



**Integrated Report**  
For the year ended January 31, 2020

**SEKISUI HOUSE, LTD.**

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# On the Publication of This Report

A company is a group of people. If each individual in the group practices “love of humanity,” they form a community with a common destiny that shares joys and hardships, achieving vigorous operations in which all members participate without conflict between labor and management. This is the driving force of corporate development. Sharing that love of humanity with partner building contractors and suppliers leads to friendly co-prosperity and a more solidly grounded company.

The Sekisui House Group celebrates its 60th anniversary in 2020. We take pride in the core competencies—our technical capabilities, construction capabilities and customer base—that we have cultivated during our six-decade history. These core competencies are the wellspring of our corporate activities.

The Sekisui House Group’s global vision to “make home the happiest place in the world” is a promise to all stakeholders that will guide us into the future. To realize its global vision, the Sekisui House Group will work together to increase its value as a sustainable company and to continue providing happiness in the era of the 100-year lifespan.

## Editorial Policy

*Integrated Report 2020* is the Sekisui House Group’s first integrated report. We have edited it to be user-friendly, incorporating many photographs and illustrations to help shareholders, investors and all other stakeholders understand the Sekisui House Group’s initiatives to achieve sustainable growth.

This report explains the path to where we are now, and where we are going. It breaks down our business model and discusses our core competencies. As the Sekisui House Group celebrates its 60th anniversary, the report is designed to provide clear explanations of the business and financial strategies of our Fifth Mid-Term Management Plan, which sets forth the Sekisui House Group’s vision for the next 30 years. Based on a value creation story rooted in our fundamental philosophy of “love of humanity,” we have comprehensively reported on both the financial and non-financial aspects of our corporate stance of providing happiness in the era of the 100-year lifespan.

## Scope of Report

Sekisui House, Ltd. and its consolidated subsidiaries

## Period Covered

February 1, 2019 to January 31, 2020

Some information from before and/or after this period is included.

## Reference Guidelines

- The International Integrated Reporting Framework issued by the International Integrated Reporting Council (IIRC)
- “Guidance for Collaborative Value Creation,” Ministry of Economy, Trade and Industry
- “Environmental Reporting Guidelines (Fiscal Year 2019 Edition),” Ministry of the Environment
- “ISO 26000” (Guidance on Social Responsibility),” International Organization for Standardization

## Note on Forward-Looking Statements

Forward-looking statements in this report, such as performance forecasts, are estimates made by the Company based on information available at the time this report was prepared and include potential risks, uncertainties and other factors. Please be aware that actual results may differ significantly from forecasts due to changes in various factors.

## CONTENTS



# 2

### Introduction

- 2 Corporate Philosophy
- 3 Management Vision



# 52

### Making Home the Happiest Place in the World: 18 Backstories



# 4

### Sekisui House Value Creation

- 4 Megatrends
- 5 Opportunities and Risks
- 6 A History of Creating Value
- 8 Message from the Chairman
- 10 Message from the President
- 14 Third-phase Vision
- 16 Value Creation Process



# 18

### The Platform House Concept for the Era of the 100-Year Lifespan



# 20

### Value Creation Strategies

- 20 The Sekisui House Group’s Business Portfolio
- 22 Changes in Strategy over Time and Positioning of the Fifth Mid-Term Management Plan
- 24 Commentary on the Strategies of the Fifth Mid-Term Management Plan
- 25 Business Strategies of the Fifth Mid-Term Management Plan
- 28 Analysis of Financial Strategy
- 32 Financial and Non-Financial Highlights
- 34 Making Home the Happiest Place in the World
- 36 Business Strategy: Built-to Order Business
- 40 Business Strategy: Supplied Housing Business
- 44 Business Strategy: Development Business
- 48 Business Strategy: Overseas Business



# 60

### Foundations for Creating Value

- 60 The Foundation Supporting ESG Management
- 62 Risks and Opportunities/ Material Topics
- 64 Environmental Strategy
- 68 Human Resources Strategy
- 72 IT Strategy
- 74 Corporate Governance
- 84 Directors and Audit & Supervisory Board Members



# 86

### Data Section

- 86 Eight-Year Highlights
- 88 Financial Analysis
- 92 Consolidated Financial Statements
- 119 Company Information
- 120 Share Information
- 121 Glossary

## External Evaluation



### Climate Change A List

For the second year in a row, Sekisui House was included in the Climate Change A List, the highest evaluation from CDP, a globally authoritative non-profit organization in the environmental field. Inclusion in this list is recognition that we are one of the world’s pioneers in environmental transparency and climate change countermeasures.



### Dow Jones Sustainability World Indices

Sekisui House was selected for the fourth consecutive year as a component stock of the Dow Jones Sustainability World Index (DJSI World), a leading stock index for ESG investment. It was also selected for inclusion in the Dow Jones Sustainability Asia Pacific Index (DJSI Asia Pacific) for the third consecutive year.



### RobecoSAM Sustainability Ranking 2019

Sekisui House received a Silver Class distinction for the second consecutive year in the homebuilding category of SAM Sustainability Ranking 2019, which is a sustainability rating from the Swiss research institute RobecoSAM, a research and rating company in the field of global socially responsible investment (SRI). Sekisui House previously received the Gold Class distinction for three consecutive years, from 2016 through 2018, for a total of five straight years of distinctions.

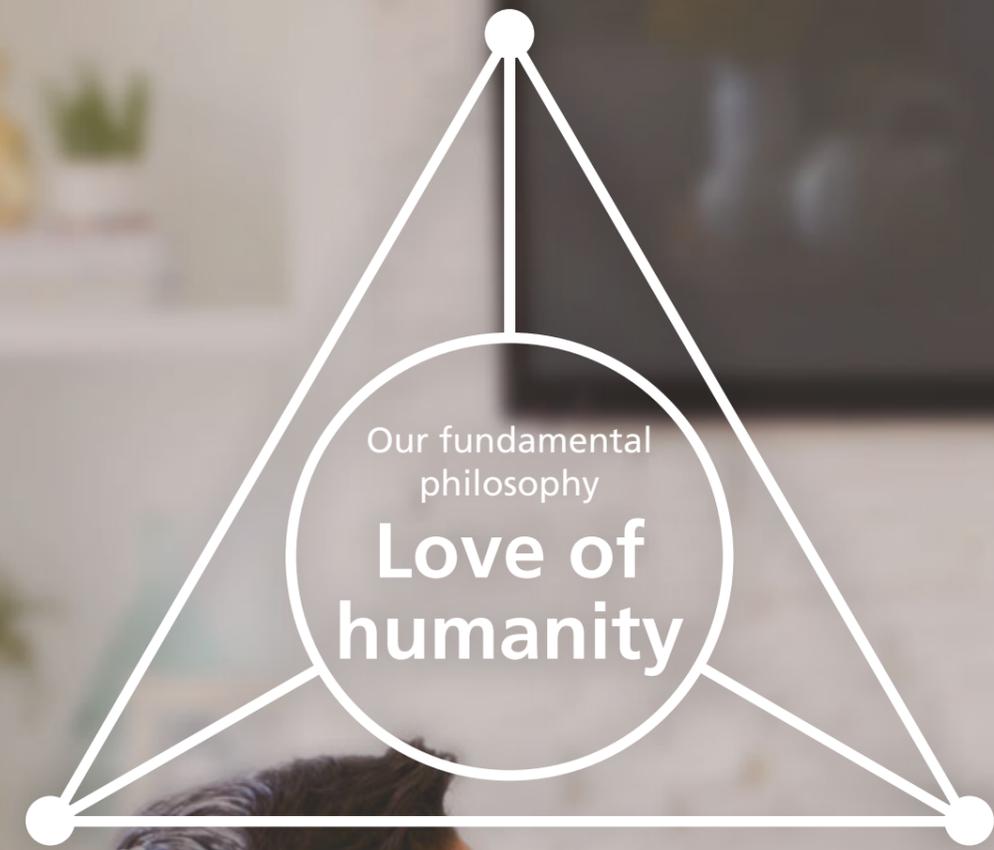


### FTSE Blossom Japan Index

Sekisui House is included in three indices selected by Japan’s Government Pension Investment Fund (GPIF): the FTSE Blossom Japan Index created by global index provider FTSE Russell, as well as the MSCI Japan ESG Select Leaders Index and the MSCI Japan Empowering Women Index, which were developed by MSCI Inc.

Our stance  
**Truth and trust**

Our fundamental philosophy  
**Love of humanity**



Our objective  
**Superior quality and leading technology**

Our business focus  
**Comfortable housing and ecologically sound communities**

The Sekisui House Global Vision

**Make home the happiest place in the world**

# Megatrends

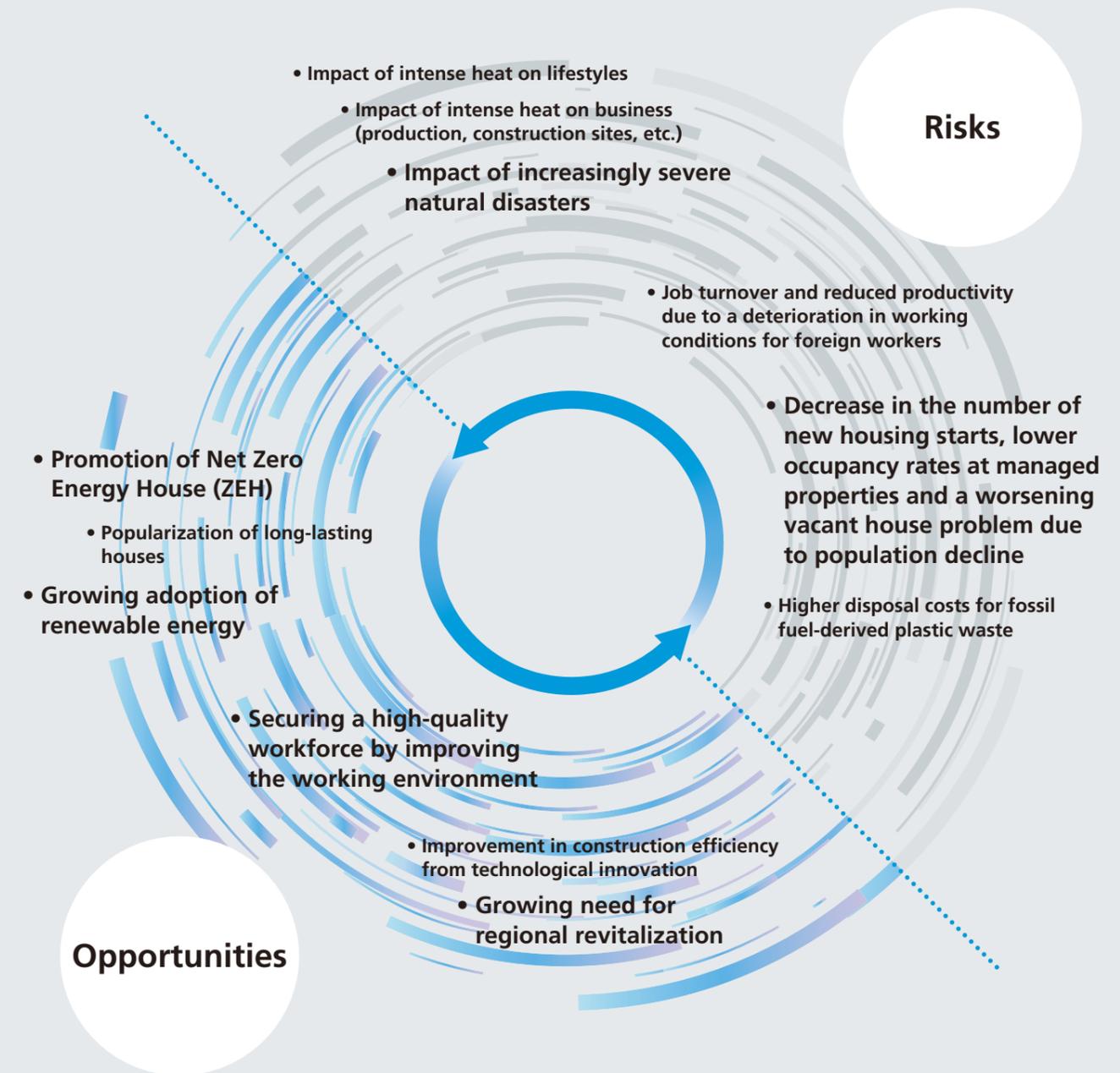
## Domestic Megatrends

- Shrinking population and declining number of households (gradual decline in construction demand and changes in social capital)
- Declining birth rate and aging population (shrinking working population and changing living environment)
- Global warming and more frequent natural disasters (response to natural environment)
- Concentration of population in cities and emergence of compact cities (people's changing concept of work and home)
- Emergence of low-cost houses (shift of the past recognition of home as merely a space)
- Inflow of foreign workers (maintain infrastructure by accommodating immigrants)
- Changes in consumer environment (shift from material goods to experiential consumption)

- Rapid progress of information and communications technology (ICT)
- Global climate change
- Widening gap between rich and poor
- Fintech revolution in financial markets
- Continued high growth of emerging economies
- Friction between nations (United States and China, East Asia, Middle East)
- Acceleration of corporate globalization
- Depletion of marine resources and reconfiguration of territorial waters

## Global Megatrends

# Opportunities and Risks



# A History of Creating Value

Sekisui House has grown along with society by putting the pursuit of value for residents first.

Always looking to the future, we will continue to help realize a sustainable society and grow as a global company.

## Third Phase 2020–2050

- Transformation of housing to provide a range of value centered on health, connectedness and learning

# Happiness in the era of the 100-year lifespan

Since its establishment in 1960, Sekisui House has been conducting business based on its fundamental philosophy of love of humanity.

In our first phase, we proposed the concept of pre-engineered housing in Japan, which was facing a housing shortage, enabling us to provide safety and security through houses that protect lives and property. In our second phase, we expanded our business domain to high-value-added houses and established Sekisui House technologies for comfort and eco-friendliness.

For our third phase, which began in 2020, we have established a global vision to “make home the happiest place in the world.” We will steadily transform into a global company that offers integrated proposals of technologies, lifestyle design and services, based on the residential domain, with the aim of creating value for residents in the era of the 100-year lifespan.

## Second Phase 1990–2020

- Addressed the issues of comfort and eco-friendliness with products such as ZEH and Airkis
- Provided mid- to high-end brands and high-value-added houses

### For Comfort & Sustainability

- 1995 Started wooden-frame (SHAWOOD) housing business
- 1999 Established the U-trus System manufacturer warranty program  
Announced the Environmental Future Plan
- 2001 Announced *Gohon no ki* landscaping project
- 2002 Announced full-scale implementation of universal design in all houses
- 2003 Established industry's highest air quality standards for all houses  
Standardized next-generation energy-saving specifications for all detached houses
- 2004 Made double-glazing for heat insulation and security standard in all detached houses  
Launched energy-saving, disaster-mitigating housing
- 2008 Recognized by the Minister of Environment as the housing and construction industry's first Eco First Company
- 2009 Launched the Green First eco-friendly house
- 2011 Started sales of Airkis high-quality indoor air system
- 2012 Opened SMART COMMON CITY AKAISHIDAI (Tomiya-cho, Miyagi Prefecture), Sekisui House's first smart town  
Launched CEREBRIO, the industry's first residential care home for the elderly
- 2013 Launched the Green First Zero net-zero-energy house
- 2018 Opened the Human Life R&D Institute, Japan's first institute specializing in research on happiness  
Started the Trip Base *Michi-no-Eki* Stations Project, a regional revitalization business
- 2019 Exhibited at CES 2019 (Consumer Electronics Show) and announced the Platform House Concept

## First Phase 1960–1990

- Provided pre-engineered housing with a short construction timeframe during Japan's housing shortage
- Provided safety and security through houses that protect lives and property

### For Safety & Security

- 1960 Established as Sekisui House Sangyo Co., Ltd.
- 1961 Started operation of Shiga Factory (production discontinued in 2009)  
Adopted metric specifications (first in the industry)  
Adopted aluminum-frame windows and doors (first in the industry)
- 1964 Established direct sales system
- 1971 Adopted prefabricated modular bathroom units for detached houses (first in the industry)
- 1973 Shiga and Kanto factories were both recognized by the Minister of International Trade and Industry for excellence in quality control of factory-made housing (first in the industry)  
Sekisui House's steel-frame construction method received the Encouragement Prize for 1973 (first in the prefabricated housing industry)
- 1977 GRANDE MAISON Nagahori, the Company's first large-scale condominium building, began sales
- 1987 Tokyo Customer Service Center established as the Company's first customer service center
- 1989 First nationwide Sekisui House Day (open house) held
- 1990 Comprehensive Housing R&D Institute (Kyoto) completed

	1970	1980	1990	2000	2010	2019
<b>Net sales</b> (Billions of yen)	34.4	430.0	1,090.3	1,364.8	1,488.3	2,415.1
	(Non-consolidated)					
<b>Operating income</b> (Billions of yen)	3.7	39.1	82.4	96.0	56.3	205.2
	(Non-consolidated)					
<b>Cumulative number of dwellings built</b> (Units)	24,817	30,547	799,322	1,504,621	2,045,039	2,468,686

# Message from the Chairman



## Making Our Corporate Philosophy the Foundation of All We Do and Strengthening Our Integrity

**Toshinori Abe**  
Chairman & Representative Director

On behalf of the Sekisui House Group, I would like to express our condolences to the families and acquaintances of those who have died as a result of the novel coronavirus (COVID-19) and to extend our deepest sympathies to those suffering from the disease as well as everyone whose lives have been affected by the pandemic.

