In a similar vein, we organized the semiannual sales promotional event *Machinami Sankan-bi*, inviting prospective customers to see for themselves a well-planned neighborhood, beautiful townscape, and sophisticated community on the property we developed, and to inform them about our approach to town development.

Taking advantage of all the know-how that we have amassed in housing business, we focused on the development of an attractive neighborhood for our condominiums. We planted numerous trees around the buildings to add greater value, while paying due attention to the surrounding environment in the hopes of creating an assemblage of quality housing, rather than mere collective housing with a large number of units.

With their consideration toward the local environment and culture achieving high recognition, these condominiums have received a number of landscape awards, thereby enhancing our brand image and at the same time contributing to the maintenance and enhancement of the asset value of the surrounding areas as well as that of the purchasers.

We will proceed with this business with a focus on the three major metropolitan areas and other regions where demand for high-value-added condominiums exists, thereby gaining greater brand recognition.

Meanwhile, our commitment to urban redevelopment business has continued. Last year saw the completion of Akasaka Garden City office building, and the sales of part of it contributed greatly to our business performance.

Our basic strategy for the urban redevelopment business is to resale redeveloped properties to ensure a stable and continuous flow of profits, rather than simply owning them. In other words, we seek development profits by adding high value to prime real estate in metropolitan areas where development risk is low. Going forward, we will remain committed to quality urban redevelopment projects while paying due consideration to humanity and the environment.

By maximizing synergies within the Group through a tighter alliance with Sekiwa Real Estate companies, the management of leasing properties such as block leasing fared well in Real Estate for Leasing Business. We also directed the Group's entire energies to the strengthening of proposal capacity. The Sekiwa Real Estate companies made aggressive efforts in ensuring orders for block leasing and the management of leasing properties, with the aim of creating quality stock by sustaining a high occupancy rate and extensive involvement in maintenance of properties.

As part of our promotion of customer satisfaction in providing our customers with comfortable residences for the long-term, we have put major efforts into the exterior business and energy-efficient home remodeling businesses targeted at the existing stock of houses built by the company, as we strive to create an organization that can provide comprehensive and high quality homes.

With regard to the remodeling business, we focused on the existing stock of housing to make proactive suggestions about remodeling them into energy-saving housing, such as replacing water heaters with high-efficiency models, installing solar power generation systems, and improving heat insulating performance for the openings of the building.

Consolidated net sales also grew substantially to 1,596,183 million yen (\$13,112,487 thousand +6.3%). Driven by the favorable showings of urban redevelopment business, we also achieved an increase in consolidated profits on all levels: consolidated operating income grew by 39.5% to 111,571 million yen (\$916,545 thousand), and consolidated net income by 45.6% to 62,663 million yen (\$514,770 thousand).

Operating cash flow increased substantially year-on-year. This was due primarily to a sharp increase in net income before income taxes and minority interests on the back of the brisk performance of Real Estate for Sale Business, despite aggressive purchasing of land for sales made in the continued effort to strengthen Real Estate for Sale Business.

Cash flow from investment activities declined substantially year-on-year, due primarily to a decrease in proceeds from sale of investment securities reported in Fiscal 2005.

Cash flow from financing activities increased significantly, due to 64,794 million yen of financing from sale of 43 million shares of our treasury stock in order to generate capital for urban redevelopment business.

As a result, cash and cash equivalents at the end of the period increased by 134,519 million yen (\$1,105,061 thousand) compared to the end of the previous fiscal year to 229,499 million yen (\$1,885,312 thousand).

With the understanding that the economy as a whole is on a track to recovery, despite uncertainties about the future economic outlook, such as weak private consumption owing in part to slow private income growth attributed to a low labor's relative share, we intend to push aggressive marketing programs in order to achieve our growth strategy. The Basic Act for Housing enacted last year aims at forming safe, secure, quality housing stock and residential environments, making housing trade fair, and facilitating its distribution, thereby realizing affluent housing for the people. Being fully aware of its duty as a public organ, the Group will strive to increase the satisfaction of all three of its major stakeholders, namely, customers, employees, and shareholders, as a trusted enterprise, thereby sincerely fulfilling its responsibilities to society as a whole.

Specifically, we plan to increase the number of sales people and help them sharpen their skills in order to boost sales of detached houses and rental housing, our top priorities. We also intend to shift more resources to our peripheral businesses including exteriors and remodeling.

With regard to Real Estate for Sale Business, we will proceed with development projects in accordance with the Urban Development Charter, in order to create quality housing complexes with "security, safety, and comfort" and "beauty that blooms with time" as key themes, thereby increasing our earnings.

To counteract the worrying rise in prices of raw materials, we will implement thorough cost-cutting measures based on a review of our designs and construction techniques, as well as stricter process controls. We believe that these measures will improve profit margins without sacrificing our market competitiveness.

The Sekiwa Real Estate companies intend to maximize Group synergies not only in leasing business but in every one of their undertakings, with a view toward bolstering consolidated performance. Meanwhile, we intend to improve the management efficiency and earnings of the remodeling business as we increase marketing prowess through increased employment of contract employees and reduce costs of operations.

In regards to profit distribution, we will add 2 yen to increase annual dividend payments to 22 yen per share. For the next fiscal term, based on our forecast that operating improvements should help us to generate more cash for Fiscal 2006, we have once again decided to add 2 yen, thus increasing annual dividend payments to 24 yen per share.

We wish also continue to compensate our shareholders aggressively in proportion to earning growth.



Isami Wada  
President & CEO

# Sekisui House Topics

## Environmental and Social Responsibility

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*In our efforts to help realize a sustainable society, Sekisui House, Ltd. 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.*

### Repurchase of housing sold by Sekisui House for recycling purposes

The life of housing in Japan is significantly shorter than that of Western countries, averaging at approximately thirty years. In order to reduce environmental stress, it has become an issue of national importance to develop a system that makes it possible for people to live in quality housing over the course of several generations, rather than simply demolishing it after three decades. It was against this background that the Basic Act for Housing was enacted in June 2006, urging that a quality housing stock be developed as a part of the social infrastructure.

In response, Sekisui House announced in March 2007 its plan for the full-scale launch of a new business of repurchasing housing of our own development, rejuvenating it with our unique remodeling techniques, and enhancing its attractiveness and performance for resale. With this business, we aim to stimulate the fledging secondhand home market in Japan, and at the same time increase customers' asset value. This initiative has become possible because of our confidence in the structure and quality of our prefabricated houses, as well as our unique systems for extended warranty and after-sales support. We believe that the fact that Sekisui House - Japan's largest housing developer, having supplied a total of 1.84 million units (of which approximately 700,000 are detached houses) - has taken this initiative will have no small impact on society.