We would also like to thank the healthcare workers who are toiling under extremely difficult conditions, as well as those who are involved in supplying daily necessities.

The Sekisui House Group places the highest priority on the safety of its customers, business partners and related professionals, and employees. We will continue to take necessary measures to prevent the spread of infection in cooperation with public health centers and local governments.

In 2020, Sekisui House celebrates its 60th anniversary. What has driven our business growth? What is the source of the unique organizational culture we have cultivated and what factors have enabled us to continuously achieve the targets of our first four mid-term management plans? This message looks at the DNA of the Sekisui House Group and the unchanging things it values.

### Sekisui House's Unchanging Values through 10 Years of Structural Reform

Sekisui House's history is more than a mere accumulation of achievements over the years since its founding in 1960. It originates in employees who have wholeheartedly and diligently carried out their daily work, and in a broad-minded organizational culture in which each employee desires happiness for and finds pleasure in the happiness of others. Companies are made up of people, and people's actions begin from their hearts. In 1989, Sekisui House established its corporate philosophy, which codifies the corporate culture and principles of action that have been passed down since the Company's founding. This corporate philosophy has become the basis of each employee's behavior. It is the very foundation that supports all of our corporate activities, even today. Moreover, during our 60-year history, our track record of reliably creating safe, comfortable homes based on a desire for the happiness of our customers has been a source of strength. This strength has been passed down to the present day as we continue to seek ways to tailor our designs to the changing times.

We recorded our first loss as a listed company in 2009. As a result of this experience, we have been working to build a resilient company that can grow in any business environment. We have instituted decisive structural reforms including discontinuing production functions at our Shiga Factory, substantially streamlining the head office organization, enhancing the expertise of our salespeople, carrying out restructuring, and promoting Group cooperation to improve the growth potential of our supplied housing business. At the same time, we have been pushing ahead with the development of products such as Green First Zero and Family Suite—products that help our customers lead happy, comfortable lives. These structural reforms and product development initiatives have been instrumental to creating and providing products and services that meet customer expectations. As a result, we have differentiated ourselves from our competitors and our performance is steady. I believe that each employee has been able to accurately envision his or her role and to take an energetic approach toward his or her work, even amid these ambitious structural reforms. How has this been achieved? I believe it is the result of passing down a strong commitment to keeping what should be kept and to thoroughly changing what should be changed, as well as the Sekisui House Group's DNA of a corporate philosophy with love of humanity at its core.

Based on my own experience of referring to our corporate

philosophy whenever I am unsure about something or facing an obstacle, I have always told employees that our corporate philosophy holds all the answers. Even as the social environment changes, I believe that Sekisui House's corporate philosophy is an ever-reliable starting point that provides solutions that resonate with any era.

### Developing Human Resources and Organizations That Act with Integrity to Remain Essential to Society

Sekisui House is conducting a variety of initiatives with the goal of becoming a leading company in ESG management. For example, we have been proactively implementing workstyle reforms, a pressing issue in Japan, with a focus on creating exciting workplaces. Moreover, we have consistently rolled out our initiatives ahead of government measures, such as a childcare leave system for men. This is because human resources and organizations are the intangible assets that support Sekisui House's growth—they are the essence of the Company's corporate brand. No matter how good our products and services are, or how well attuned our technologies may be to social and environmental issues, we cannot realize our vision without diverse human resources aligned with our corporate philosophy who have the power to keep pace with changing times, or without a resilient organizational culture that adapts to those changing times.

Today, more than 30 years after we put love of humanity at the core of our corporate philosophy, I place the highest value on integrity—the sincerity and high moral values befitting the DNA of Sekisui House. By creating an organization that cultivates employees with integrity—people who will actively take the lead—we can steadily enhance the quality of Group management. Since 2018, we have been implementing governance reforms underpinned by integrity, and lively discussions by the Board of Directors have helped to strengthen our management and financial foundations. We will further entrench our governance structure as we go through the same plan-do-check-act (PDCA) cycle that we use in our business operations.

For Sekisui House to remain essential to society, we will pass on our valued, unchanging corporate philosophy that is the foundation for all our corporate activities, and we will ensure that the changes of a new era become opportunities that lead to activities that bring happiness to our customers, employees and all stakeholders.

# Message from the President



## Integrated Proposals of Technologies, Lifestyle Design and Services to Provide Happiness in the Era of the 100-Year Lifespan

**Management that makes home the happiest place in the world means giving serious thought to creating value for residents.**

**Yoshihiro Nakai**  
President & Representative Director

### Opportunities Remain Abundant in the Housing Market

The era of the 100-year lifespan will soon be here. Having experienced periods of economic growth, the societies of Japan and other developed nations have matured and people are increasingly focusing on spiritual fulfillment and quality of life. As we shift from quantity to quality and the turnover of housing stock progresses, it has become apparent that we are on the verge of an age when implementation of IT, AI and other technologies in the housing market will be taken for granted. Market conditions are changing by the moment, but I believe that by adopting

strategies incorporating technologies that appeal to the sensibilities of residents and builders Sekisui House will be able to create unique growth drivers. The Sekisui House of the future will do more than simply provide the buildings and technologies that protect residents' lives and properties, which was our founding mission. By deepening and evolving lifestyle design proposals and our services, we will transform into a company that provides customers with the value of happiness. That is why the recently announced third phase of our long-term management vision sets forth a global vision to "make home the happiest place in the world."

In Sekisui House's first phase during the thirty years following its founding in 1960, the Company grew by supplying houses that provide shelter. In our second 30-year

phase, we led the domestic building industry in pursuing and providing comfortable housing, which we achieved by developing a series of environmental technologies and original products and techniques. From 2020, Sekisui House embarks on its next 30-year phase. As president at this exciting time, I feel the weight of stakeholders' expectations for innovation as well as the responsibility of being entrusted with leading a company intent on thriving over the next century. At the same time, I have great expectations in the face of these new challenges. Due to Japan's declining birthrate and aging population, and a decrease in the number of housing starts, some people are concerned about a shrinking housing market, but I am not pessimistic in the least. Day by day, I am more convinced than ever that there are still more ways in which Sekisui House can contribute to society in the field of housing.

For example, many houses in Japan have insufficient earthquake resistance and insulation, so demand for rebuilding is expected to continue over the medium term. As a result of frequent climate change-related large-scale natural disasters worldwide, demand for high-quality housing stock is rising. There are clearly markets in Japan and overseas where Sekisui House can expand by deploying its unique expertise in areas such as seismic damping using its original SHEQAS seismic control system, airtight construction and improved insulation. In addition, our net zero energy houses (ZEHs) have consistently remained one step ahead of the industry in environmental technologies, achieving an 87% installation rate that significantly surpasses the government's target of 50%. In our third phase, we will think about how to provide new value that is unique to Sekisui House by pursuing happiness for people, society and for the future in the domain of housing.

### Providing New Value with Integrated Proposals of Technologies, Lifestyle Design and Services: Factoring in Resident Happiness as a Growth Strategy of Our Long-Term Management Vision

Our new Fifth Mid-Term Management Plan sets forth a growth strategy to achieve our global vision. On the technological side, Sekisui House will further deepen the resources that give it a competitive advantage—the housing technologies, construction methods and track record for safety it has built up over the past 60 years. As for lifestyle design proposals, we became the first company in Japan to begin R&D on the happiness of residents through the establishment of the Human Life R&D Institute. In fall 2018, we launched Family Suite, which combines our research results with advanced Sekisui House technologies for a model concept of a new kind of living space that breaks away from the conventional Japanese "LDK" (living-dining-kitchen) layout. We will continue to develop lifestyle design proposals and services that lead to happiness from a variety of perspectives with the aim of further expanding our growth areas.

As one initiative that exemplifies our third-phase strategy, we will step up promotion of our Platform House Concept, an innovative new project we announced in 2019. This concept regards the home as a platform, and we are developing a succession of technologies and mechanisms to be installed in this platform to provide the new value of happiness for residents. For me, the value provided by the Platform House Concept comes from considering happiness in the era of the 100-year lifespan by breaking it down into the three areas of health, connectedness and learning. Having chosen to begin with health, which is most closely connected to life, I decided to focus on the prevention of chronic diseases and response to acute illnesses. During discussions, I became aware that approximately 70,000

people die at home each year from acute illnesses, strokes and similar conditions, and decided to set to work immediately on measures that respond to acute illnesses. For the first stage of the Platform House Concept, during 2020 we plan to launch the health-focused HED-Net, an in-home early detection network with a rapid response service for acute illnesses. [▶ See pages 18-19 for details.](#)

During our third phase, we also intend to define happiness under the themes of connectedness and learning and to incorporate their value in the Platform House Concept in stages. We will maximize our accumulated expertise, strengthen our foundation for creating value as a leading company in ESG management, and make a major shift in direction as a company that creates value for the future. By doing so, we will plot a trajectory for long-term, steady growth.

### Working to Make Sekisui House Technologies a Global De Facto Standard

Another area that will be a pillar of long-term growth is strengthening our overseas business. Until just 10 years ago, our domestic operations were heavily reliant on the built-to-order business for custom detached and rental housing. However, having subsequently gone through structural reform, we have established an excellent balance among our three domestic businesses. For example, as a result of the increase in the total number of houses constructed by the built-to-order business, we have achieved growth in the supplied housing business, which consists of remodeling, including large-scale renovations, and real estate management fees, as well as a widespread rollout of our development business, which consists of houses for sale, condominiums and urban

redevelopment.

On the other hand, the overseas operations we started 10 years ago have been focused on the development business. Taking the market environment into consideration, we plan to conduct an overseas rollout of our expertise in pre-engineered housing methods, which is a strength we have cultivated in Japan and a distinctive business model worldwide. With that in mind, we have been conducting surveys and working to visualize issues toward commercialization in the United States, Australia and the United Kingdom. Recently, social issues such as climate change-related natural disasters have arisen in housing markets outside Japan, spurring demand for high-performance housing.

In light of such changes, the strategies of our Fifth Mid-Term Management Plan include the aim of making Sekisui House technologies the global de facto standard in order to realize our long-term management vision. We will use the production and construction systems, expertise and environmental technologies that we have cultivated in the Japanese market to build a foundation in global markets.

### Outline of the Fifth Mid-Term Management Plan

Our Fifth Mid-Term Management Plan focuses on Sekisui House's core competencies, including the domestic building industry's largest customer base, with a cumulative 2.46 million dwellings built. This new business model will offer integrated proposals of technologies, lifestyle design and services in its core built-to-order, supplied housing and development businesses. We will delineate a new growth matrix by incorporating social issues along two axes: our existing strengths, which we will deepen and expand, and

new arenas that we intend to enter, with a focus on the residential business domain. We will place particular emphasis on steadily establishing foundations for growth during this plan.

The lifestyle design and service proposals and technologies that we cultivated in our second phase have become unique strengths of Sekisui House. However, a digital transformation is progressing steadily worldwide along new vectors such as SDG-related initiatives, Industrie 4.0 and Society 5.0. Because we are aiming to respond rapidly to changes in social conditions and to achieve innovative growth in our third phase, we must squarely face the possibility that relying too heavily on our existing strengths may slow our growth. Therefore, we plan to accelerate initiatives for alliances and open innovation. In addition to investment in real estate, our anticipated investment for growth over the next three years of the mid-term management plan incorporates ¥200 billion in capital for M&A, R&D and alliances.

### Lively Communication for Stronger Governance

Sekisui House aims to be a leading company in ESG management that can provide innovative living spaces and after-sales service that are useful to the public from the perspectives of the environment, society and governance. We continue to receive high evaluations from various organizations in Japan and overseas in the areas of the environment and society. However, we believe that further strengthening governance will require free and open cooperation that transcends departments and levels inside the Company and communication with partners outside the Company. Since 2019, we have been working to invigorate

communication among employees and with external stakeholders under the slogan "Innovation and Communication." In our business, employees on the front line of sales, design and construction on site encounter customers most frequently, and I believe these employees have the most innovative ideas. By drawing on their opinions and suggestions rather than simply using a top-down chain of command, we can create a diverse, open organization that is unconstrained by existing ways of thinking. In this way, we can transform ourselves into a company that innovates. Facilitating communication inside and outside the Company will also make it easier for problems to be unearthed, and thus help us identify signs of future business risks. In short, I am convinced that fostering a culture of lively communication will result in stronger governance.

I intend to set an example in innovation and communication, and to instill a view of change as an opportunity throughout our organization as an integral part of ESG management.

Transforming conventions within the industry and the Company, and being the first to conceive and implement new initiatives is a truly exciting way to spend time, striving day after day to achieve that vision. As the Sekisui House Group enters a new growth phase, I will devote every day as president to confronting social issues and ensuring Sekisui House provides the value that only it can.

# Third-phase Vision

## The Sekisui House Global Vision

**Make home the happiest place in the world**



**Propose happiness through the integration of technologies, lifestyle design and services**

- ▶ Build close relationships with residents and become their partner in creating happiness
- ▶ Propose new value in the form of happiness stemming from intangible assets such as health, connectedness and learning.



**Become a leading company in ESG management**

- ▶ Drive global initiatives through net zero energy housing and make a global contribution through our RE100 commitment
- ▶ Turn diversity into a growth driver
- ▶ Innovation and communication



**Make Sekisui House technologies the global de facto standard**

Promote Sekisui House technologies worldwide to enable the provision of quality housing that offers safety, security and comfort

- ▶ Original technologies developed in Japan that deliver safety and security in terms of strong earthquake resistance, fire protection and shock resistance
- ▶ Original technologies that deliver comfort in terms of insulation performance, universal design and indoor air system technology

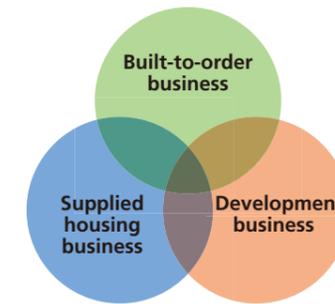
**Become a global company that offers integrated proposals of technologies, lifestyle design and services, based on the residential domain**

## The Sekisui House Goals

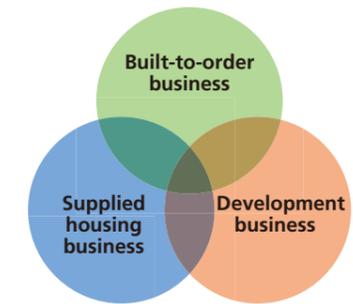
**Expand domestic and overseas businesses by offering integrated proposals of technologies, lifestyle design and services**