### Promotion of a voluntary action plan in compliance with COP3

In order to put the brakes on the ongoing global warming, Sekisui House will proactively work out what can be accomplished as a housing supplier and act accordingly, which we believe is our social responsibilities as a leading company in this sector. In order to comply with the Kyoto Protocol that came into effect in February 2005, it has become urgent to cut down on CO<sub>2</sub> emissions in the household sector which, rather than decreasing, have been on the rise over the last several years. We have developed "Action Plan 20", a goal we set voluntarily, and been working to cut CO<sub>2</sub> emissions released from occupied houses, which account for about 70% of CO<sub>2</sub> emissions released during the housing life cycle, by 20% over the projected amount for 2010 (6% decrease over 1990).

Sekisui House now includes energy-saving high-efficiency water heaters and other features as standard equipment in our newly built homes. These features will achieve at least a 20% reduction in CO<sub>2</sub> emissions and are based on our next-generation energy-saving specifications (the highest level specified by the Law concerning the Rational use of Energy)

standardized in our all detached houses, and we have been leading the industry in this field since 2003. Furthermore, we are proactively proposing photovoltaic power generation systems to our customers by offering to share in some of the costs.

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 by taking advantage of the merits of our remodeling technologies for improving heat insulation performance established in our Prefabricated Housing. In December 2006, Sekisui House was commended by the Minister of Environment for this "Action Plan 20."

In May 2005, we became the first company in the world to sell housing equipped with household fuel cells. We have since made continuous efforts to increase their penetration into the market, having installed the devices in a total of 19 houses. We are also committed to developing new energy sources. Among many examples in this regard is the demonstration experiment of biomass gasification power generation systems at one of our factories, in a bid to utilize remainder materials as fuels.

Furthermore, we built an experimental house in Tokyo, open to the public, where live-in experiments have begun 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.

### Zero-emission achieved at new house construction sites

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, Sekisui House created a unique recycling system and achieved zero-emission of waste material at our new house construction sites in 2005.



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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.

The system has also proven effective in our efforts to reduce initial waste at construction sites. In 2000, the average amount of waste was about 2,893kg per house built, but it is now about 1,872kg, and we will intend to reduce it still further.

### **Guidelines for the purchase of timber and chemical substances**

In the hopes of further improving the quality of our supply chain management, we have established guidelines for the purchase of timber and chemical substances ahead of our competitors. In more concrete terms, we have decided upon a process which will promote the use of "fairwood" for better traceability. 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. We are also involving our supply chain in these efforts.

### **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. Our goal is to build beautiful, quality towns where residents will want to stay. Based on this companywide concept, we began organizing *Machinami Sankan-bi* in 2006, opening to prospective customers a total of 1,500 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 local culture and characteristics are given full precedence.

In carrying out this plan, we will adopt our gardening concept "*Five Trees Project*", as one of the required elements, to help maintain ecosystems by planting indigenous trees where wild birds can gather, thus aiming to build towns with high brand value. This "*Five Trees Project*" received the Good Design Award. One of our condominium projects, *Tokyo Terrace*, the largest scale in Setagaya Ward of Tokyo, was also granted the Good Design Award.

Additionally, we are developing suggestions for our urban redevelopment projects including *the Akasaka Garden City* office building in Tokyo. These suggestions we are strengthening take advantage of our experience in creating comfortable, quality living environments which we have cultivated through our housing business, and take into account the natural environment.

### **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. We have been promoting awareness about housing at Japan's first experience-based facility, "*Nattoku kobo* (Home Amenities Experience Studio)" established in Kyoto in 1990, where visitors can fully utilize all their five senses to appreciate various concepts of housing. The facility is open to the public, including architecture professionals, welfare professionals, general residents, as well as constructors, and also contributes to school education. The total visitor count has already exceeded 500,000. A similar initiative is being promoted at our experiment-based facilities "*Sumai-no-Yume-Kojo*," built within the premises of our six factories nationwide. We also focus on consumer education by holding courses about housing and lifestyle for local residents.

### **Promotion of CSR**

It has been three years since we have established the CSR committee, an advisory body to the board of directors which is chaired by our president. 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, Sekisui House is 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," which we released to report on our across-the-board activities in fiscal 2006, regarding the environment and our social responsibilities.





# Management's Discussion and Analysis

## Results of Operations

For the year ended January 31

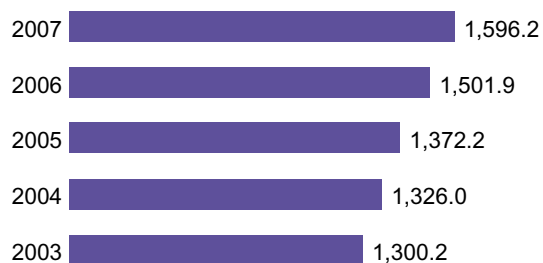
	Millions of yen (percentage change)				
	2007	2006	2005	2004	2003
Net sales.....	¥ 1,596,183 (6.3)	1,501,857 (9.4)	1,372,244 (3.5)	1,326,039 (2.0)	1,300,237 (-0.4)
Cost of sales.....	¥ 1,267,995 (4.5)	1,213,190 (10.4)	1,098,520 (4.0)	1,055,989 (1.9)	1,035,976 (0.1)
Operating income.....	¥ 111,571 (39.5)	79,981 (4.4)	76,639 (-4.6)	80,334 (10.4)	72,737 (-2.5)
Net income.....	¥ 62,663 (45.6)	43,029 (81.9)	23,659(-37.3)	37,762 (9.3)	34,547 ( - )

	Yen (percentage change)				
Net income per share (Note 16).....	¥ 89.26 (41.8)	62.94 (86.2)	33.80 (-36.6)	53.30 (9.4)	48.71 ( - )

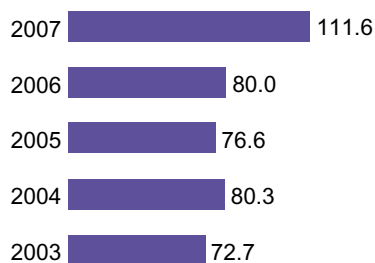
### Net Sales

Billions of yen



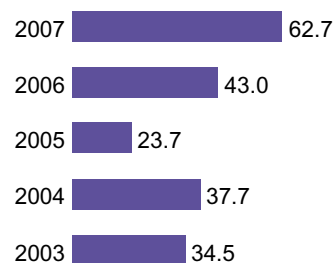
### Operating Income

Billions of yen



### Net Income

Billions of yen



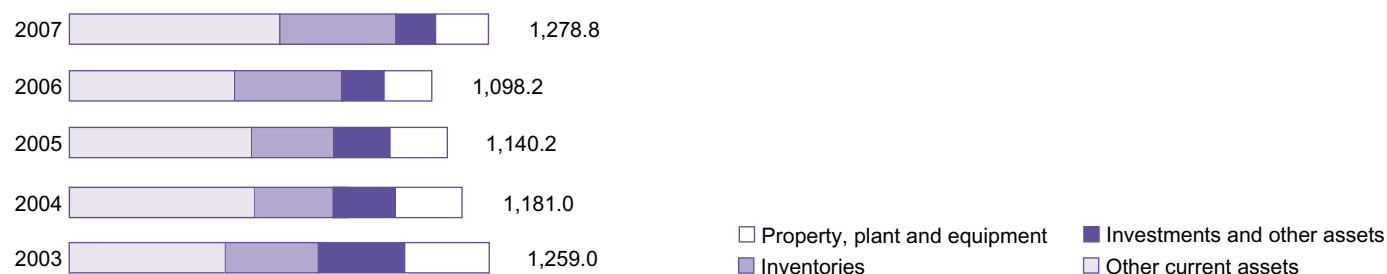
## Financial Position

For the year ended January 31

	% of total assets				
	2007	2006	2005	2004	2003
Current assets.....	70.3	64.9	64.4	58.5	60.0
Inventories.....	39.0	39.8	31.8	24.4	23.3
Investments and other assets.....	13.5	16.7	19.4	19.6	19.7
Property, plant and equipment.....	16.2	18.4	16.2	21.9	20.3
Current liabilities.....	29.7	29.8	31.1	26.8	30.8
Long-term liabilities.....	7.9	7.8	8.6	14.8	16.4
Long-term debt.....	1.6	-	0.8	3.4	5.6
Total net assets.....	62.4	62.4	60.3	58.4	52.8

### Total Assets

Billions of yen



\*See notes to consolidated financial statements.



# Five-year Summary

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

	Millions of yen					Thousands of U.S. dollars
	2007	2006	2005	2004	2003	2007
Net sales.....	¥ 1,596,183	1,501,857	1,372,244	1,326,039	1,300,237	\$ 13,112,487
Operating income.....	¥ 111,571	79,981	76,639	80,334	72,737	\$ 916,545
Net income.....	¥ 62,663	43,029	23,659	37,762	34,547	\$ 514,770
Total assets.....	¥ 1,278,770	1,098,203	1,140,231	1,181,013	1,258,980	\$ 10,504,970
Net assets.....	¥ 798,303	686,034	687,917	689,349	665,245	\$ 6,557,981

Segment information (Note 18):	Millions of yen					Thousands of U.S. dollars
	2007	2006	2005	2004	2003	2007
Built to order housing.....	¥ 725,869	726,920	709,832	744,600	740,947	\$ 5,962,942
Real estate for sale.....	¥ 421,064	347,724	273,455	202,532	190,096	\$ 3,458,999
Real estate for leasing.....	¥ 311,881	292,672	270,765	250,633	231,877	\$ 2,562,072
Other.....	¥ 150,607	142,913	128,802	134,199	142,671	\$ 1,237,222

Amounts per share (Note 16):	Yen					U.S. dollars
	2007	2006	2005	2004	2003	2007
Net income per share.....	¥ 89.26	62.94	33.80	53.30	48.71	\$ 0.73
Diluted.....	¥ 89.25	-	-	51.39	44.42	\$ 0.73
Net assets.....	¥ 1,125.75	1,028.46	979.40	959.96	911.01	\$ 9.25
Dividends.....	¥ 22.00	20.00	18.00	18.00	18.00	\$ 0.18

\*See notes to consolidated financial statements.

# Consolidated Balance Sheets

Sekisui House, Ltd. and Subsidiaries  
January 31, 2007 and 2006

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2007	2006	2007
<b>Assets</b>			
<b>Current assets:</b>			
Cash and cash equivalents .....	¥ 229,499	¥ 94,980	\$ 1,885,312
Short-term investments (Note 4).....	1,447	817	11,887
Notes and accounts receivable:			
Affiliates.....	137	148	1,125
Trade.....	84,303	96,611	692,541
Other.....	16,064	17,189	131,964
Less allowance for doubtful accounts.....	(1,904)	(1,763)	(15,641)
	98,600	112,185	809,989
Inventories (Notes 5 and 8).....	499,226	436,609	4,101,093
Deferred income taxes (Note 9).....	55,034	59,243	452,099
Other current assets.....	15,251	8,918	125,285
<b>Total current assets</b>	<b>899,057</b>	<b>712,752</b>	<b>7,385,665</b>
<b>Property, plant and equipment, at cost:</b>			
Land (Note 8).....	88,497	87,926	726,994
Buildings and structures (Note 8).....	180,375	170,252	1,481,763
Machinery and equipment.....	86,696	84,905	712,199
Construction in progress.....	3,567	3,823	29,303
	359,135	346,906	2,950,259
Less accumulated depreciation.....	(151,435)	(144,774)	(1,244,024)
<b>Property, plant and equipment, net</b>	<b>207,700</b>	<b>202,132</b>	<b>1,706,235</b>
<b>Investments and other assets:</b>			
Long-term loans receivable.....	35,313	37,985	290,093
Less allowance for doubtful accounts.....	(1,609)	(1,414)	(13,218)
	33,704	36,571	276,875
Investments in securities (Note 4).....	90,263	99,896	741,502
Investments in affiliates (Notes 6 and 8).....	1,388	999	11,402
Deferred income taxes (Note 9).....	1,654	3,055	13,587
Intangible assets.....	7,214	5,974	59,262
Other assets.....	37,790	36,824	310,442
<b>Total investments and other assets</b>	<b>172,013</b>	<b>183,319</b>	<b>1,413,070</b>
	<b>¥ 1,278,770</b>	<b>¥ 1,098,203</b>	<b>\$10,504,970</b>

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2007	2006	2007
<b>Liabilities and net assets</b>			
<b>Current liabilities:</b>			
Notes and accounts payable:			
Affiliates.....	¥ 3,240	¥ 3,080	\$ 26,616
Trade.....	166,365	163,308	1,366,672
Accrued income taxes (Note 9).....	38,464	7,207	315,978
Advances received on construction projects in progress.....	98,105	86,174	805,923
Allowance for employees' bonuses.....	20,241	18,001	166,278
Allowance for directors' bonuses.....	840	—	6,901
Other current liabilities.....	51,786	49,094	425,416
<b>Total current liabilities</b>	<b>379,041</b>	<b>326,864</b>	<b>3,113,784</b>
<b>Long-term liabilities:</b>			
Long-term debt, less current portion (Note 7).....	20,049	—	164,701
Guarantee deposits received (Note 8).....	53,145	53,063	436,581
Deferred income taxes (Note 9).....	2,893	2,257	23,766
Accrued retirement benefits for employees (Note 12).....	21,703	26,144	178,288
Accrued retirement benefits for directors and corporate auditors.....	1,099	1,803	9,028
Other liabilities.....	2,537	2,038	20,841
<b>Total long-term liabilities</b>	<b>101,426</b>	<b>85,305</b>	<b>833,205</b>
<b>Contingent liabilities (Note 13)</b>			
<b>Net assets:</b>			
<b>Shareholders' equity (Note 10):</b>			
Common stock:			
Authorized: 1,978,281,000 shares			
Issued: 2007 and 2006 - 709,385,078 shares.....	186,554	186,554	1,532,523
Capital surplus.....	254,133	237,523	2,087,678
Retained earnings (Note 19).....	333,838	285,574	2,742,446
Less treasury stock, at cost	(662)	(48,379)	(5,438)
<b>Total shareholders' equity</b>	<b>773,863</b>	<b>661,272</b>	<b>6,357,209</b>
<b>Valuation and translation adjustments:</b>			
Net unrealized holding gain on securities.....	24,035	24,530	197,445
Translation adjustments.....	146	(40)	1,199
<b>Total valuation and translation adjustments</b>	<b>24,181</b>	<b>24,490</b>	<b>198,644</b>
<b>Minority interests</b> .....	<b>259</b>	<b>272</b>	<b>2,128</b>
<b>Total net assets</b>	<b>798,303</b>	<b>686,034</b>	<b>6,557,981</b>
	<b>¥ 1,278,770</b>	<b>¥ 1,098,203</b>	<b>\$10,504,970</b>