**Realize sustainable growth of the Sekisui House Group through the organic growth of six business pillars**

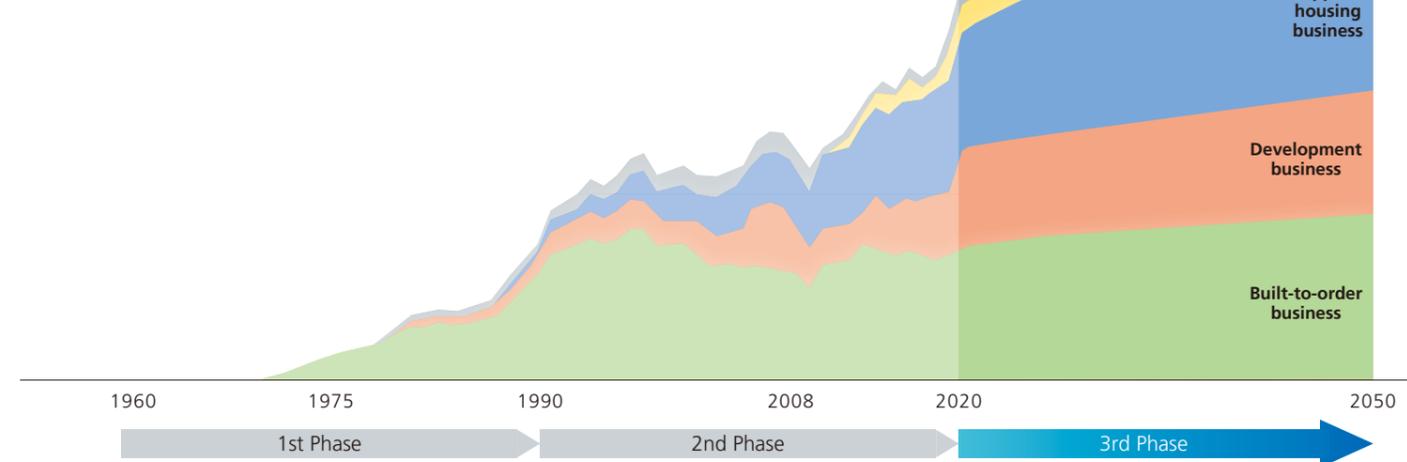
### Domestic Business



### Overseas Business



### Ultra Long-Term Growth Vision (Sales composition)

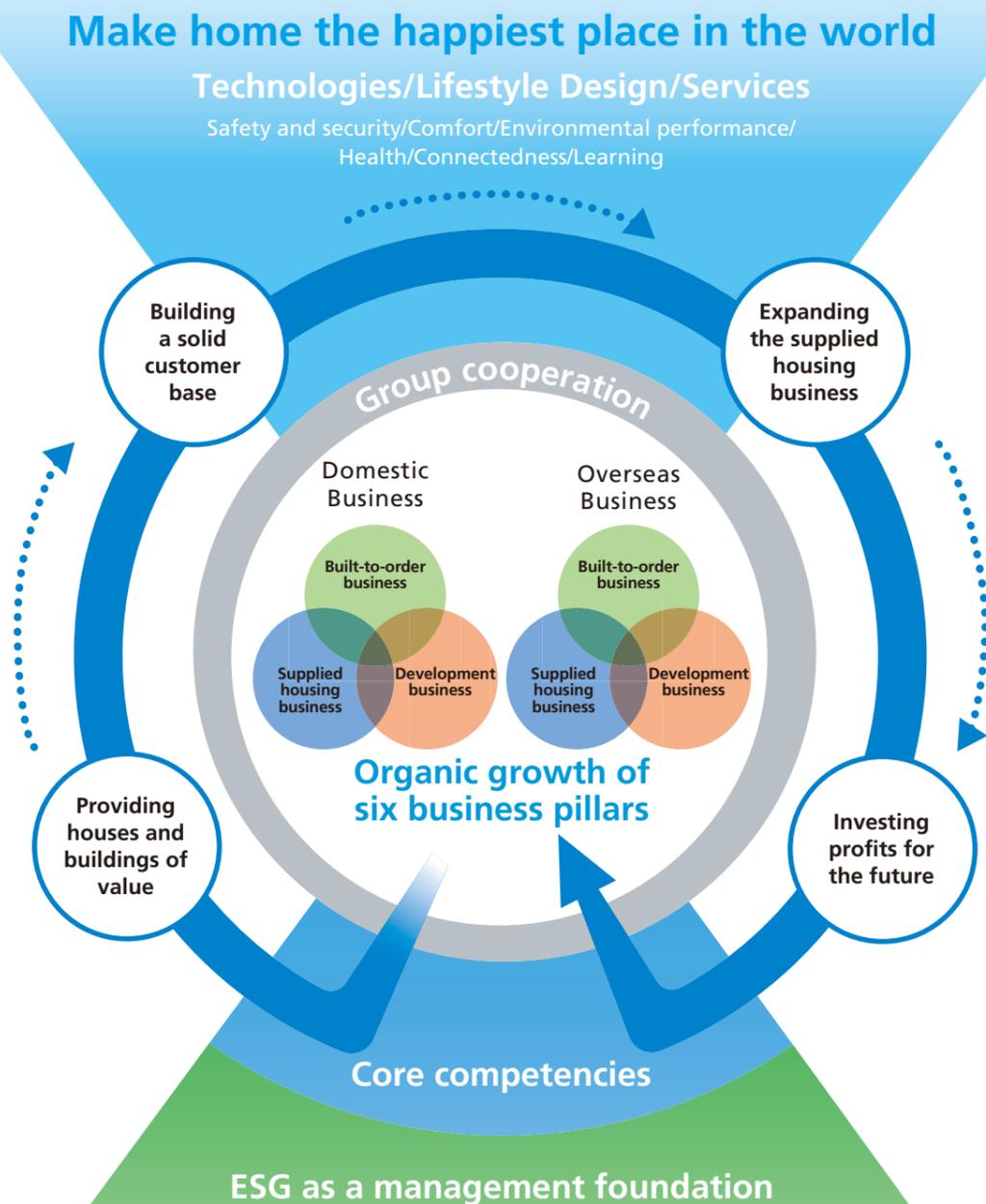


Since 2010, our domestic business has continued to grow by shifting from an approach that was heavily reliant on the built-to-order business to an optimally balanced business portfolio. Going forward, we will accelerate the growth of the supplied housing business, which leverages the high-quality housing stock we have accumulated, raise the asset turnover ratio in the development business, and take other steps to strengthen our three core businesses in order to support overall growth. In our overseas business, we will continue to grow steadily by expanding the built-to-order business and achieving a balance among the same three businesses as in our domestic operations. In Sekisui House's third phase, we will also look to expand new businesses with the ultimate aim of using the organic growth of these six pillars of our operations to become a global company that offers integrated proposals of technologies, lifestyle design and services based on the residential domain.

# Value Creation Process

## Business Models

Based on a management foundation that incorporates ESG initiatives, as well as our unique value chain and core competencies, we have established business models that create value for our various stakeholders through collaboration within the Sekisui House Group. Our operations in Japan utilize three business models. The first is the model of the built-to-order business—it has built a solid customer base by providing quality houses and buildings of value. Next is the model of the supplied housing business—it draws on this customer base to conduct remodeling and other operations. The profit from these businesses is then invested in our third business, development—the model for which is to conduct high-quality urban redevelopment and community development. As we invest for the future, we are also establishing a sustainable value creation process. Going forward, we plan to establish the same three business models overseas by expanding the built-to-order business. The Sekisui House Group will steadily achieve sustainable growth as it works to become a global company.

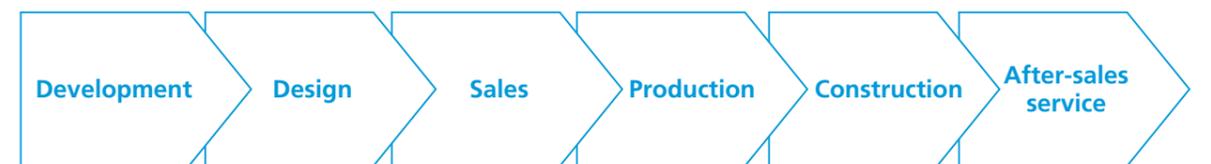


## Core Competencies

Our core competencies consist of our three greatest strengths—technical capabilities and construction capabilities driven by Sekisui House technologies, and a solid customer base derived from the industry's highest number of dwellings built—together with our unique value chain, which maximizes value for customers because the Sekisui House Group handles all processes relating to home-building, from product and technology development to sales, design, construction and after-sales service. These core competencies are the source of the value we create.

### Our Accumulated Strengths

	<h4>Technical Capabilities</h4> <ul style="list-style-type: none"> <li>• Universal design for "comfortable living—now and always"</li> <li>• SHEQAS, Airkis and other original technologies for proven safety and security</li> <li>• Green First Zero and other environmental technologies</li> <li>• Original DYNE CONCRETE and Bellburn original exterior wall panel manufacturing technologies</li> <li>• Staff with diverse qualifications, including first-class and second-class architects</li> <li>• Improved ability to make proposals through the introduction of an in-house system of qualifications (Chief Architect, etc.)</li> </ul>
	<h4>Construction Capabilities</h4> <ul style="list-style-type: none"> <li>• Wholly owned subsidiary Sekiwa Construction uses a design-build construction system without subcontractors</li> <li>• Loyal cooperative system for construction through Sekisui House Association</li> <li>• Acquisition of model approval for shortened construction timeframes</li> <li>• Improved ability to make proposals through the introduction of an in-house system of qualifications (Chief Constructor, etc.)</li> </ul>
	<h4>Customer Base</h4> <ul style="list-style-type: none"> <li>• Owners of the 2.46 million dwellings we have built, the most in the Japanese construction industry</li> <li>• An after-sales service system with customer service centers for customer peace of mind after taking possession of their houses</li> <li>• Long-term relationships with rental housing owners through Sekisui House Real Estate companies</li> <li>• Owner referrals and a high repeat rate</li> </ul>



Maximizing Customer Value through Synergies from Cooperation within the Group



### Advancing and Extending Our Core Competencies

<h4>New Technologies</h4>	<h4>Open Innovation</h4> <ul style="list-style-type: none"> <li>Industry-academia collaboration</li> <li>Investment in startups</li> <li>Joint development</li> <li>M&amp;A</li> </ul>
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# The Platform House Concept for the Era of the 100-Year Lifespan

## Leading the Industry with a Mission to Help Resolve Social Issues

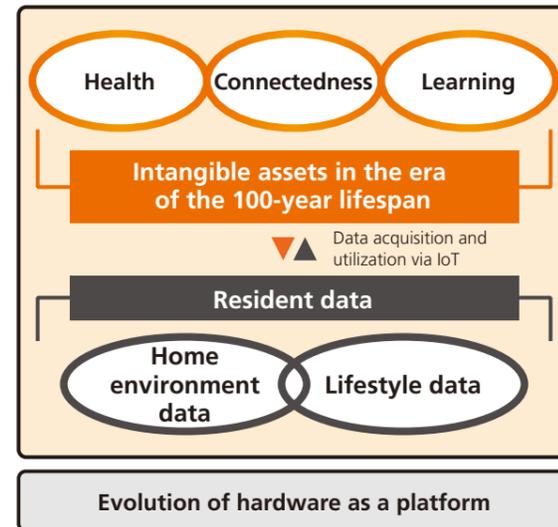
Looking ahead to the next 30 years, in the so-called era of the 100-year lifespan, Sekisui House developed the idea to make homes a platform for happiness. The meaning of comfortable living changes with the times and with the life stage of residents. As we enter this era, we expect an emphasis not only on tangible assets such as land and buildings, but also on intangible assets such as family, health, skills and knowledge. Homes must also change with the times. Therefore, Sekisui House formulated the Platform House Concept, a strategy for providing homes that continue to foster the intangible assets that help customers achieve happiness in the era of the 100-year lifespan.

## Providing New Value with Homes That Support Health

The aim of Sekisui House's Platform House Concept is to play a role in helping residents achieve happiness in the era of the 100-year lifespan by expanding the Company's business domain from homes to lifestyle services, based on a vision of making home the happiest place in the world. In this original approach to creating homes, our Platform House Concept will focus on services over the long term for residents under the three themes of "health," "connectedness" and "learning." For the first theme, we consider the provision of services that support health to be a social mission that Sekisui House must promptly work to fulfill.

In Japan, for example, 79% of strokes occur at home, resulting in approximately 15,000 deaths each year. In addition, 66% of heart attacks occur at home. Other commonly occurring causes of death at home include drowning in the bathtub, at more than 5,000 deaths each year, and falls, at 3,000 deaths per year. Conversely, the number of traffic accident fatalities has decreased to about 4,000 a year due to the spread of airbags and technological innovations. These figures demonstrate the high frequency of acute illnesses and accidents that occur at home. There is a strong need for a Platform House that enables early

### Platform House Concept

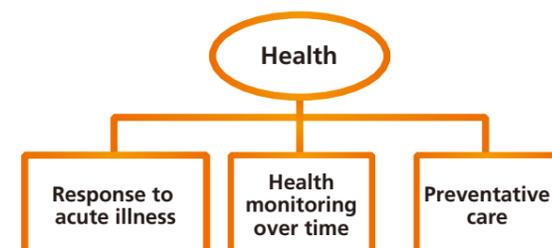


detection of the onset of and facilitates prompt medical care for acute diseases that occur at home. We believe that the benefits of such a home will be substantial. Sekisui House will offer new value through homes that support health by providing the three services of response to acute illness, health monitoring over time and preventative care.

## Open Innovation Using Advanced Technology

Sekisui House has been working intensively with its partner companies, universities and other parties to create HED-Net, an in-home early detection network with a rapid response service for acute illnesses. This is the world's first such

### Providing Services That Factor in Health



The Sekisui House exhibit at CES 2019, an exhibition of digital technologies held in Las Vegas.

service, and we aim to start implementing it in 2020 with a pilot project involving residents in an environment that closely mirrors their own homes.

This system uses contact-less sensors installed in the home to detect and analyze the heart rate and respiration rate of residents. If an abnormality is detected, the system alerts an emergency call center, which confirms the resident's safety. If necessary, the dispatch of an ambulance is requested, its arrival is confirmed, and the front door is remotely unlocked and locked. The system's most notable feature is the selection of contact-less sensors for detection and analysis. Using advanced technology in this way avoids sacrificing residents' comfort, allowing them to maintain their usual lifestyles without additional stress. Residents move in a variety of ways inside a house, from turning over while sleeping to moving from room to room. To address this, we are continuing to work on the development of our original algorithm.

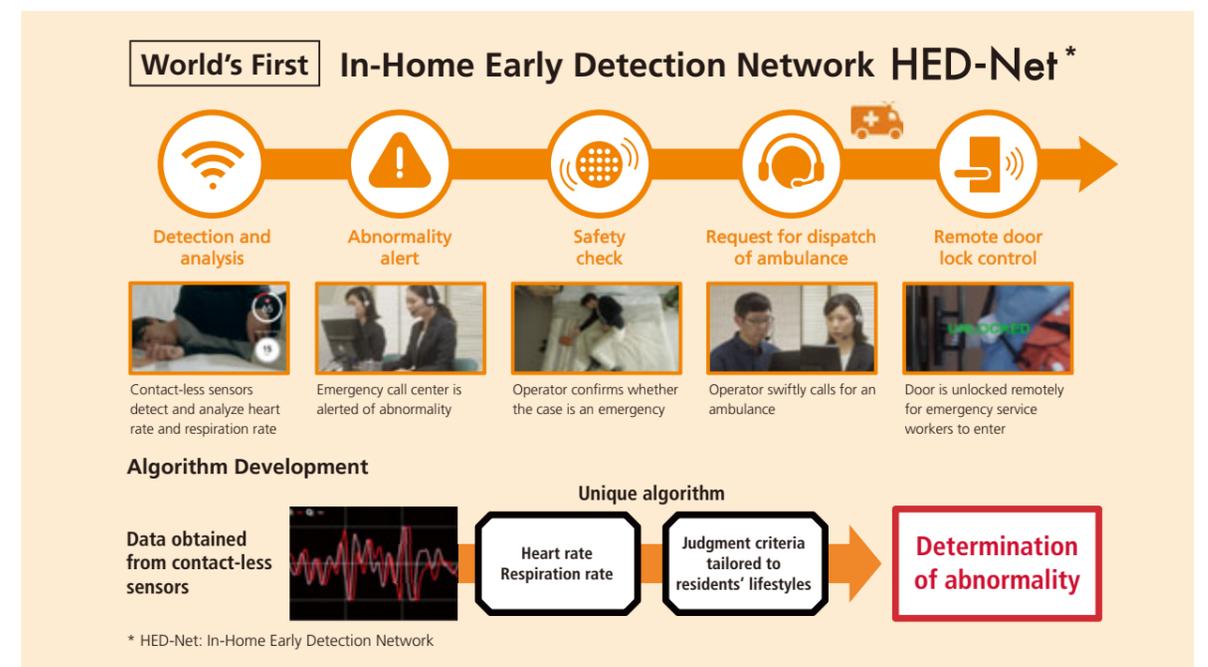
This open innovation is the result of advanced technologies centered on homes made possible through a unique approach of close cooperation among engineering, medicine, industry and academia.

## Evolution of the Platform House Concept

Sekisui House will use HED-Net as the starting point for further research and development of the Platform House Concept. We believe that monitoring changes in a resident's vital data over time will enable identification of risks and early detection of diseases. In the bedroom, for example, data on respiration during sleep can be used to detect sleep apnea, while sensors installed in the bathroom mirror would detect high blood pressure and other ailments. Furthermore, we are also considering offering personalized preventative care services at the appropriate time, once we can clearly identify how such services in areas such as exercise, sleep quality, and diet correlate with reduction in the risk of disease.

Following on from the theme of "health," the Platform House Concept will help us get closer to residents by successively introducing services for "connectedness" among people to enrich lives and for "learning," to discover life's potential.

Our global vision is to make home the happiest place in the world. Our Platform House Concept envisions homes that help residents achieve happiness in the era of the 100-year lifespan. Look forward to more initiatives under the Platform House Concept.