See notes to consolidated financial statements.

# Consolidated Statements of Income

Sekisui House, Ltd. and Subsidiaries  
Years ended January 31, 2007 and 2006

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2007	2006	2007
<b>Net sales (Note 18)</b> .....	<b>¥ 1,596,183</b>	¥ 1,501,857	<b>\$13,112,487</b>
<b>Cost of sales</b> .....	<b>1,267,995</b>	1,213,190	<b>10,416,455</b>
Gross profit	<b>328,188</b>	288,667	<b>2,696,032</b>
<b>Selling, general and administrative expenses</b> .....	<b>216,617</b>	208,686	<b>1,779,487</b>
Operating income (Note 18)	<b>111,571</b>	79,981	<b>916,545</b>
<b>Other income (expenses):</b>			
Interest and dividend income.....	<b>2,647</b>	2,223	<b>21,745</b>
Interest expense.....	<b>(106)</b>	(140)	<b>(871)</b>
Loss on revaluation of real estate held for sale (Note 17).....	<b>(2,828)</b>	(12,015)	<b>(23,232)</b>
Loss on revaluation of securities .....	<b>(7)</b>	(9)	<b>(58)</b>
Other, net.....	<b>134</b>	4,735	<b>1,101</b>
Income before income taxes and minority interests	<b>111,411</b>	74,775	<b>915,230</b>
<b>Income taxes (Note 9):</b>			
Current .....	<b>42,166</b>	9,937	<b>346,390</b>
Deferred .....	<b>6,581</b>	21,626	<b>54,062</b>
	<b>48,747</b>	31,563	<b>400,452</b>
Income before minority interests	<b>62,664</b>	43,212	<b>514,778</b>
Minority interests in earnings of subsidiaries .....	<b>(1)</b>	(183)	<b>(8)</b>
Net income	<b>¥ 62,663</b>	¥ 43,029	<b>\$ 514,770</b>

See notes to consolidated financial statements.

# Consolidated Statements of Changes in Net Assets

Sekisui House, Ltd. and Subsidiaries  
Years ended January 31, 2007 and 2006

	Number of shares in issue	Millions of yen							
		Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Net unrealized holding gain on securities	Translation adjustments	Minority interests	Total net assets
<b>Balance at January 31, 2005</b>	<b>709,385,078</b>	<b>¥186,554</b>	<b>¥237,525</b>	<b>¥259,773</b>	<b>¥(30,541)</b>	<b>¥13,169</b>	<b>¥(5)</b>	<b>—</b>	<b>¥666,475</b>
Net income for the year.....	—	—	—	43,029	—	—	—	—	43,029
Cash dividends.....	—	—	—	(12,785)	—	—	—	—	(12,785)
Bonuses to directors and corporate auditors....	—	—	—	(484)	—	—	—	—	(484)
Loss on sale of treasury stock.....	—	—	(2)	(3,954)	—	—	—	—	(3,956)
Decrease in retained earnings resulting from exclusion of subsidiaries.....	—	—	—	(5)	—	—	—	—	(5)
Net unrealized holding gain on securities .....	—	—	—	—	—	11,361	—	—	11,361
Translation adjustments .....	—	—	—	—	—	—	(35)	—	(35)
Increase in treasury stock .....	—	—	—	—	(17,838)	—	—	—	(17,838)
<b>Balance at January 31, 2006</b>	<b>709,385,078</b>	<b>¥186,554</b>	<b>¥237,523</b>	<b>¥285,574</b>	<b>¥(48,379)</b>	<b>¥24,530</b>	<b>¥(40)</b>	<b>—</b>	<b>¥685,762</b>
Reclassified balance as of January 31, 2006...	—	—	—	—	—	—	—	¥272	272
Net income for the year.....	—	—	—	62,663	—	—	—	—	62,663
Cash dividends.....	—	—	—	(13,755)	—	—	—	—	(13,755)
Bonuses to directors and corporate auditors....	—	—	—	(644)	—	—	—	—	(644)
Purchases of treasury stock.....	—	—	—	—	(481)	—	—	—	(481)
Retirement of treasury stock.....	—	—	16,610	—	48,198	—	—	—	64,808
Other changes.....	—	—	—	—	—	(495)	186	(13)	(322)
<b>Balance at January 31, 2007</b>	<b>709,385,078</b>	<b>¥186,554</b>	<b>¥254,133</b>	<b>¥333,838</b>	<b>¥(662)</b>	<b>¥24,035</b>	<b>¥ 146</b>	<b>¥259</b>	<b>¥798,303</b>

	Thousands of U.S. dollars (Note 1)							
	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Net unrealized holding gain on securities	Translation adjustments	Minority interests	Total net assets
<b>Balance at January 31, 2006</b>	<b>\$1,532,523</b>	<b>\$1,951,228</b>	<b>\$2,345,962</b>	<b>\$(397,428)</b>	<b>\$201,512</b>	<b>\$(329)</b>	<b>—</b>	<b>\$5,633,468</b>
Reclassified balance as of January 31, 2006...	—	—	—	—	—	—	\$2,234	2,234
Net income for the year.....	—	—	514,770	—	—	—	—	514,770
Cash dividends.....	—	—	(112,996)	—	—	—	—	(112,996)
Bonuses to directors and corporate auditors....	—	—	(5,290)	—	—	—	—	(5,290)
Purchases of treasury stock.....	—	—	—	(3,951)	—	—	—	(3,951)
Retirement of treasury stock.....	—	136,450	—	395,941	—	—	—	532,391
Other changes.....	—	—	—	—	(4,067)	1,528	(106)	(2,645)
<b>Balance at January 31, 2007</b>	<b>\$1,532,523</b>	<b>\$2,087,678</b>	<b>\$2,742,446</b>	<b>\$(5,438)</b>	<b>\$197,445</b>	<b>\$ 1,199</b>	<b>\$2,128</b>	<b>\$6,557,981</b>

See notes to consolidated financial statements.

# Consolidated Statements of Cash Flows

Sekisui House, Ltd. and Subsidiaries  
Years ended January 31, 2007 and 2006

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2007	2006	2007
<b>Cash flows from operating activities</b>			
Income before income taxes and minority interests.....	¥ 111,411	¥ 74,775	\$ 915,230
Adjustments for:			
Depreciation and amortization.....	12,232	11,117	100,485
Reversal of retirement benefits.....	(4,440)	(752)	(36,474)
Interest and dividend income.....	(2,647)	(2,223)	(21,745)
Interest expense.....	106	140	871
Loss on revaluation of real estate held for sale.....	2,828	12,015	23,232
Loss on revaluation of securities.....	7	9	58
Decrease (increase) in notes and accounts receivable.....	12,308	(14,040)	101,109
Increase in inventories and advance payments.....	(66,862)	(68,175)	(549,265)
Increase in notes and accounts payable.....	4,299	12,493	35,316
Increase (decrease) in advances received.....	11,931	(260)	98,012
Other.....	4,427	(10,073)	36,367
Subtotal	85,600	15,026	703,196
Interest and dividends received.....	2,639	2,367	21,679
Interest paid.....	(49)	(244)	(402)
Income taxes paid.....	(11,236)	(22,905)	(92,303)
Net cash provided by (used in) operating activities	76,954	(5,756)	632,170
<b>Cash flows from investing activities</b>			
Proceeds from sales of short-term investments.....	217	266	1,783
Purchases of short-term investments.....	—	(232)	—
Proceeds from sales of property, plant and equipment.....	119	1,951	978
Purchases of property, plant and equipment.....	(22,659)	(47,142)	(186,142)
Proceeds from sales of investments in securities.....	10,693	65,741	87,842
Purchases of investments in securities.....	(3,022)	(12,655)	(24,825)
Decrease in loans receivable.....	2,678	5,973	21,999
Other.....	(1,269)	(1,642)	(10,425)
Net cash (used in) provided by investing activities	(13,243)	12,260	(108,790)
<b>Cash flows from financing activities</b>			
Proceeds from long-term debt.....	20,049	—	164,701
Repayment of long-term debt.....	—	(31,553)	—
Cash dividends paid.....	(13,755)	(12,785)	(112,996)
Increase in treasury stock.....	(480)	(46,600)	(3,943)
Proceeds from sales of treasury stock.....	64,794	—	532,276
Other.....	14	(263)	115
Net cash provided by (used in) financing activities	70,622	(91,201)	580,153
Effect of exchange rate changes on cash and cash equivalents.....	186	(35)	1,528
Net increase (decrease) in cash and cash equivalents.....	134,519	(84,732)	1,105,061
Cash and cash equivalents at beginning of the year.....	94,980	179,712	780,251
Cash and cash equivalents at end of the year	¥229,499	¥ 94,980	\$1,885,312

See notes to consolidated financial statements.

# Notes to Consolidated Financial Statements

Sekisui House, Ltd. and Subsidiaries  
Notes to Consolidated Financial Statements  
January 31, 2007 and 2006

## 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 Securities and Exchange Law of Japan and in conformity with accounting principles generally accepted in Japan, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards. The Company's overseas subsidiary maintains its accounts and records in conformity with the accounting principles generally accepted and the practices prevailing in its country of domicile.

The accompanying consolidated financial statements have been compiled from the consolidated financial statements prepared by the Company as required by the Securities and Exchange Law of Japan. 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 consolidated financial statements include information which is not required under accounting principles generally accepted in Japan but is presented herein as additional information.

Effective the year ended January 31, 2007, the Company has adopted a new accounting standard for the presentation of net assets in the balance sheet and the related implementation guidance. In addition, effective the year ended January 31, 2007, the Company is required to prepare consolidated statements of changes in net assets. In this connection, the previously reported consolidated balance sheet as of January 31, 2006 and consolidated statement of shareholders' equity for the year then ended have been restated to conform to the presentation and disclosure of the consolidated financial statements for the year ended January 31, 2007.

Through January 31, 2006, the Company voluntarily prepared the statement of shareholders' equity for the convenience of readers outside Japan.

### *Reclassifications*

Certain amounts in the consolidated balance sheet as of January 31, 2006 have been reclassified to conform to the 2007 presentation.

The translation of Japanese yen amounts into U.S. dollars is included solely for the convenience of the reader and has been made at ¥121.73 = U.S.\$1.00, the approximate rate of exchange in effect on January 31, 2007. This translation should not be construed as a representation that the Japanese yen amounts have been, could have been, or could in the future be, converted into U.S. dollar amounts at the above or any other rate.

## 2. 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") based on the control or influence concept. 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 difference between the cost of investments in subsidiaries and affiliates and the Company's equity in their net assets at their respective dates of acquisition is being amortized over a period of five years.

### (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 the overseas subsidiary 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 subsidiary have not been included in the determination of net income, but are presented as translation adjustments in the accompanying consolidated balance sheets.

### (c) Cash and cash equivalents

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

### (d) Short-term investments and investments in securities

Securities other than those of affiliates are classified into three categories: trading securities, held-to-maturity debt securities and other securities.

Trading securities, consisting of debt and marketable equity securities, are stated at fair value. Gain and loss, both realized and unrealized, are 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

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.

### (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).

### (g) Leases

Noncancelable lease transactions are accounted for as operating leases (whether such leases are classified as operating or finance leases) except that lease agreements which stipulate the transfer of ownership of the leased property to the lessee are accounted for as finance leases.

### (h) 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.



#### (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. The Group recognizes the tax effect of the temporary differences between assets and liabilities for financial reporting purposes and for income tax purposes.

#### (j) 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.

#### (k) Allowance for directors' bonuses

Allowance for directors' bonuses is provided for the payment of bonuses to directors based on an estimated amount.

#### (l) Accrued retirement benefits

Employees of the Company and its domestic 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 defined pension plan, covers 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 5 years, which falls within the estimated average remaining years of service of the eligible employees.

Prior service cost is amortized by the straight-line method over 5 years, which falls within the estimated average remaining years of service of the eligible employees.

Directors, corporate auditors and executive officers of the consolidated 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.

At a meeting of the Board of Directors of the Company held on March 1, 2006, the retirement benefit plan for directors, corporate auditors and executive officers of the Company was abolished. In connection with the abolishment of the retirement benefit plan, the Company has reversed accrued retirement benefits for these officers and recognized the outstanding balance of ¥585 million (\$4,806 thousand) at January 31, 2007 as a liability, which was included in other liabilities in the accompanying consolidated balance sheet as of January 31, 2007.