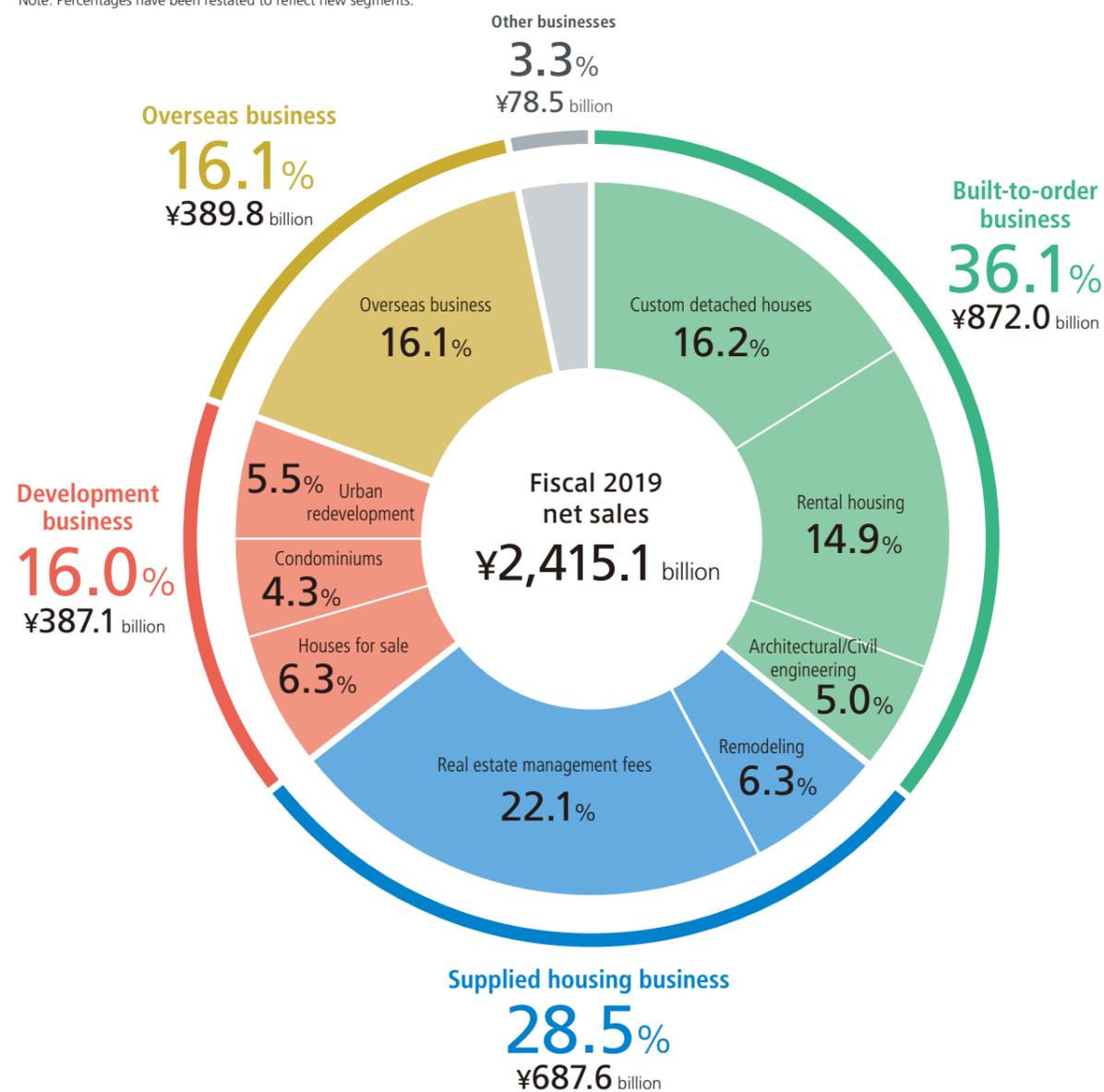
\* HED-Net: In-Home Early Detection Network

# The Sekisui House Group's Business Portfolio

The Sekisui House Group currently divides its operations into four areas: the built-to-order business, supplied housing business, development business, and overseas business. The built-to-order business creates high-quality houses on land owned by the customer. The supplied housing business works to increase the asset value of housing stock through remodeling and supports the management of rental housing through subleasing. The development business starts from land acquisition and other investments to create high-quality communities. The overseas business provides housing markets in other countries with the quality and advanced technologies we have cultivated in Japan.

## FY2019 Net Sales by Segment (Consolidated)

Note: Percentages have been restated to reflect new segments.



### Built-to-order business

#### Custom detached houses

Net sales: ¥390.9 billion

Design, construction and contracting of detached houses

#### Rental housing

Net sales: ¥360.0 billion

Design, construction and contracting of rental housing

#### Architectural/Civil engineering

Net sales: ¥120.9 billion

Design, construction and contracting of construction of buildings and civil engineering works



### Supplied housing business

#### Remodeling

Net sales: ¥152.7 billion

Remodeling and renovation of houses, etc.

#### Real estate management fees

Net sales: ¥534.8 billion

Subleasing, management, operation and brokerage of real estate, etc.



### Development business

#### Houses for sale

Net sales: ¥151.2 billion

Sale of houses and residential land; design, construction and contracting of houses on residential land for sale

#### Condominiums

Net sales: ¥103.9 billion

Design, construction and sale of condominiums

#### Urban redevelopment

Net sales: ¥131.9 billion

Development of office buildings and commercial facilities; management and operation of real estate owned by Sekisui House Group



### Overseas business

#### Overseas business

Net sales: ¥389.8 billion

Contracting of detached houses; sales of ready-built detached houses and residential land; and development and sale of condominiums, commercial facilities, etc. in overseas markets

[Business regions]

United States, Australia, United Kingdom, Singapore and China

### Other businesses

Net sales: ¥78.5 billion

Exterior business, etc.

# Changes in Strategy over Time and Positioning of the Fifth Mid-Term Management Plan

Sekisui House has announced its Fifth Mid-Term Management Plan, ending in FY2022, toward “making home the happiest place in the world,” the global vision for its third phase. We will implement growth strategies under a core policy of further strengthening core businesses and embarking on new businesses.

## FY2014-FY2016 Third Mid-Term Management Plan

**[Fundamental Policy]**  
Strengthening synergies in the Group and taking on new challenges in the residential-related business

**[Key Measures]**

**Built-to-Order Business**

Enhance product appeal, ability to make proposals and construction capabilities

**Supplied Housing Business**

Enhance cooperation within the Group

**Development Business**

Conduct quality community and town development  
Build brands overseas  
Establish asset value for the future

**Main Management Indicators** (FY2016 Results) (Billions of yen)

Net sales	2,026.9
Operating income	184.1
Ordinary income	190.9
Profit attributable to owners of parent	121.8
EPS	¥175.48
ROE	11.3%

## FY2017-FY2019 Fourth Mid-Term Management Plan

**[Fundamental Policy]**  
Building the foundation for the residential-related business toward BEYOND 2020

**[Key Measures]**

**Built-to-Order Business**

Lead the industry as the top brand and challenge a new built-to-order business

**Supplied Housing Business**

Expand the business domain by creating new markets, taking advantage of existing houses

**Development Business**

Focus on balance between growth investments and the asset turnover ratio

**Overseas Business**

Increase business opportunities by providing high value-added houses and housing environments internationally

**Main Management Indicators** (FY2019 Results) (Billions of yen)

Net sales	2,415.1
Operating income	205.2
Ordinary income	213.9
Profit attributable to owners of parent	141.2
EPS	¥205.79
ROE	11.5%

## FY2020-FY2022 Fifth Mid-Term Management Plan

**Management Direction**

Deployment of growth strategies focused on the residential business domain

**Fundamental Policy**

Further strengthening core businesses and embarking on new businesses

**[Key Measures]**

**Built-to-Order Business**

Implement three brand strategies  
Promote focused S and A area marketing

**Supplied Housing Business**

Actively deploy proposal-based and environment-based remodeling  
Strengthen rental housing management and brokerage business through change in company name to “Sekisui House Real Estate”

**Development Business**

Pursue ROA management  
Generate stable profit by improving turnover and acquiring prime land

**Overseas Business**

Start the global rollout of Sekisui House technologies and advance to the next stage

**Main Management Indicators** (Plan)

(Billions of yen)

	2020	2021	2022
Net sales	2,585.0	2,578.0	2,700.0
Operating income	206.0	210.0	220.0
Ordinary income	205.0	208.0	219.0
Profit attributable to owners of parent	137.0	138.0	147.0
EPS	¥202.52	¥204.00	¥217.31
ROE	10.6%	Generate a stable ROE of at least 10%	

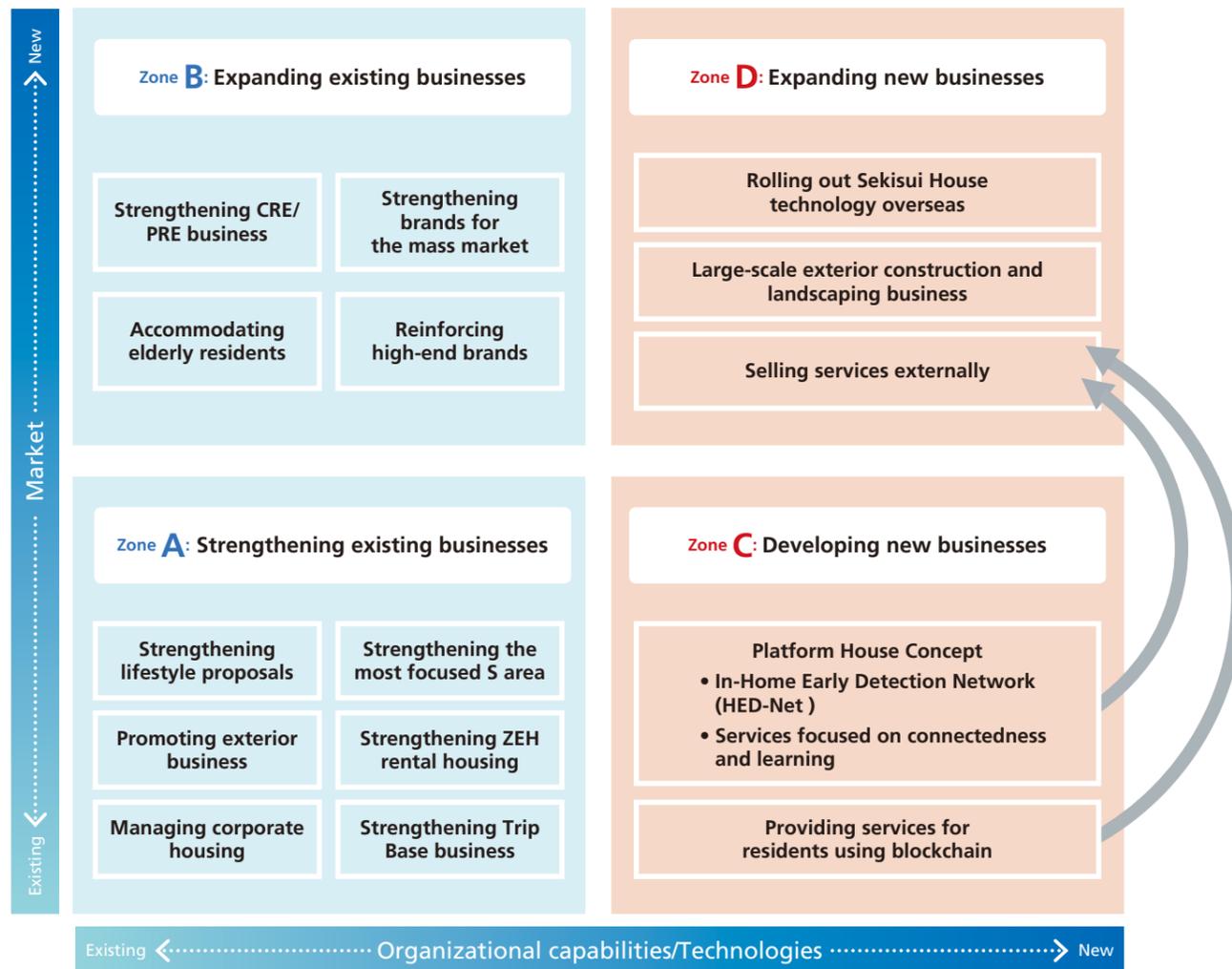
Achieve record-high income in FY2022

# Commentary on the Strategies of the Fifth Mid-Term Management Plan

## Further Strengthening Core Businesses and Embarking on New Businesses

To realize our long-term vision, we will further strengthen our core businesses by enhancing our sensitivity and adaptability to market needs. At the same time, as one of the strategies of the Fifth Mid-Term Management Plan, we will steadily develop the Platform House Concept and other new businesses that utilize IoT.

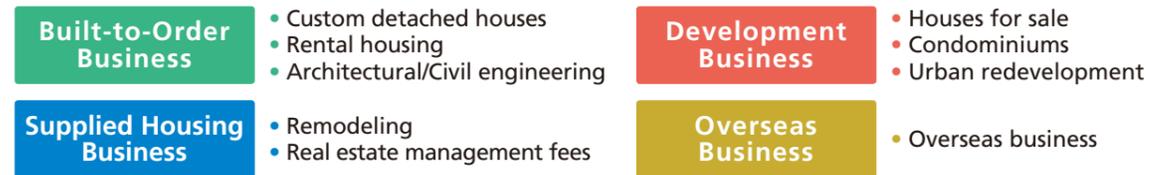
Furthermore, we will invest in the expansion of new businesses, including the rollout of Sekisui House technologies overseas, and strengthen our foundation with a view to sustainable growth, including through open innovation.



In working toward the fundamental policy of further strengthening core businesses and embarking on new businesses, we will strengthen cooperation within the Group and maximize our core competencies.

We will use Sekisui House technologies for enhancing integration of technologies and lifestyle design, particularly in existing businesses, and work to expand our service business using the new Platform House Concept and IT technologies such as blockchain. By organically extending these initiatives, we will create business opportunities in new markets.

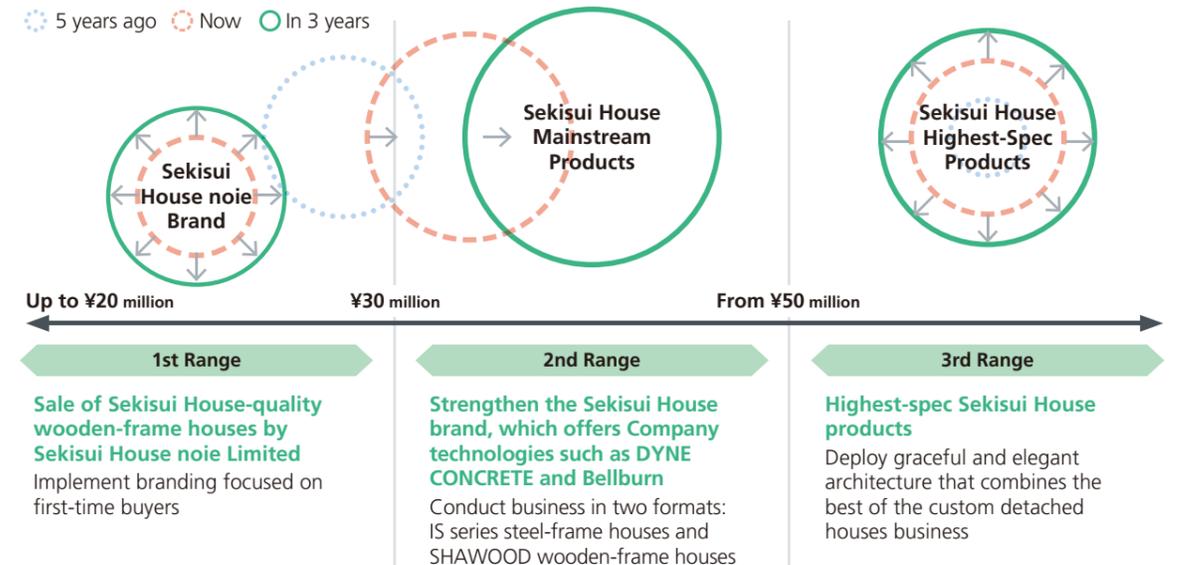
# Business Strategies of the Fifth Mid-Term Management Plan



## Built-to-Order Business

### Custom Detached Houses

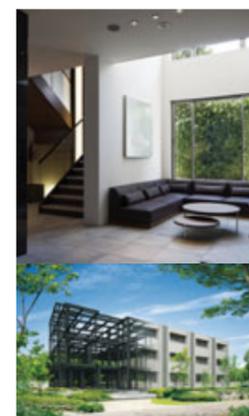
#### Implement three brand strategies



Proposal of the Company's core technologies such as ZEH, SHEQAS and Airkis and lifestyle design proposals such as Family Suite, REGNUM COURT and the Platform House Concept created through the interweaving of the strengths of these technologies.

## Rental Housing, Architectural/Civil Engineering

### Promote focused S and A area<sup>1</sup> marketing



- Strengthen corporate real estate (CRE) and public real estate (PRE) businesses<sup>2</sup>**
  - Strengthen proposals for utilization of assets owned by companies and government in S and A areas (prime city center locations)
  - Strengthen business solution proposals utilizing big data to address the issues faced by companies and government (such as diverse working styles, improvement of labor productivity, attraction and retention of employees and development of the living environment)
- Supply value-added Sha Maison rental housing and price leader strategy**
  - Strengthen value-added proposals of rental housing to be supplied in S and A areas
  - Aim to be price leader by setting prices commensurate with added value resulting from the promotion of ZEH specifications, built-in elevators, harmony with the environment and the surroundings, increased use of IT and IoT, and other innovation
- Strengthen supply of mid- and high-rise buildings focusing on the Company's Flexible B System construction method**
  - Strengthen supply of 3- and 4-story properties, which have high market competitiveness in S and A areas, using the Company's Flexible B System construction method
  - Increase synergy in the Group in mid- and high-rise apartment properties and non-residential properties through collaboration with Konoike Construction

1. Areas in cities that the Company classifies as strategic locations for business development  
 2. Businesses that propose effective uses for real estate owned by corporations (CRE) and by public organizations and administrative agencies (PRE)

# Business Strategies of the Fifth Mid-Term Management Plan

## Supplied Housing Business

### Remodeling

#### Actively deploy proposal-based and environment-based remodeling



- Sekisui House detached houses (Three Sekisui House remodeling companies)**
  - Environment-based remodeling: Promote energy-saving remodeling in line with advances in thermal insulation performance. *Idocoro Dan-netsu* (location-based heating), Green First renovation that realizes comfortable homes focusing on the living, dining and kitchen space, where families spend the most time.
  - Proposal-based remodeling: Promote remodeling to create flexible spaces according to family lifestyle. Family Suite renovation proposing a new style of home that reflects diversifying values and unique lifestyles.
- Sha Maison rental housing (Six Sekisui House Real Estate companies)**
  - Improve the competitiveness of properties in the rental market by raising asset value and tenant satisfaction and provide consulting services to owners for the stable management of rental housing. Remodeling aimed at maintaining and improving rent levels, including changing layout, installing popular facilities in addition to carrying out regular maintenance such as freshening up the exterior and updating equipment.
- Houses built by others (17 Sekiwa Construction companies)**
  - Implement renovation and remodeling focusing on earthquake resistance and eco-friendly improvements. Remodeling and renovation of many different types of buildings, including detached houses, rental housing, apartment buildings and non-residential buildings, focusing on earthquake resistance and eco-friendly improvements with a high awareness of social impact.