Through the year ended January 31, 2006, the provision for retirement allowances for these officers of the Company had been made at an estimated amount based on the Company's internal rule for retirement allowances.

#### (m) 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 it has been determined that 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 a period of 5 years.

#### (n) Accounting for warranty expenses

The Company provides after-sales service for twenty years for structural defects in 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 no material effect on net income.

### 3. Change in Method of Accounting

#### (a) Bonuses to directors

Effective the year ended January 31, 2007, the Company and its domestic consolidated subsidiaries have adopted "Accounting Standard for Directors' Bonuses" (Accounting Standards Board of Japan ("ASBJ") Statement No.4 issued on November 29, 2005).

As a result of the adoption of this accounting standard, income before income taxes and minority interests decreased by ¥840 million (\$6,901 thousand) for the year ended January 31, 2007 from the amount which would have been recorded under the method applied in the previous year.

#### (b) Retirement benefits

Effective the year ended January 31, 2007, the Company has adopted "Amendments to a part of Accounting Standard for Retirement Benefits" (ASBJ Statement No.3 issued on March 16, 2005) and "Implementation Guidance on Amendments to a part of Accounting Standard for Retirement Benefits" (ASBJ Guidance No.7 issued on March 16, 2005).

As a result of the adoption of this accounting standard, income before income taxes and minority interests increased by ¥1,207 million (\$9,915 thousand) for the year ended January 31, 2007 over the amount which would have been recorded under the method applied in the previous year.

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

Held-to-maturity debt securities and other securities at January 31, 2007 and 2006 were as follows:

	Millions of yen							
	Held-to-maturity debt securities							
	2007				2006			
Book value	unrealized gain	unrealized loss	Estimated fair value	Book value	unrealized gain	unrealized loss	Estimated fair value	
Market value determinable:								
Bonds	¥ 1,641	¥ 0	¥ (3)	¥ 1,638	¥ 1,800	¥ 1	¥ (2)	¥ 1,799
	<u>¥ 1,641</u>	<u>¥ 0</u>	<u>¥ (3)</u>	<u>¥ 1,638</u>	<u>¥ 1,800</u>	<u>¥ 1</u>	<u>¥ (2)</u>	<u>¥ 1,799</u>
Market value not determinable:								
Bonds	¥ 2,101	-	-	¥ 2,101	-	-	-	
	<u>¥ 2,101</u>	<u>-</u>	<u>-</u>	<u>¥ 2,101</u>	<u>-</u>	<u>-</u>	<u>-</u>	

	Thousands of U.S. dollars			
	Held-to-maturity debt securities			
	2007			
Book value	unrealized gain	unrealized loss	Estimated fair value	
Market value determinable:				
Bonds	\$ 13,481	\$ 0	\$(25)	\$ 13,456
	<u>\$ 13,481</u>	<u>\$ 0</u>	<u>\$(25)</u>	<u>\$ 13,456</u>
Market value not determinable:				
Bonds	\$ 17,260	-	-	-
	<u>\$ 17,260</u>	<u>-</u>	<u>-</u>	<u>-</u>

	Millions of yen							
	Other securities							
	2007				2006			
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	¥44,054	¥40,387	¥(59)	¥84,382	¥41,484	¥41,156	-	¥82,640
	¥44,054	¥40,387	¥(59)	¥84,382	¥41,484	¥41,156	-	¥82,640
Market value not determinable:								
Equity securities	¥ 2,586	-	-	-	¥12,572	-	-	-
Other	999	-	-	-	999	-	-	-
	¥ 3,585	-	-	-	¥13,571	-	-	-

	Thousands of U.S. dollars				
	Other securities				
	2007				
Acquisition cost	Gross unrealized gain	Gross unrealized loss	Book value (estimated fair value)		
Market value determinable:					
Equity securities	\$361,899	\$331,775	\$(484)	\$693,190	
	\$361,899	\$331,775	\$(484)	\$693,190	
Market value not determinable:					
Equity securities	\$21,244	-	-	-	
Other	8,206	-	-	-	
	\$29,450	-	-	-	

## 5. Inventories

Inventories at January 31, 2007 and 2006 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Land held for sale, including land held for development	¥368,705	¥324,796	\$3,028,876
Construction for sale, including projects under construction	72,442	61,398	595,104
Contracts in process	52,205	44,931	428,859
Other	5,874	5,484	48,254
	¥499,226	¥436,609	\$4,101,093

## 6. Investments in Affiliates

Investments in affiliates at January 31, 2007 and 2006 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Investments in capital stock, at cost	¥ 1,141	¥ 1,021	\$ 9,373
Equity in undistributed gain and loss since acquisition, net	247	(22)	2,029
	¥ 1,388	¥ 999	\$ 11,402

## 7. Long-Term Debt

Long-term debt, less current portion at January 31, 2007 and 2006 is summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Bank and other	¥ 20,049	¥ -	\$ 164,701
	¥ 20,049	¥ -	\$ 164,701

Loans from bank and other in the table above at January 31, 2007 and 2006 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Interest Libor + 0.55% unsecured loans from bank, due 2011	¥ 20,000	¥ -	\$ 164,298
Interest 2.6% unsecured loans from service trades, due 2012	49	-	403
	¥ 20,049	¥ -	\$ 164,701
Less current portion	-	-	-
	¥ 20,049	¥ -	\$ 164,701

The aggregate annual maturities of long-term debt subsequent to January 31, 2007 are summarized as follows:

Year ending January 31,	Millions of yen	Thousands of U.S. dollars
2008	-	-
2009	-	-
2010	-	-
2011	¥ 20,000	\$ 164,298
2012 and thereafter	49	403
	¥ 20,049	\$ 164,701

## 8. Mortgaged and Pledged Assets

The following assets, recorded at net book value at January 31, 2007 and 2006, were either mortgaged or pledged for guarantees of bank loans of third parties and guarantee deposits received and other, and totaled ¥2,955 million (\$24,275 thousand) and ¥3,159 million, respectively.

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Inventories	¥ 3,972	¥ 4,257	\$ 32,630
Land	192	192	1,577
Buildings	726	764	5,964
Investments in affiliates	2	-	16
	¥ 4,892	¥ 5,213	\$ 40,187

## 9. 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, 2007 and 2006. The overseas subsidiary is subject to the income taxes of the country in which it operates.

The effective tax rates reflected in the accompanying consolidated statements of income for the years ended January 31, 2007 and 2006 differ from the above statutory tax rate for the following reasons:

	2007	2006
Statutory tax rate	40.4%	40.4%
Non-deductible entertainment expenses	1.7	2.0
Non-taxable dividend income	(0.5)	(0.4)
Inhabitants' per capita taxes	0.6	0.8
Valuation allowance	1.7	(0.7)
Other	(0.1)	0.1
Effective tax rates	43.8%	42.2%

The significant components of the Group's deferred tax assets at January 31, 2007 and 2006 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Loss on revaluation of real estate held for sale	¥ 41,929	¥ 47,154	\$ 344,443
Loss on impairment of fixed assets	6,966	7,340	57,225
Tax loss carryforward	-	10	-
Accrued enterprise tax	3,046	733	25,022
Retirement benefits	9,002	10,188	73,950
Allowance for doubtful accounts	322	1,015	2,645
Accrued bonuses	8,140	7,302	66,869
Unrealized holding gain on securities	(16,293)	(16,624)	(133,845)
Other	5,783	6,128	47,507
Less valuation allowance	(5,101)	(3,206)	(41,904)
<b>Total deferred tax assets</b>	<b>¥ 53,794</b>	<b>¥ 60,040</b>	<b>\$ 441,912</b>

## 10. Shareholders' Equity

The new 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, 2007 and 2006 amounted to ¥23,129 million (\$190,002 thousand).

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 the new shares as additional paid-in capital.

### Stock-based compensation plan

In accordance with the Code, a stock option 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.

### Treasury stock

Movements in treasury stock for the year ended January 31, 2007 are summarized as follows:

	Number of shares			January 31, 2007
	January 31, 2006	Increase	Decrease	
Treasury stock	43,220,144	273,431	43,008,601	484,974

## 11. Research and Development Costs

Research and development costs charged to income amounted to ¥6,114 million (\$50,226 thousand) and ¥6,190 million for the years ended January 31, 2007 and 2006, respectively.

## 12. 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, 2007 and 2006 for the Group's defined benefit plans:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Retirement benefit obligation at end of year	¥(196,857)	¥(195,617)	\$(1,617,161)
Fair value of plan assets at end of year	195,522	181,593	1,606,194
Unfunded retirement benefit obligation	(1,335)	(14,024)	(10,967)
Unrecognized fair value of plan assets	-	(6,036)	-
Unrecognized actuarial (gain) loss	(16,657)	875	(136,836)
Unrecognized past service cost	(3,511)	(6,940)	(28,842)
Net retirement benefit obligation	(21,503)	(26,125)	(176,645)
Prepaid pension cost	200	19	1,643
<b>Accrued retirement benefits</b>	<b>¥ (21,703)</b>	<b>¥ (26,144)</b>	<b>\$ (178,288)</b>

The components of net retirement benefit expenses for the years ended January 31, 2007 and 2006 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Service cost	¥ 10,380	¥ 9,060	\$ 85,271
Interest cost	4,764	4,429	39,136
Expected return on plan assets	(7,102)	(5,531)	(58,342)
Amortization:			
Actuarial loss	2,820	7,075	23,166
Past service cost	(3,009)	(3,009)	(24,719)
<b>Retirement benefit expenses</b>	<b>¥ 7,853</b>	<b>¥ 12,024</b>	<b>\$ 64,512</b>

The assumptions used in accounting for the defined benefit plans for the years ended January 31, 2007 and 2006 were as follows:

	2007	2006
Discount rate	2.5%	2.5%
Expected rate of return on plan assets	4.0%	4.0%

## 13. Contingent Liabilities

The Group had the following contingent liabilities at January 31, 2007:

	Millions of yen	Thousands of U.S. dollars
Guarantees of housing loans to customers	¥82,551	\$678,148
Guarantees of bank loans of a third party	1,111	9,127
	<b>¥83,662</b>	<b>\$687,275</b>

## 14. Leases

The following *pro forma* amounts present the acquisition costs and accumulated depreciation of property leased to the Group at January 31, 2007 and 2006, 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					
	2007			2006		
	Acquisition costs	Accumulated depreciation	Net leased property	Acquisition costs	Accumulated depreciation	Net leased property
Buildings and structures	¥ 38,218	¥ 23,504	¥ 14,714	¥ 38,889	¥ 23,037	¥ 15,852
Machinery and equipment	7,658	5,516	2,142	7,180	5,317	1,863
Other	1,783	927	856	1,741	1,050	691
	<u>¥ 47,659</u>	<u>¥ 29,947</u>	<u>¥ 17,712</u>	<u>¥ 47,810</u>	<u>¥ 29,404</u>	<u>¥ 18,406</u>

	Thousands of U.S. dollars		
	2007		
	Acquisition costs	Accumulated depreciation	Net leased property
Buildings and structures	\$313,957	\$193,083	\$120,874
Machinery and equipment	62,910	45,314	17,596
Other	14,647	7,615	7,032
	<u>\$391,514</u>	<u>\$246,012</u>	<u>\$145,502</u>

Lease payments relating to finance leases other than those which transfer the ownership of the leased property amounted to ¥7,288 million (\$59,870 thousand) and ¥7,035 million for the years ended January 31, 2007 and 2006, respectively.

Future minimum lease payments subsequent to January 31, 2007 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
2008	¥ 6,174	\$ 50,719
2009 and thereafter	12,309	101,117
	<u>¥ 18,483</u>	<u>\$ 151,836</u>

## 15. Derivatives and Hedging Activities

Derivative financial instruments are utilized by the Company to reduce the risk of 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 enter into derivatives transactions for speculative trading purposes.

The Company is exposed to certain market risks arising from its forward foreign exchange contracts. The Company is also exposed to the risk of credit loss in the event of non-performance by the counterparties to currency-related and interest-rate-related 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.

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.

## 16. Amounts per Share

	Yen		U.S. dollars
	2007	2006	2007
Net income			
Basic	¥ 89.26	¥ 62.94	\$ 0.73
Diluted	89.25	-	0.73
Net assets	1,125.75	1,028.46	9.25
Cash dividends	22.00	20.00	0.18

Basic net income per share has been computed based on the net income available for distribution 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 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. No diluted net income per share for the year ended January 31, 2006 has been presented because no potentially dilutive securities were issued.

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.

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

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

## 18. 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, wood frames, and concrete houses and low-rise apartment buildings on land owned by the 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. Other business 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.