### Real Estate Management Fees

#### Strengthen rental housing management and brokerage business through change in company name to "Sekisui House Real Estate"



- Strengthen relations with owners of rental housing**
  - Real estate management fees business (Newly built housing)**  
Seek further brand unification and synergy by linking Sekisui House Real Estate with the Sha Maison brand and strengthen partnerships with owners for long-term stable management.
  - Real estate management fees business (Existing housing)**  
Mutually benefit Sekisui House Real Estate, owners and tenants by preventing rents from falling and maintaining and improving rents through stronger property management, remodeling and renovation.
  - Brokerage (Real estate trading)**  
Further promote the brokerage and distribution of housing and land for building through SumStock and the purchase and resale of existing housing in order to build a Sekisui House Real Estate Group that is strong in residential land.
- Improve the level of tenant services**
  - Work toward utilizing blockchain and form a consortium based on cross-sectoral cooperation to realize a seamless renting process.
  - Seek further improvement in the level of tenant services through demonstration experiments and research utilizing information technologies such as IoT and AI.

## Development Business

### Pursue ROA management Generate stable profit by improving turnover and acquiring prime land

#### Houses for Sale



- |  |  |
|--|--|
| <b>Policies</b>                          | <ul style="list-style-type: none"> <li>Strengthen strategic purchases and manage inventory.</li> <li>Focus on the development of beautiful communities.</li> </ul>   |
| <b>Targeted regions</b>                  | <ul style="list-style-type: none"> <li>Focus on land purchases in priority regions (target areas) to be determined by each regional branch throughout Japan.</li> <li>Strengthen cooperation over land purchases, especially between Sekisui House and Sekisui House Real Estate.</li> <li>Make Group-wide purchases to strengthen sales of Sekisui House noie.</li> </ul> |
| <b>Consideration for the environment</b> | <ul style="list-style-type: none"> <li>Achieve both beauty and functionality through cityscape evaluation system and building evaluation system, to be established in internal standards.</li> </ul>   |
| <b>Social issues</b>                     | <ul style="list-style-type: none"> <li>Buy up properties for resale in cooperation with the remodeling business, including regeneration of unoccupied housing in large housing complexes.</li> </ul>   |

## Condominiums



- |  |   |
|--|---|
| <b>Policies</b>                          | <ul style="list-style-type: none"> <li>Control balance of investment and promote development focusing on prime locations.</li> </ul>  |
| <b>Targeted regions</b>                  | <ul style="list-style-type: none"> <li>Continue development focused on Tokyo, Nagoya, Osaka and Fukuoka and purchase land in central areas.</li> <li>Super high-grade land in major metropolitan areas such as Sapporo, Sendai, Hiroshima, Fukuoka and Okinawa should be examined on a case-by-case basis.</li> </ul> |
| <b>Consideration for the environment</b> | <ul style="list-style-type: none"> <li>Apply environmental strategies developed in the custom detached houses business to condominium business. Expand ZEH condominiums.</li> </ul>   |
| <b>Social issues</b>                     | <ul style="list-style-type: none"> <li>Contribute to urban redevelopment by taking on the challenge of redeveloping aging condominiums on the market.</li> </ul>  |

## Urban Redevelopment

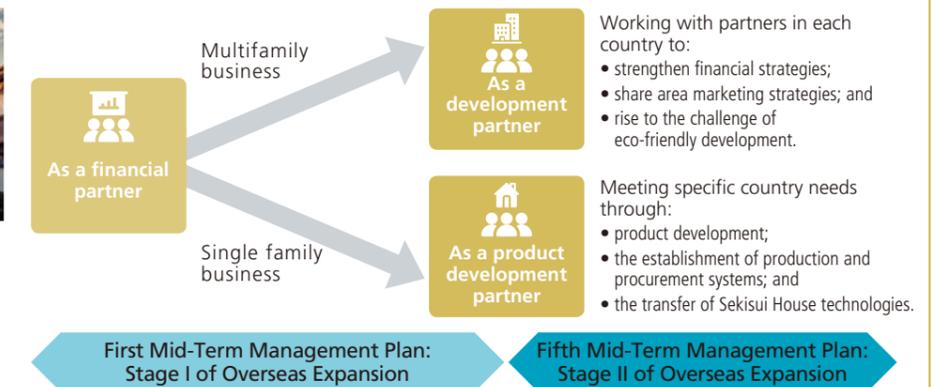


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|--|--|
| <b>Policies</b>                          | <ul style="list-style-type: none"> <li>Secure stable pipeline and strengthen exit strategies.</li> </ul>   |
| <b>Consideration for the environment</b> | <ul style="list-style-type: none"> <li>Actively participate in urban redevelopment projects in major cities and conduct development focusing on hotel projects and commercial facilities.</li> <li>Expand Prime Maison and other rental condominiums for single persons mainly in the Tokyo Metropolitan area, and focus on fast turnover-type projects.</li> <li>Promote regional revitalization through the <i>Michi-no-Eki</i> Stations Project in cooperation with municipal governments in regional areas.</li> </ul> |
| <b>Social issues</b>                     | <ul style="list-style-type: none"> <li>Provide support for urban development aimed at realizing compact cities by strengthening relations with regional administrations and local public bodies and by proposing solutions.</li> </ul>   |

## Overseas Business

### Overseas Business

#### Start the global rollout of Sekisui House technologies and advance to the next stage



## New Business Initiatives

### Expand supplied housing business by promoting new business domains

Proactively engage in M&A and alliances to generate new businesses and innovation		
Exterior business	Interior business	Living services business
<ul style="list-style-type: none"> <li>Strengthen alliances with exterior and landscaping companies in each region, step up efforts in the large-scale exterior construction works and landscaping projects and other measures with the aim of becoming a leading company in the exterior business</li> <li>Review distribution channels and delivery of exterior components to improve cost performance</li> </ul>	<ul style="list-style-type: none"> <li>Sell products of affiliated furniture manufacturers and manufacture and sell original Sekisui House furniture to improve overall coordination of furniture, curtains and interior accessories in properties</li> <li>Provide information on interior coordination to rental housing residents and general users</li> </ul>	<ul style="list-style-type: none"> <li>Revamp the after-sales customer support system to provide more complete services</li> <li>Provide living services to owners and residents and proactively develop these services with alliance partners</li> <li>Introduce IT to begin one-stop services for the processes of building and renting out houses</li> </ul>

# Analysis of Financial Strategy



## Financial Strategy from a Medium-to-Long-Term Viewpoint

**Shiro Inagaki**

Vice Chairman & Representative Director

Based on a global vision of making home the happiest place in the world, Sekisui House is focusing on creating value under the new theme of “happiness for residents” in anticipation of the era of the 100-year lifespan, in addition to its traditional pursuit of safety, security and comfort.

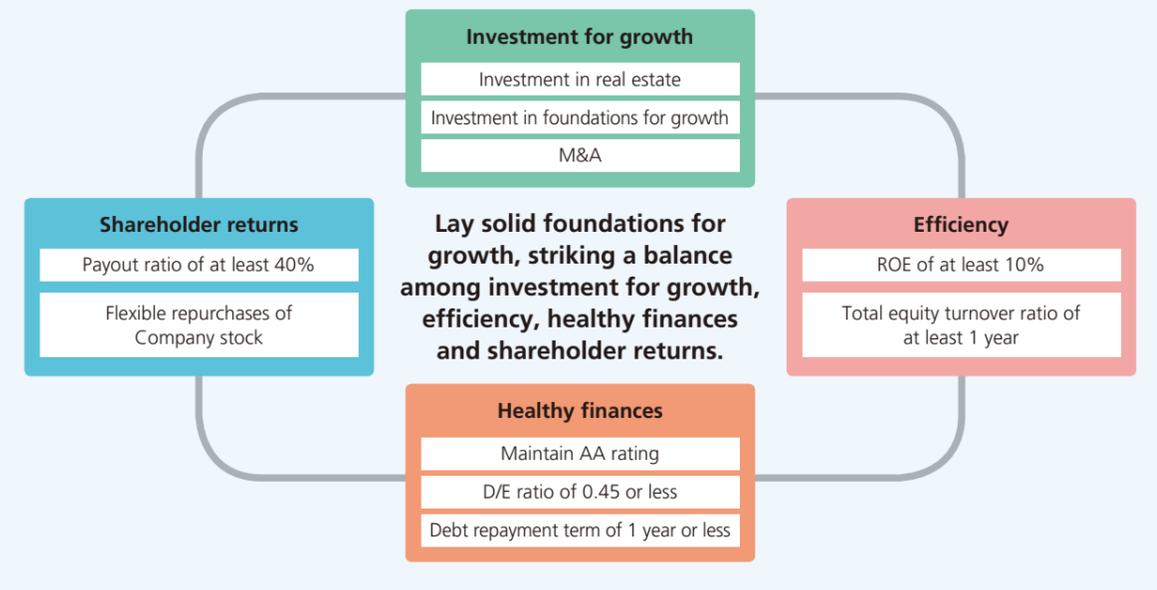
For our financial strategy, we have positioned the three years of the Fifth Mid-Term Management Plan that started in fiscal 2020 as a period for establishing a strong financial position to support sustainable growth. Under the Fourth Mid-Term Management Plan, we significantly improved financial soundness with a strategy that emphasized a balance among investment for growth, healthy finances (credit rating) and shareholder returns. We view the Fifth Mid-Term Management Plan as a stage for continuing to enhance each of these aspects while maintaining a basic stance of balance among them. We will fulfill our responsibilities to customers, shareholders and society by

### Fourth Mid-Term Management Plan Initiatives and Results

<b>Investment for Growth</b>	We have been emphasizing asset efficiency in investing to improve the total equity turnover ratio. The Management Meeting deliberates on the appropriateness of large-scale investments from various perspectives including risk, profitability and the business portfolio, and discussions are always lively. In addition to these initiatives, we have been improving free cash flow by promoting return on investment.
<b>Healthy Finances</b>	When conducting large-scale M&A, we worked to increase financial stability and flexibility by issuing hybrid bonds (¥120 billion), and have thus maintained an AA rating. Reduction of net interest-bearing debt from increased free cash flow significantly improved financial soundness.
<b>Shareholder Returns</b>	Steady growth of earnings per share (EPS) resulted in continuous increases in dividends. Furthermore, with healthier finances, we worked to improve capital efficiency by conducting flexible share repurchases, and return on equity (ROE) has been stable at the target level of 10%.

### Fundamental Policy of Fifth Mid-Term Management Plan

- 1** Lay growth foundations with eye on Three-phase Management Vision and where the Group should be in 10 years
- 2** Build a strong financial position to respond flexibly and agilely to growth opportunities
- 3** Promote investment for growth and strengthen shareholder returns for sustainable improvement in corporate value



investing in strengthening our business foundation, including R&D and human resource development, and by establishing a strong financial position.

### Maintaining an Appropriate Level of Financial Leverage with a D/E Ratio of 0.45 or Less

Sekisui House has entered its third phase and has started its Fifth Mid-Term Management Plan.

To support the sustainable growth of Sekisui House, we must establish a strong financial position. This will entail preparing for the risks in our operating environment to respond flexibly to changes in the real estate market, as well as securing adequate financial resources to make agile and flexible investment decisions after a rational assessment of growth investment opportunities, even if risks materialize.

In addition, the Company emphasizes its credit rating as

an evaluation standard for its financial soundness. By ensuring healthy finances commensurate with business risks, we aim to maintain our AA ratings from two domestic rating agencies.

The Fifth Mid-Term Management Plan targets a D/E ratio of 0.45 or less as an appropriate level of financial leverage, premised on maintaining the current AA ratings. We intend to keep the debt repayment term (net debt/EBITDA) at one year or less, even if that means facing financial pressure.

### Conducting Management with an Awareness of the Cost of Equity and Asset Efficiency

We are striving to achieve both growth in each business and improvement in asset efficiency so that we can continuously generate ROE that exceeds the cost of shareholders' equity. Our aim is ongoing improvement in corporate value.

We recognize the cost of equity for Sekisui House to be approximately 6.0%, so we consider ROE of 10% to be the minimum for exceeding this cost.

ROE for fiscal 2019 was 11.5%. Breaking down ROE into its three components, the profit margin was 5.8%, the total equity turnover ratio was 0.96 times and financial leverage was 2.06. Our future target levels are at least 6%, at least 1.2 times and approximately 2.0, respectively. As a step toward achieving these targets, we will steadily implement measures under the Fifth Mid-Term Management Plan with the aim of achieving a profit margin of at least 5%, a total equity turnover ratio of at least 1 time, and financial leverage of approximately 2.0.

In tandem with improving asset efficiency, we will work to improve our balance sheet through measures including gradually selling off cross-shareholdings and reducing debt. We also intend to further enhance shareholder returns while keeping an eye on operating cash flow and shareholders' equity.

The businesses conducted by the Sekisui House Group are broadly divided into non-asset-type businesses (the built-to-order and supplied housing businesses) and asset-type businesses (the development and overseas businesses). In non-asset-type businesses, we are pursuing higher profit margins with a thorough management focus on the break-even point. In asset-type businesses, we are pursuing higher

asset efficiency. In addition to these measures, one strategy we believe has great potential going forward is to develop a portfolio of non-asset-type operations within the asset-type development business and overseas business to enable further growth and improvement in efficiency.

### Allocation of Investment for Growth and Stepping Up M&A

Under the Fifth Mid-Term Management Plan, we will promote investment for growth and work to improve efficiency for sustainable growth.

Our first focus of investment will be in areas where we can expect high growth. Specifically, the largest investment will be in domestic and overseas real estate, with plans to invest ¥680 billion in Japan and ¥970 billion overseas over three years. When investing in real estate, we focus on asset efficiency (turnover) from the perspectives of investment efficiency and risk management. We also set and verify a hurdle rate (internal rate of return) to determine whether return from investment in the project will exceed capital cost.

Moreover, we will emphasize investment to build a foundation for sustainable growth. In addition to ongoing

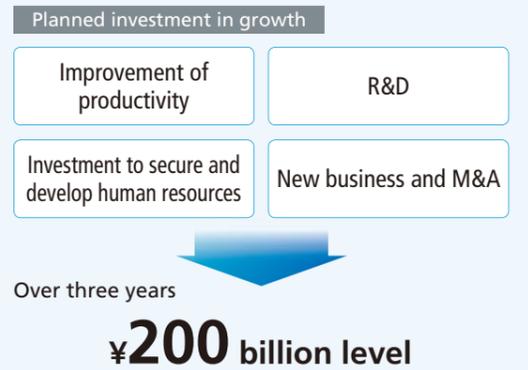
## Growth Investment

### Promote investment for sustainable growth and seek to improve efficiency

- Make investments in foundation for growth from a medium-to-long-term perspective in addition to investments in the growing real estate sector
- Focus on improving asset efficiency in asset-type businesses
- Actively consider M&A when strengthening core businesses or when embarking on new businesses

Planned investment in real estate		(Billions of yen)	
	Domestic businesses	Overseas businesses	Total
Investment	680.0 (631.9)	970.0 (874.9)	1,650.0 (1,506.8)
Recovery	680.0 (810.1)	1,120.0 (975.3)	1,800.0 (1,785.4)
Net investment	0.0 (-178.2)	-150.0 (-100.4)	-150.0 (-278.6)

Note: Figures in parentheses indicate actual results under the Fourth Mid-Term Management Plan



## Efficiency

### Generate stable ROE that exceeds the cost of equity

- Generate stable ROE of at least 10%, exceeding the cost of shareholders' equity (recognized at approx. 6%)
- Improve ROE through improvement in profit margin and turnover

#### ROE Calculation Method and Breakdown

	ROE =	Profit margin	×	Total equity turnover ratio	×	Financial leverage
Fourth Mid-Term Management Plan (Final FY result)	11.5%	5.8%		0.96 times		2.06
Fifth Mid-Term Management Plan (Target)	At least 10%	At least 5%		At least 1 time		Approx. 2.0
Target level		At least 6%		At least 1.2 times		Approx. 2.0

#### Trend in ROE



investment to strengthen our business foundation—which includes R&D, production, construction and other fields as well as securing and developing human resources—we will also consider M&A when strengthening core businesses or embarking on new businesses. Looking back at the results of our M&A during the Fourth Mid-Term Management Plan, we made subsidiaries of Woodside Homes, a builder of detached houses based in Utah, and Otori Holdings, which is the holding company of general contractor Konoike Construction. We work with them to generate new business opportunities through cross-company utilization of experience and know-how. We expect M&A to continue to be an important option for acquiring the pieces needed to achieve our management vision during the Fifth Mid-Term Management Plan.

To become a leading company in ESG management we need to work for the happiness of all stakeholders through dialogue and discussion. We will also bear in mind improvement of stakeholder value when examining areas for investment.

### Policy on Shareholder Returns and Share Repurchases

We aim to achieve steady increases in dividends from continuous growth in EPS. Under the Fifth Mid-Term Management Plan, we will target an average payout ratio of at least 40% over the medium term and continuous dividend growth. Dividends increased for the eighth consecutive year to ¥81 per share in fiscal 2019. In fiscal 2020, we plan to pay ¥86 per share, including a commemorative dividend of ¥5 per share to celebrate the Company's 60th anniversary.

As under the Fourth Mid-Term Management Plan, the Company will continue a policy of implementing timely and flexible repurchases of its own shares. During the Fourth Mid-Term Management Plan, we repurchased 7 million shares to provide returns to shareholders. During the Fifth Mid-Term Management Plan, we will make appropriate decisions based on a comprehensive consideration of factors including investments, financial soundness, ROE and the level of shareholder returns, including dividends.

Enhanced engagement with shareholders and investors is important for the Sekisui House Group to achieve sustainable growth and improvement in corporate value. Going forward, we will continue to actively engage in IR activities and appropriately reflect the guidance and opinions of our shareholders and investors in our management.

# Financial and Non-Financial Highlights (Consolidated)

## Net Sales



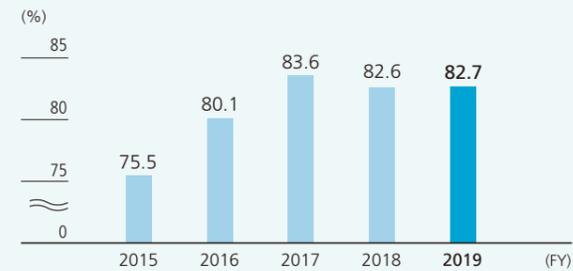
FY2019 sales increased 11.8% year on year to a record ¥2,415.1 billion. The overseas business performed well, especially in the United States. Consolidated results include the October-December quarter sales of Otori Holdings (the holding company of Konoike Construction), which became a consolidated subsidiary on October 1, 2019.

## Operating Income and Operating Margin



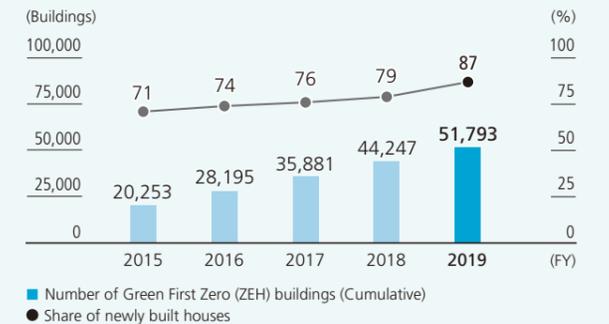
Reflecting record net sales, FY2019 operating income increased 8.5% year on year to ¥205.2 billion, exceeding ¥200 billion for the first time. Operating income in the overseas business increased 172.6% year on year, contributing significantly to consolidated operating income.

## Detached House CO<sub>2</sub> Emission Reduction Rate (Compared with FY1990)



We have focused on increasing sales of Green First Zero houses with the aim of achieving zero CO<sub>2</sub> emissions throughout the entire housing lifecycle by FY2050. As a result, FY2019 CO<sub>2</sub> emissions were 82.7% below FY1990 levels.

## Green First Zero (ZEH) Progress



We are promoting the sale of Green First Zero net zero energy houses (ZEH), which are comfortable, energy-neutral houses that both save and generate energy. As a result, Green First Zero houses accounted for 87% of new orders in FY2019, surpassing our FY2020 target of 80%. Sekisui House Group has sold a cumulative total of 51,793 Green First Zero houses.

## Profit Attributable to Owners of Parent



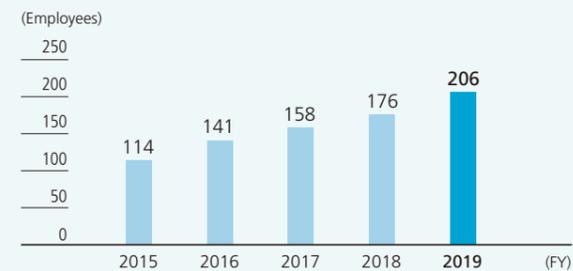
FY2019 profit attributable to owners of parent increased 9.9% year on year to a record ¥141.2 billion and earnings per share grew steadily, increasing ¥19.26 to ¥205.79.

## Dividends per Share and Dividend Payout Ratio



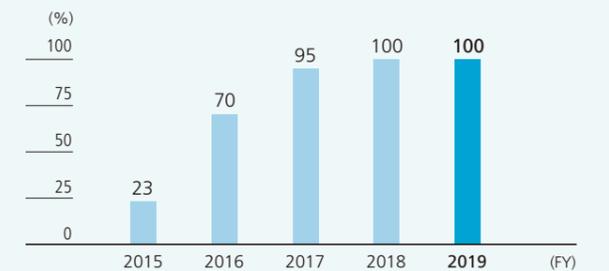
Dividends per share applicable to FY2019 increased ¥2 year on year to ¥81, consisting of an interim dividend of ¥40 per share paid at the end of the second quarter and a year-end dividend of ¥41 per share. The payout ratio was 39.4%.

## Number of Female Employees in Managerial Positions (Consolidated)



We are implementing various initiatives to have 310 female employees in managerial positions, or 4.5% of all employees in managerial positions, by the end of FY2025. We cleared our target with 206 female employees in managerial positions, or 3.44% of all employees in managerial positions, in FY2019, and will continue our efforts to develop female human resources toward achieving our target.

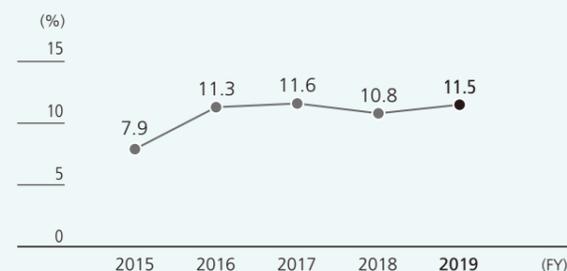
## Male Employee Use of Childcare Leave\*



We launched a childcare program called *Ikumen* Leave in 2018. It encourages male employees with children under the age of three to take childcare leave for one month or longer. All eligible male employees have used the program during the two years since its launch.

\* Number of employees using the program ÷ Number of births. In FY2018, the number of employees using the program exceeded the number of births, resulting in the usage figure of 100%.

## Return on Equity



Return on equity (ROE) is calculated as net income divided by shareholders' equity. During the Fourth Mid-Term Management Plan, we achieved our target of stable ROE of 10% or higher by increasing earnings per share through income growth and by improving capital efficiency through flexible acquisitions of the Company's stock. We will continue working to maintain ROE of 10% or higher to exceed the cost of capital.

## Cash Flows



While investing with a focus on asset efficiency, we increased free cash flow by emphasizing return on investment. As a result, we significantly increased our financial soundness by substantially reducing net interest-bearing debt.

## Composition of the Board of Directors



We ensure that both genders are represented on the Board of Directors and that the board has an appropriate number of members, three or more of whom are outside directors (as of April 24, 2020). In fiscal 2019, three of the eleven members of the Board of Directors were outside directors, meaning the ratio of outside directors was 27.3%.

## Number of Employees (Consolidated)



Otori Holdings, the holding company of Konoike Construction, became a consolidated subsidiary on October 1, 2019, which increased the number of employees to 27,397 on a consolidated basis.

# Making Home the Happiest the World—Lifestyle Proposals

# Place in

## Integrating Technologies and Lifestyle Proposals to Provide Happiness

Sekisui House makes homes happy by integrating sophisticated technologies, such as high-strength beams and the industry's highest level of thermal insulation, with lifestyle proposals that offer comfort and are tailored to residents. We established the Human Life R&D Institute in 2018 to specialize in themes related to happy living including family connectedness and mindfulness. The institute is Japan's first-ever corporate research institution to focus on the theme of happiness.

This section presents how our new Family Suite concept, which many of our customers have selected since its launch, integrates technologies and lifestyle proposals that result in happy homes with durable construction, and how our ability to make proposals contributes to family happiness over the medium to long term.



# 2

## Achieving a happy home absolutely requires the ability to continuously innovate technology.

We need to continuously innovate the various technologies that support the physical aspects of housing in order to reflect the broadly based knowledge we have gained from happiness research and people's housing needs in actual products. Family Suite offers unprecedented spaciousness because we have developed the high-strength Dynamic Beam, which is about 10 times stronger than our standard beams.\* The best in the industry, this technology eliminates pillars, enabling a large living space with a span of seven meters. Using this technology, we can offer a variety of living room proposals.

Moreover, the Family Suite concept can be implemented in steel-frame houses such as IS STAGE and IS ROY+E, as well as in SHAWOOD wooden-frame houses, and even in remodeling. The ability of our highly experienced designers and architects enables us to make proposals for amazing, cost-effective spaces that are better than conventional plan proposals for the same building shape.

\*Comparison of second moment of area (resistance to bending) with a standard beam

# 3

## Homes that accommodate family growth and life stage

Family Suite proposes space that can be adapted to a wide range of resident desires and life stages. For example, a family could begin by using space in the large room as a nursery when children are born, without impeding household chores. This space easily becomes a play area for young children, allowing parents to watch over them while doing household chores and other work. When the children enter elementary school, the space can be used as a study area with desks for children to do homework. Moreover, when the children grow up and leave home, the empty space can be flexibly remodeled for use by grandparents. The large partition-free space can easily be adapted to different uses and room configurations as families change, allowing families to enjoy their home from generation to generation.

# 1

## Family Suite: An outcome of happiness research

Sekisui House has been conducting R&D in the domains of technology and lifestyles, and in 2018 deployed the results of happiness research in new structural technologies to create Family Suite. Family Suite involves exciting new living room proposals that enable families to spend time together in ways that transcend the conventional living room, dining room and kitchen (LDK) configuration.

Our happiness research surveys revealed that families with children place the highest importance on time spent together in the living room, but that each member of the family also wanted to relax and do their own thing during family time. This is the concept of Family Suite, an outcome of happiness research that shows family happiness comes from connectedness and togetherness with enough personal space in a spacious living room without partitions.

In 2019, we were able to expand our array of Family Suite proposals for happiness based on connectedness, personal freedom and health by creating a spacious living room under one roof. Moreover, Family Suite has gained the support of more than 50% of our customers because we are able to address an exceptional range of interior and exterior structural and aesthetic requirements, regardless of taste.

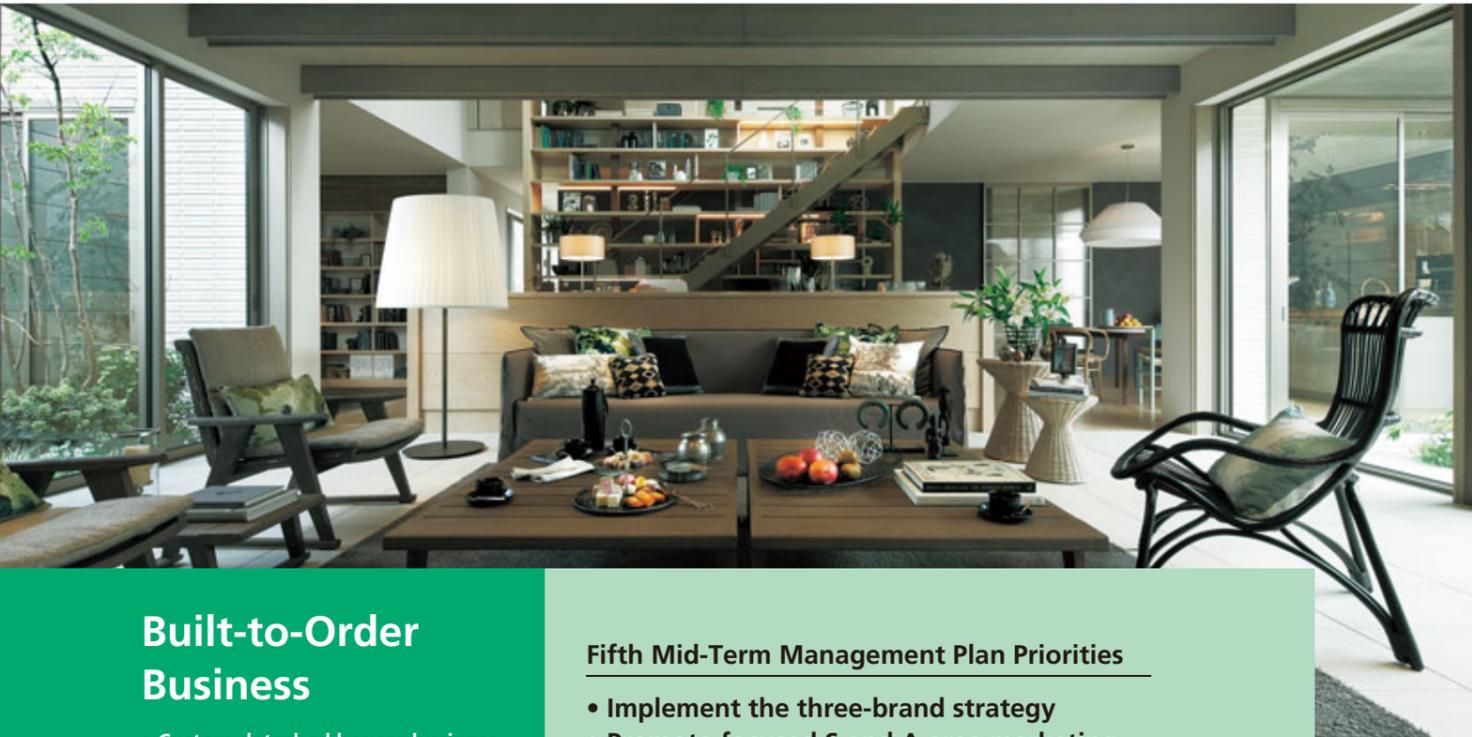
## Open plans that meet the needs of growing families



Year 2  
Household space: Space for comfortably raising children and doing household chores

Year 5  
Children's space: Space where parents can keep an eye on children as they play

Year 9  
Study space: Space where everyone can study and learn together



## Built-to-Order Business

- Custom detached houses business
- Rental housing business
- Architectural/Civil engineering business

### Fifth Mid-Term Management Plan Priorities

- Implement the three-brand strategy
- Promote focused S and A area marketing (prime city center locations)

### Long-Term Vision and Growth Strategy

#### Launch and expand new businesses aimed at changing the definition of housing.

Since the Company's founding, the built-to-order business has adhered to the slogan "comfortable living—now and always." A leader in the housing industry based on the ability to quickly anticipate changing contemporary needs, this business will continue to focus on adding the value of happiness for its customers in the Company's third phase.

The objective of our Platform House Concept is to create homes that help make their residents happy. The three themes of this concept are the health of residents, connectedness with people, which enriches life, and learning that helps resident's discover life's potential. Successfully installing services in homes to support happiness will lead to big data structures that fuse living environments and lifestyles, creating new value through lifestyle design and services.

The Human Life R&D Institute, established in 2018, is conducting research under the theme of "housing where the longer you live, the happier you will become."

### FY2019 Achievements

Ratio of Orders for 3- and 4-Story Structures (Value basis)

Custom detached houses  
**11.1%**  
Rental housing  
**73.4%**

Ratio of Orders from Non-Housing Markets (Value basis)

**20.8%**  
(+3.4 pt. year on year)

Environmental responsibility and comfort are among the various aspects of research aimed at embodying happiness in homes through advanced technologies. Sekisui House provides safe and comfortable homes not only as shelter, but also as spaces where people can live happily. We provide high-value-added solutions by incorporating new lifestyle proposals into the expertise we have cultivated in the custom detached houses business and the rental housing business as well as our new area of involvement in the architectural/civil engineering business.

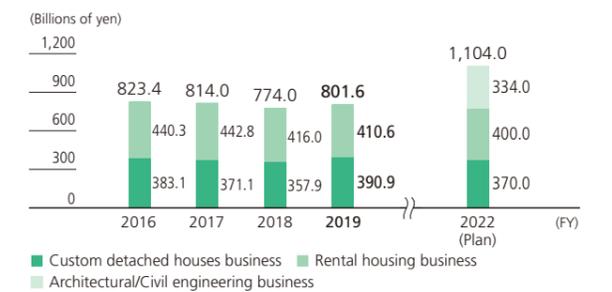
### Fifth Mid-Term Management Plan Initiatives

#### Make lifestyle proposals and build a foundation for living space.

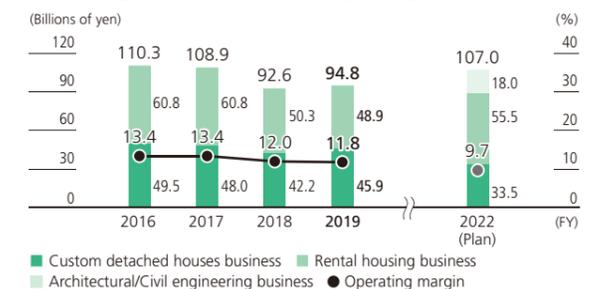
We are implementing a three-brand strategy according to price range that entails promoting sales of Sekisui House's second brand of houses built by Sekisui House noie Limited, which began operating in 2020; selling our mainstream products in the two standard designs of the Sekisui House steel-frame IS series and SHAWOOD brand wooden-frame houses; and expanding the top-grade Sekisui House brand that offers graceful and elegant architecture. By adding lifestyle proposals, we aim to increase unit price per home and market share.

Our strategy of focusing on specific areas in the rental housing business involves establishing price leadership by leveraging ZEH, IoT and other measures to expand the supply of high-value-added Sha Maison rental housing. We will also build on the competitiveness of the Flexible β System construction method in non-residential markets using the Trip Base *Michi-no-Eki* Stations Project, and create synergies with Konoike Construction in the architectural/civil engineering business. Furthermore, we will continue to use big data and other means to propose solutions in the CRE-PRE (corporate and public real estate) business.