The business segment information of the Group for the years ended January 31, 2007 and 2006 is outlined as follows:

	Millions of yen						
	2007						
	Built-to-order housing	Real estate for sale	Real estate for leasing	Other	Total	Eliminations and other	Consolidated
Sales to third parties	¥ 717,678	¥ 421,020	¥ 310,211	¥ 147,274	¥ 1,596,183	¥ -	¥ 1,596,183
Inter-group sales and transfers	8,191	44	1,670	3,333	13,238	(13,238)	-
Net sales	725,869	421,064	311,881	150,607	1,609,421	(13,238)	1,596,183
Operating expenses	645,975	368,175	297,782	146,953	1,458,885	25,727	1,484,612
Operating income	¥ 79,894	¥ 52,889	¥ 14,099	¥ 3,654	¥ 150,536	¥ (38,965)	¥ 111,571
Total assets	¥ 192,986	¥ 518,008	¥ 199,766	¥ 29,730	¥ 940,490	¥ 338,280	¥ 1,278,770
Depreciation and amortization	¥ 5,471	¥ 874	¥ 3,675	¥ 343	¥ 10,363	¥ 1,869	¥ 12,232
Capital expenditures	¥ 11,029	¥ 81	¥ 13,696	¥ 53	¥ 24,859	¥ 1,832	¥ 26,691

Millions of yen							
2006							
	Built-to-order housing	Real estate for sale	Real estate for leasing	Other	Total	Eliminations and other	Consolidated
Sales to third parties	¥ 725,217	¥ 347,724	¥ 291,154	¥ 137,762	¥1,501,857	¥ -	¥1,501,857
Inter-group sales and transfers	1,703	-	1,518	5,151	8,372	(8,372)	-
Net sales	726,920	347,724	292,672	142,913	1,510,229	(8,372)	1,501,857
Operating expenses	652,140	324,317	279,438	139,355	1,395,250	26,626	1,421,876
Operating income	¥ 74,780	¥ 23,407	¥ 13,234	¥ 3,558	¥ 114,979	¥ (34,998)	¥ 79,981
Total assets	¥ 211,677	¥ 457,231	¥ 201,487	¥ 29,204	¥ 899,599	¥ 198,604	¥1,098,203
Depreciation and amortization	¥ 4,850	¥ 762	¥ 3,175	¥ 337	¥ 9,124	¥ 1,993	¥ 11,117
Capital expenditures	¥ 8,543	¥ 260	¥ 35,526	¥ 85	¥ 44,414	¥ 2,403	¥ 46,817

Thousands of U.S. dollars							
2007							
	Built-to-order housing	Real estate for sale	Real estate for leasing	Other	Total	Eliminations and other	Consolidated
Sales to third parties	\$ 5,895,654	\$ 3,458,638	\$ 2,548,353	\$ 1,209,842	\$13,112,487	\$ -	\$13,112,487
Inter-group sales and transfers	67,288	361	13,719	27,380	108,748	(108,748)	-
Net sales	5,962,942	3,458,999	2,562,072	1,237,222	13,221,235	(108,748)	13,112,487
Operating expenses	5,306,621	3,024,521	2,446,250	1,207,205	11,984,597	211,345	12,195,942
Operating income	\$ 656,321	\$ 434,478	\$ 115,822	\$ 30,017	\$ 1,236,638	\$ (320,093)	\$ 916,545
Total assets	\$ 1,585,361	\$ 4,255,385	\$ 1,641,058	\$ 244,229	\$ 7,726,033	\$2,778,937	\$10,504,970
Depreciation and amortization	\$ 44,944	\$ 7,180	\$ 30,190	\$ 2,817	\$ 85,131	\$ 15,354	\$ 100,485
Capital expenditures	\$ 90,602	\$ 666	\$ 112,511	\$ 435	\$ 204,214	\$ 15,050	\$ 219,264

As more than 90% of the consolidated net sales for the years ended January 31, 2007 and 2006 were made in Japan, the disclosure of geographical segment information and overseas sales information has been omitted.

## 19. Subsequent Events

(a) The following appropriation of retained earnings of the Company, which has not been reflected in the accompanying consolidated financial statements for the year ended January 31, 2007, was approved at a shareholders' meeting held on April 26, 2007:

	Millions of yen	Thousands of U.S. dollars
Year-end cash dividends of ¥12.00 (\$0.10) per share	¥8,508	\$69,892

### (b) Acquisition of Treasury Stock

On March 23, 2007, the Company acquired 2.5 million shares of treasury stock at an aggregate cost of ¥4,435 million (\$36,433 thousand) by resolution of the Board of Directors at a meeting held on March 22, 2007.

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## Report of Independent Auditors

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The Board of Directors  
Sekisui House, Ltd.

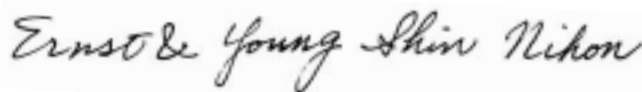
We have audited the accompanying consolidated balance sheets of Sekisui House, Ltd. and subsidiaries as of January 31, 2007 and 2006, and the related consolidated statements of income, changes in net assets, and cash flows for the years then ended, all expressed in yen. These financial statements are 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, 2007 and 2006, 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.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended January 31, 2007 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 26, 2007



Ernst & Young Shin Nihon & Co.  
Auditors

## Corporate Data (As of January 31, 2007)

### Corporate Officers

#### President & CEO

Isami Wada

#### Executive Vice President & Director

Tadashi Iwasaki

#### Director

Akira Morimoto

Sumio Wada

Kazuo Yoshimitsu

Shiro Inagaki

Yuzo Matsumoto

Fumiaki Hirabayashi

Toshiharu Arakawa

Kiyohide Hirabayashi

Toshinori Abe

Takashi Uchida

#### Standing Corporate Auditors

Hiroshi Itawaki

Kenichi Kawauchi

#### Corporate Auditors

Takaharu Dohi

Katsuya Kittaka

#### Executive Vice President & Officer

Tadashi Iwasaki

#### Senior Managing Executive Officer

Akira Morimoto

Sumio Wada

Kazuo Yoshimitsu

Shiro Inagaki

Yoshiro Kubota

#### Managing Executive Officer

Yuzo Matsumoto

Fumiaki Hirabayashi

Toshiharu Arakawa

Kiyohide Hirabayashi

Toshinori Abe

Takashi Uchida

Junichi Terada

Mikio Ishikawa

Tetsuo Iku

#### Executive Officer

Satoru Shima

Hisashi Murao

Daiji Kuroki

Kenji Imamura

Takaaki Shigematsu

Mitsugu Iijima

Shinichi Yamada

Katsuaki Shimoda

Kenji Hatanaka

Hidehiro Yamaguchi

Akihisa Terasaki

### OUTLINE OF THE COMPANY

(As of January 31, 2007)

#### Established

August 1, 1960

Capital Stock Issued

¥186,554,196,729

Employees

16,664 (As of April 1, 2007)

#### Head Office

Tower East Umeda Sky Building

1-88 Oyodonaka 1-chome Kita-ku Osaka

531-0076 Japan

Phone: 81-6-6440-3111

Facsimile: 81-6-6440-3369

#### Factories

Shiga, Ibaraki, Shizuoka, Yamaguchi, Miyagi and Hyogo

#### Laboratory

Kyoto

#### Domestic Subsidiaries and Affiliates

Sekiwa Real Estate Sapporo, Ltd.

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.

KRM

Sekisui House Umeda Operation Co., Ltd.

SGM Operation Co., Ltd and 79 other subsidiaries and 5 affiliates.

#### Stock Listing

Tokyo Stock Exchange

Osaka Securities Exchange

Nagoya Stock Exchange

#### American Depositary Receipts

Depositary:

The Bank of New York





**SEKISUI HOUSE**

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