### Sales



### Operating Income and Operating Margin



### Fifth Mid-Term Management Plan Close-Up

#### Sekisui House noie Launched as Second Brand for Working Couples with Children

In February 2020, we began operations at Sekisui House noie Limited, a new company for sales of our "second brand" of lower-priced detached houses. Sekisui House noie proposes living arrangements that are "just right" in terms of quality and cost for its target segment of busy working couples in their twenties and thirties who are raising children. Sekiwa Construction handles construction to ensure Sekisui House quality and Sekisui House customer service centers provide after-sales service for the same level of peace of mind. In addition to stepping up sales of our existing PARTAGE, the company is rolling out the new net zero energy house (ZEH)-compatible PARTAGE *Yosemune* (hip-roof construction) model. Our goal is to expand the first pricing tier of the three-brand strategy of the Fifth Mid-Term Management Plan.



PARTAGE Yosemune model

## Custom Detached Houses Business

### Three-Brand Strategy



### Advanced Sekisui House Technologies

**DYNE CONCRETE: Highest Grade Exterior Wall Material for Steel Frames**

DYNE CONCRETE features outstanding strength and durability, and also enables beautiful, warm design with detailed texture that is difficult to achieve with conventional concrete.

**Bellburn Wall Panels: Exclusive to SHAWOOD**

Bellburn earthenware exterior wall panels feature a warm, soft texture as well as a proprietary construction method that ensures excellent durability while maintaining a beautiful like-new finish.

**SHEQAS Seismic Control System**

The SHEQAS seismic control system absorbs seismic energy and converts it to heat energy, which can lower structural deformation by 50%, thus reducing interior and exterior damage. In addition, the SHEQAS damper incorporates a special high-damping rubber so that the damper remains effective during major earthquakes as well as repeated aftershocks.

Sekisui House original earthquake-resistant structures are certified by Japan's Minister of Land, Infrastructure, Transport and Tourism.

**SHEQAS**  
SHEQAS Seismic Control System

**Airkis High-Quality Indoor Air System**

Indoor air is the most common of all substances entering the human body, including food and drink. The Airkis high-quality indoor air system reduces indoor concentrations of five major chemical substances to less than 50% of the guideline values set by the Japanese government, assuming that children use about twice as much air as adults.

High-quality indoor air system  
**Airkis**  
エアキス

0.3m<sup>3</sup>/kg body weight (Adults)  
0.6m<sup>3</sup>/kg body weight (Children)

Reduction of chemical substances: No emissions, Adsorption  
Ventilation and air purification: No Infiltration, Ventilation

## Rental Housing Business and Architectural/Civil Engineering Business

### Hotel-grade Specifications Differentiate Sekisui House from Competitors



**SHAIDD High-Performance Acoustic Isolation Floor System**

Noise is the number one complaint among rental housing tenants. We have helped address this issue with a proprietary, patented structural technology for a system that reduces floor impact sound from the floor above to about half that of ordinary steel-frame construction.

High performance acoustic isolation floor system  
**SHAIDD**  
シャイド

**Sha Maison Gardens**

We use a checklist to rigorously assess the rental housing we provide from the perspectives of aesthetics and "resident-first."

**The Next Sha Maison Challenge: Resolving Social Issues**

**Aesthetic Perspective**

- Improves the townscape (ensures beauty)
- Grows increasingly attractive over time (increases in value)

**Resident-First Perspective**

- Safe and secure living (universal design)
- Comfortable living (adds value to lifestyles)

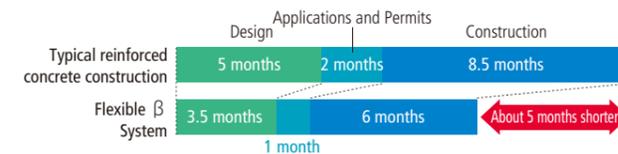
Sha Maison Gardens

### Use of Flexible β System in Non-Residential Markets

The heavy steel-frame Flexible β System for 3- and 4-story structures enables shorter construction periods because of Type-approval, and offers outstanding design freedom. Demand is growing in various markets including facilities for the elderly, preschools, medical facilities, hotels, and public facilities.

### Comparison of Construction Period with Typical Reinforced Concrete

(3-story apartment building; 3,000 sq. m floor area)



### Regional Revitalization Business: The Trip Base Michi-no-Eki Stations Project

Sekisui House and Marriott International have teamed up with various regional governments throughout Japan in a regional revitalization business that creates *Michi-no-Eki* travel hubs. This business proposes completely new travel experiences under a concept of "quest to discover Japan."

In the first stage, 15 roadside hotels in six prefectures will begin offering approximately 1,000 rooms in fall 2020 or later. We plan to scale up this business in stages, with second stage phase 1 launching in 2021 or later in six prefectures and second stage phase 2 launching in 2022 or later in 13 prefectures.



Details are available on our website (Japanese only).  
<https://www.sekisuihouse.co.jp/tripbase/>



## Supplied Housing Business

- Remodeling business
- Real estate management fees business

### Fifth Mid-Term Management Plan Priorities

- Actively deploy proposal-based and environment-based remodeling
- Strengthen rental housing management and brokerage business through change in company name to Sekisui House Real Estate

### Long-Term Vision and Growth Strategy

**We will help create a circular economy while maintaining and enhancing asset value for customers and communities.**

The supplied housing business proposes a variety of ways to maintain the asset value for purchasers of the detached and rental housing that we construct, thus enhancing the asset value of the whole community. This requires going beyond the scrap-and-build concept through measures for the construction and circulation of quality housing that can be lived in for generations, thereby helping to minimize the negative impact on living environments from issues including the decline and aging of the population and the low birthrate, and helping to achieve a circular economy.

The role of the supplied housing business is expanding because promoting relevant market mechanisms for the creation of quality housing stock and an active resale market are essential for the effective use of housing resources. We have already built a supply of over 2.46 million dwellings and are focusing our efforts on SumStock, an initiative of The Provision of Quality Housing Stock Association, which

### FY2019 Achievements

Units under Management

**639,780**

(+3.3% compared with January 31, 2019)

Occupancy Rate

**97.7%**

(-0.1 pt. compared with January 31, 2019)

consists of 10 major housing manufacturers including Sekisui House. The objectives of SumStock are to expand the business base and to make a greater contribution to a circular economy. We believe that properly assessing and maintaining the asset value of quality housing not only helps address social issues, but also contributes significantly to the Company's growth. Group collaboration to extend the useful life of housing and promote circulation of existing stock allows us to increase customer satisfaction in various ways, such as through lifestyle proposals and services that are well suited to an aging society. In these ways, we intend to be a leader in achieving a circular economy.

### Fifth Mid-Term Management Plan Initiatives

**Going beyond conventional forms of living space to propose new homes that can be lived in for generations.**

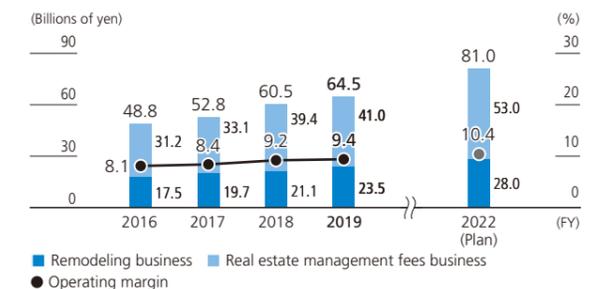
The remodeling business will actively deploy proposal-based and environment-based remodeling during the Fifth Mid-Term Management Plan. The three Sekisui House remodeling companies will promote environmentally friendly remodeling of detached houses to achieve energy savings in line with advances in thermal insulation performance. *Idocoro Dan-etsu*, a Green First renovation, is environmentally responsible and makes life more comfortable by enabling localized insulation retrofitting centered on the living room, where residents spend most of their time. In addition, Family Suite Renovation and other types of proposal-based remodeling enable flexible remodeling of space tailored to the way families live. For rental housing, we make renovation proposals to maintain the property's appeal from the tenant's perspective, including facilities and floor plans that add modern aesthetics and functionality. In addition, Sekiwa Construction companies draw on Sekisui House expertise to add value by providing Re:QUEST aseismic and environmental remodeling for properties not built by Sekisui House, creating residential environments that people will love and live in for generations.

The real estate management fees business provides a variety of management support services to help property owners maintain and increase the asset value of their land

### Sales



### Operating Income and Operating Margin



and buildings over the long term. In February 2020, we changed the names of Sekiwa Real Estate companies to Sekisui House Real Estate to further strengthen the rental housing management and brokerage business. The linkage of the Sekisui House Real Estate and Sha Maison brands will further strengthen relationships with property owners and improve tenant services, ensuring high occupancy rates and improved asset value, and increasing profit margins.

### Fifth Mid-Term Management Plan Close-Up

#### Joint Testing of an Inter-Company Information-Sharing Platform Using Blockchain Technology

To make leasing contracts more convenient for tenants, we have begun to develop a platform for sharing information among companies using blockchain technology. We are also testing the effectiveness of providing one-stop subscription services for residential utilities including wired communications, and electricity and gas to simplify rental property procedures from preliminary inspection to occupancy. A consortium to promote inter-company collaboration on information sharing established in April 2020 is working toward the commercialization of such a platform by combining data from different industries to create new services. This platform will make leasing contracts more efficient, among other benefits.

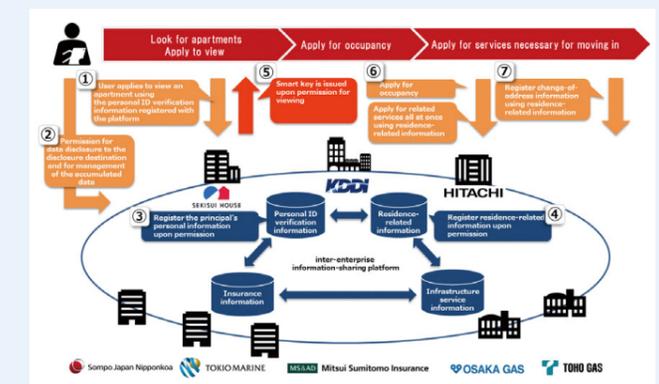


Image of a consortium model for developing an inter-company information-sharing platform

## Remodeling Business

### Using Idocoro Dan-netsu for High-Performance Thermal Insulation

Idocoro Dan-netsu is location-based heating designed for comfortable living—now and always. It proposes efficient, high-performance thermal insulation upgrades centered on the living, dining and kitchen areas where families spend most of their time. We offer two packages. The premium package thermal insulation upgrade targets comfort equivalent to newly built modern ZEH houses for houses built more than 20 years ago, before current energy-efficiency standards came into effect in 1999. The cost-conscious basic package takes just one day to install, but provides an efficient thermal insulation upgrade.



### Contributing to a comfortable, healthy and happy lifestyle for our customers

Improved insulation + comfort-enhancing equipment → Renovation that adds comfort

Idocoro Dan-netsu Premium that aims for comfort equivalent to newly built houses



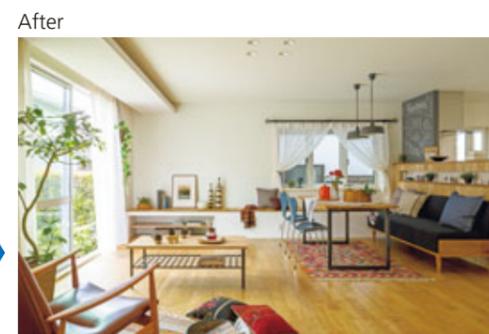
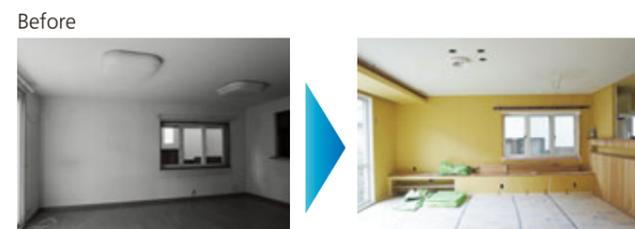
Idocoro Dan-netsu Basic that effectively provides insulation repairs in one day



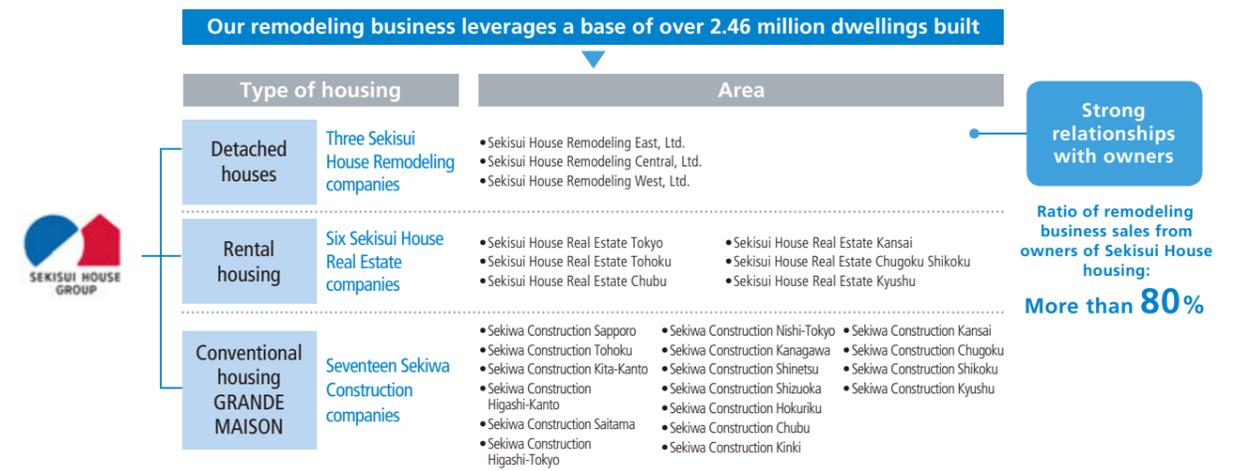
### Sekisui House Remodeling Example



Transitions to a new life stage are also an important factor for homeowners considering renovation. Here is an example of a proposal-based renovation that optimizes important living space through significant changes in layout and plumbing.



## A Multifaceted System for Every Type of Residential Remodeling



## Real Estate Management Fees Business

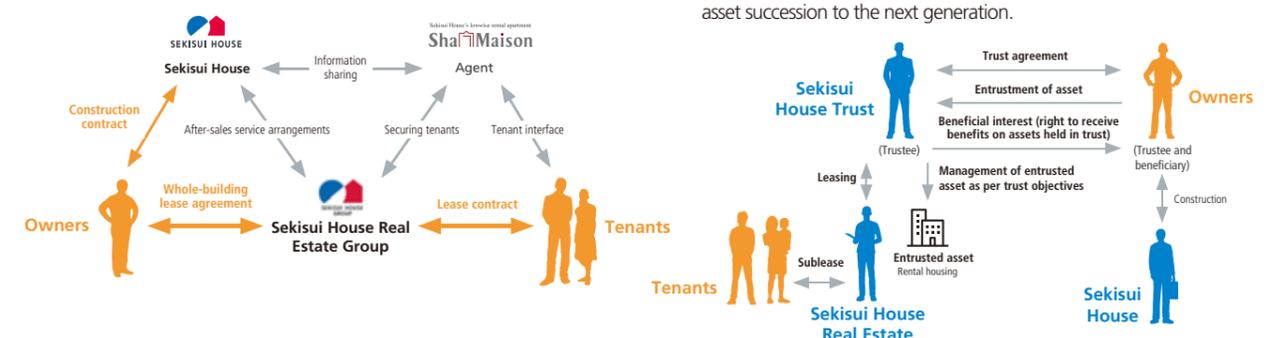
### Units under Management and Occupancy Rate

Units under management by Sekisui House Real Estate companies have been growing steadily for years because of our detailed strategy of focusing on prime city center locations and our supply of high-quality, high-performance Sha Maison rental housing with features such as hotel-like styling. Sha Maison rental housing fully addresses tenant needs, supporting high occupancy rates and stable earnings growth in the supplied housing business.



### Subleasing Service System Supports Stable Growth in Units under Management

Our subleasing service system is a key element supporting the Real estate management fees business. Sekisui House Real Estate companies lease entire Sha Maison and other Sekisui House buildings from their owners for a fixed monthly payment, regardless of vacancies. Sekisui House Real Estate companies deal directly with tenants as the landlord, providing comprehensive property management services including finding tenants to fill vacancies, mediation, day-to-day cleaning, maintenance and inspections. The many owners who use this system appreciate how it saves time and trouble. Our subleasing service system improves occupancy rates, building operation and maintenance, ensuring stable management for owners and greater tenant satisfaction.



### Sekisui House Trust: A Real Estate Management Trust Business

Sekisui House Trust is a real estate management trust business that helps property owners with long-term asset management and asset succession. Property owners have an array of problems and concerns. Some worry about their ability regarding the construction or operation of rental housing over the long term for reasons including advancing age and dementia. Others are concerned about asset succession and wish to designate heirs for rental properties early to avoid problems with division of property after their passing. The burden of property management is another concern, as is the issue of obtaining loans to fund construction without a co-signer. Sekisui House Trust helps solve or eliminate these problems using trust mechanisms that help owners with the operation of rental housing with peace of mind and ensure asset succession to the next generation.



The Ritz-Carlton, Kyoto

## Development Business

- Houses for sale business
- Condominiums business
- Urban redevelopment business

### Fifth Mid-Term Management Plan Priorities

- Pursue ROA management
- Generate stable earnings by improving turnover and acquiring prime land

### Long-Term Vision and Growth Strategy

Structure a unique business model that includes the creation of features that grow increasingly attractive over time and other measures for improving asset value going forward.

The living environment is fundamental to human happiness. In the development business, we contribute to achieving a sustainable society and also fulfill our obligation to help create assets that increase in appeal over time. The development business is based on a unique business model that incorporates expertise from the custom detached houses business in a structure designed to retain a certain amount of portfolio assets while increasing the asset turnover ratio. The business is affected by the real estate cycle, so we must select attractive locations and develop high-quality buildings that will continue to generate earnings into the future.

The houses for sale business looks at the environment of entire communities and the comfort of residents in creating townscapes throughout Japan that become more beautiful over time and prosperous communities that residents feel attached to. The objective of Smart Common City is to create smart, sustainable communities that achieve a good balance of safety, security, health, comfort, vigilance and energy consciousness. The condominiums business has

### Property Sales in the Redevelopment Business

Fiscal Year	Total Sales Value	Main properties included that were sold to Sekisui House Reit, Inc.
FY2017	¥57.8 billion	Hommachi Garden City (Hotel only) Garden City Shinagawa Gotenyama (portion of equity ownership)
FY2018	¥126.9 billion	The Ritz Carlton, Kyoto (portion of equity ownership) Prime Maison Shirokanedai Tower
FY2019	¥88.9 billion	Akasaka Garden City (portion of equity ownership) Garden City Shinagawa Gotenyama (portion of equity ownership) Hommachi Minami Garden City

developed area strategies for Tokyo, Nagoya, Osaka, and Fukuoka, and is using the expertise we have built up in detached houses for an approach that proposes not simply multiple-dwelling complexes but living environments that become community assets—environmentally friendly housing clusters with various features that bring together people with different lifestyles. In the urban redevelopment business, we also intend to create communities that will be valuable assets for future generations.

We will preserve the precious natural environment of the regions we develop and help foster local culture and communities while conducting development that stimulates regional economies.

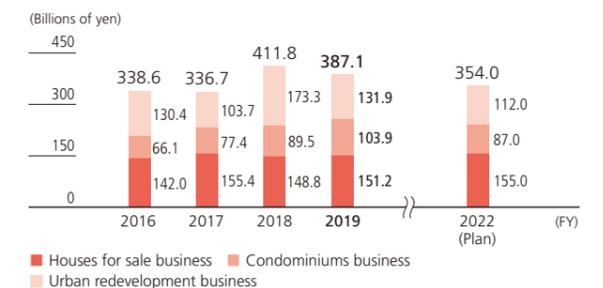
### Fifth Mid-Term Management Plan Initiatives

**Increase the asset turnover ratio and generate stable earnings. Create a strong foundation with clear exit strategies.**

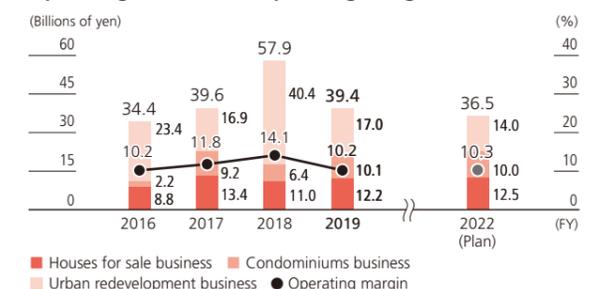
The development business has a longer business cycle than the built-to-order business and the supplied housing business, so it is focusing on ROA management during the Fifth Mid-Term Management Plan. In this business, we will emphasize measures to increase the asset turnover ratio, optimizing the balance of portfolio assets to build a foundation for stable earnings during the three years of the plan. We will acquire the land needed to generate earnings in the future based on careful analysis of the real estate cycle and profitability, and then execute clear exit strategies.

In the houses for sale business, we will emphasize coordinated Group purchasing in aspects such as selecting target areas and strengthening cooperation between Sekisui House and Sekisui House Real Estate. Thus we will promote the creation of beautiful, safe, and comfortable townscapes that are resilient to disasters, centered on Miramachi in Toyohashi City, Aichi Prefecture and similar developments. In the condominiums business, we will execute our area strategies to ensure profitable land acquisitions that drive operations, increase the asset turnover ratio, and implement growth strategies that address market change. In addition, as part of a broader goal of promoting the development of condominiums that are not only environmentally responsible but are also equipped with disaster-response capabilities, we will also work to expand the supply of comfortable and

### Sales



### Operating Income and Operating Margin



environmentally responsible ZEH-M condominiums.

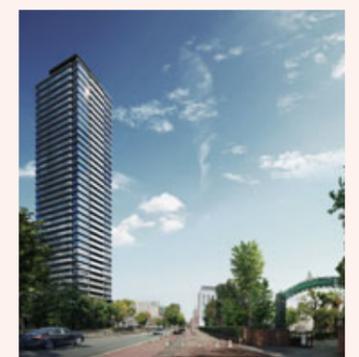
In the urban redevelopment business, we will manage our real estate investments by strengthening our pipeline with profitable exit strategies, including property sales to Sekisui House Reit, Inc. In addition, we will focus on development of attractive properties with high asset value and quality stock, including the ongoing development of luxury hotels such as The Ritz-Carlton, Kyoto in collaboration with Marriott International, Inc., and full-service apartments for long-term stays such as Fraser Suites Akasaka, Tokyo.

### Fifth Mid-Term Management Plan Close-Up

#### Converting High-Rise Condominiums to ZEH

Sekisui House has deployed environmental technologies developed for detached houses to convert all units in a low-rise condominium building to ZEH, and is now converting high-rise condominiums to ZEH. We are working to clear ZEH standards for a high-rise condominium we are currently developing. Tentatively named Uemachi 1-chome Tower Project, it features fuel cells for each unit. Scheduled for completion in January 2023, this project was selected by the Ministry of Economy, Trade and Industry as a high-rise ZEH-M condominium demonstration project for FY2019.

Converting high-rise condominiums to ZEH requires windows that balance a high level of wind pressure resistance and size. The answer is the use of high-performance vacuum double-glazed windows, which also provide both good thermal insulation and excellent views. This creates comfortable living environments that are warm in the winter and cool in the summer while maintaining excellent energy efficiency. It also reduces potential health hazards by preventing heat shock resulting from temperature differences between rooms and at different times of the day.



Computer-generated image of Uemachi 1-chome Tower Project (tentative name) upon completion

## Houses for Sale Business

### Compact Mixed-use Community Redevelopment

▶ **Common Stage Miramachi, Toyohashi City, Aichi Prefecture**  
Akebono-cho, Toyohashi City, Aichi Prefecture  
(Development permit: March 2018)

Common Stage Miramachi is a mixed-use redevelopment encompassing 400 lots for detached houses and community facilities on a 27 ha site formerly occupied by a spinning factory. The master plan was adjusted to accommodate roads, parks and other infrastructure. An ideal example of a compact mixed-use community, this project is designed to help revitalize the area.



Subdivision townscape



Okuwa Miramachi store



Ilex Sports Club Toyohashi Miramachi +24



Kusunoki Park (using existing foliage)

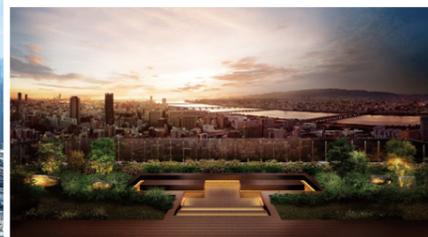
## Condominiums Business

▶ **GRANDE MAISON Shin Umeda Tower The Club Residence**  
Kita-ku, Osaka City, Osaka Prefecture  
(Scheduled for completion in mid-July 2021)

High-rise residence with a view to providing value for the next generation. Sky Terrace, an outdoor shared space rarely found in high-rise buildings, is on the 35th floor and exemplifies our commitment to high-quality comfort for residents.



Sky Lounge



Sky Terrace

▶ **GRANDE MAISON Egota no Mori**  
Egota, Nakano-ku, Tokyo  
(Completed in February 2018)

Ene-Farm is installed in all 531 units to reduce environmental impact. Under the concept of ensuring a sustainable, multigenerational community, the area features serviced housing for the elderly, rental condominiums for students and families with children, and community facilities.



Entrance Lounge



Library

## Urban Redevelopment Business

Sekisui House also develops large-scale properties such as offices, rental housing, commercial buildings, and hotels, with a focus on attractive and highly valuable assets. We established Sekisui House REIT, Inc.\* and have created an exit strategy based on a pipeline support agreement between its asset management company, Sekisui House Asset Management, and its sponsor, Sekisui House.

\*Sekisui House REIT, Inc. was the surviving corporation after the merger with Sekisui House Residential Investment Corporation on May 1, 2018.



▶ **Plan for Jinnan 1-chome Office Building** (Tentative name)

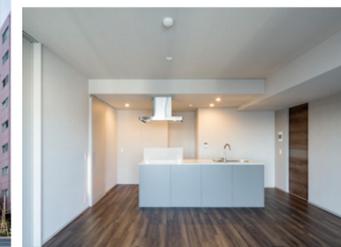
Jinnan, Shibuya-ku, Tokyo  
(Completion scheduled for January 2021)

The opening of large commercial facilities and the redevelopment around Shibuya station have focused attention on Shibuya as a district with high potential. We are planning to create a comfortable office environment by constructing a mid-sized office building that is compatible with this evolving area.

▶ **Prime Maison Nakameguro**  
(Rental housing)

Nakameguro, Meguro-ku, Tokyo  
(Completed in December 2019)

Featuring appealing, convenient daily living facilities on the lower floors, this building is designed to meet the needs of diverse lifestyles and local characteristics, offering interiors made from carefully selected materials, a stylish exterior in harmony with the surrounding environment, and abundant greenery.



▶ **W OSAKA**

**W**  
OSAKA



Chuo-ku, Osaka City, Osaka Prefecture  
(Opening scheduled for February 2021)

In 2021, our partner Marriott International will open a hotel in Minamisenba, Osaka. Featuring a unique design characteristic of W Hotels, it has 337 guest rooms and suites, restaurants, spa facilities, and meeting rooms.



# Overseas Business

• Overseas business

## Fifth Mid-Term Management Plan Priorities

- Start the global rollout of Sekisui House technologies and advance to the next stage.

## Long-Term Vision and Growth Strategy

**Step up overseas expansion centered on our three growth strategies and promote further business localization.**

Sekisui House will use the superior quality and advanced technologies it has cultivated in Japan to provide new value in housing markets overseas. We expect needs for safety, security, comfort and environmental friendliness to increase overseas as well as in Japan. We have already commercialized some of our technologies and expertise to help resolve social issues around the world: our environmental technologies including net zero energy housing (ZEH) that helps to achieve a decarbonized society while providing customer comfort, and our advanced community-building expertise, a feature of which is the *Gohon no ki* project that embraces the surrounding ecosystem.

We currently do business in five countries other than Japan—the United States, Australia, the United Kingdom, Singapore and China—where we anticipate ongoing, steady growth in housing demand. As an initiative to realize our long-term vision, we will strengthen our three domestic business models (built-to-order, supplied housing and development) in each of these countries. To date, we have

## History of Overseas Expansion

- 2009 🇦🇺 Started operations in Australia
- 2010 🇨🇳 Started operations in China
- 2011 🇸🇬 Started operations in Singapore
- 2011 🇺🇸 Started operations in the United States
- 2019 🇬🇧 Started operations in the United Kingdom

mainly focused on development, but we will evolve the overseas business by also stepping up the rollout of our growth strategies for built-to-order businesses (homebuilding, rental housing contracting and others) and supplied housing businesses (property management, rental housing management and others) in harmony with our area strategies for each country.

As an essential measure for expanding our diverse businesses globally, we will promote greater localization with a focus on prioritizing relationships of trust with outstanding local partners and cultivating capable local human resources who understand Sekisui House’s philosophy and vision. We will extend the Sekisui House brand worldwide by harmonizing our housebuilding expertise with the ideal housing for each country.

## Fifth Mid-Term Management Plan Initiatives

**Implement strategies tailored to each country to transfer Sekisui House technologies worldwide.**

We have positioned the Fifth Mid-Term Management Plan as a period for improving quality, and aim to construct 3,000 detached houses. Until now, we have been making upfront investments, but from here on, we intend to bolster our financial position and focus on profit margins and ROA to balance investment and returns. Specific measures in each country are as follows.

▶ See pages 50-51 for details.

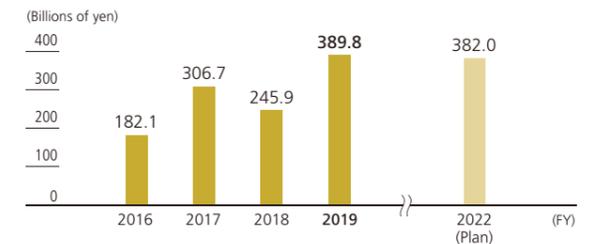
### United States

- Multifamily business  
As the core of our operations in the United States, we will use this business to stabilize earnings as well as promoting business in existing areas while maintaining sound exit strategies. At the same time, we will consider holding excellent properties for a certain period of time as a source of stable earnings.
- Homebuilding business  
We will shift our sales from houses with specifications unique to the United States to houses based on lifestyle proposals, and introduce Sekisui House’s SHAWOOD wooden-frame houses.
- Master-planned community business  
We will rigorously select new investments and aim for synergies through integrated management with the homebuilding business.

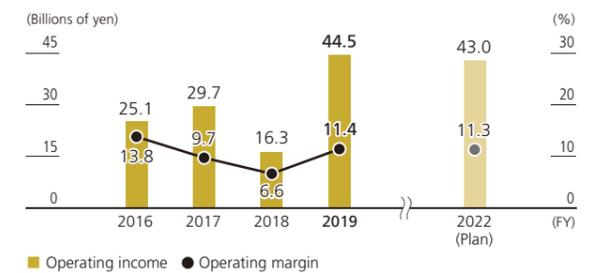
### Australia

While controlling the balance of investments, we will establish a stable earnings base that is resilient to economic, market

### Sales



### Operating Income and Operating Margin



and other conditions. In the homebuilding business, we will conduct a multifaceted rollout of the Australian version of SHAWOOD in limited areas to raise brand awareness.

### United Kingdom

As we verify potential applications of Sekisui House technologies, we will provide guidance to investees to help resolve the country’s housing shortage.

### Singapore

We will continue to acquire land for new development projects and develop condominiums for sale.

### China

We will continue to sell high-quality condominiums in each area.

## Fifth Mid-Term Management Plan Close-Up

### Helping to Resolve Social Issues with SHAWOOD Wooden-Frame Houses

At the International Builders’ Show held in Las Vegas in January 2020, a variety of people involved in housing in the United States viewed a locally built SHAWOOD concept home. We exported our proprietary super metal joint (SMJ) system and original Bellburn earthenware exterior wall panels from Japan to construct the home, which received considerable acclaim. The role of housing has been changing in recent years in the United States due to factors such as concern over the risk of a large-scale earthquake and outbreaks of wildfires in California caused by environmental factors. The SHAWOOD concept home constructed for the event has a structure that can withstand large-scale earthquakes and is a net zero energy house (ZEH) capable of providing life support in a power outage. It is therefore expected to significantly help in resolving social issues in the United States. Although there are still matters to be considered in areas such as production, construction and component procurement, the potential of the SHAWOOD business in the United States has grown considerably.



Locally built SHAWOOD home

## Strategies by Area

We consider the Fifth Mid-Term Management Plan to be a period for establishing our infrastructure overseas, including acquiring land, creating a system for delivering 3,000 detached houses and building a supply chain. In addition, we have shared strategies and built relationships with cooperating companies as product development partners in each country. However, because business practices and issues differ by area, we will implement strategies tailored to each in order to spread Sekisui House technologies worldwide.



### United States

Strengthen sales of highly earthquake- and wind-resistant and eco-friendly housing

<p><b>Issues</b></p> <ul style="list-style-type: none"> <li>• Brisk housing demand due to population growth</li> <li>• Risk of large-scale earthquakes on the West Coast</li> <li>• Greater motivation to combat global warming due to changes in hurricane tracks and other factors</li> <li>• The need for exterior maintenance</li> </ul>	<p><b>Responses</b></p> <ul style="list-style-type: none"> <li>• Acquisition of Woodside Homes and strengthening of collaboration</li> <li>• Transfer of Sekisui House technologies</li> <li>• Construction of SHAWOOD homes featuring high earthquake resistance and ZEH specifications</li> <li>• Introduction of Bellburn earthenware exterior wall panels</li> </ul>
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We conduct the multifamily, homebuilding and master-planned community businesses in the United States in cooperation with outstanding local partners. In fiscal 2019, the multifamily business performed strongly. We will increase our emphasis on the homebuilding business as we work to further expand our business domains in the United States.

#### Multifamily business

In major cities on the West Coast, where IoT and AI companies are concentrated, demand for urban rental housing is brisk, mainly among millennials, due to growth in employment. As such, steady increases in rent are expected over the medium term. In cooperation with an outstanding partner in this area, we are involved in a number of rental housing projects, which we have made our core business in the United States. While maintaining a sound exit strategy, we will also consider holding excellent properties for a set period to secure stable earnings.

#### Homebuilding business

In cooperation with U.S. homebuilder Woodside Homes, we will continue to sell price-conscious models with standard specifications while increasing our emphasis on houses that propose lifestyles, which are a Sekisui House specialty. Natural disasters have occurred with greater frequency in recent years in the United States, especially on the West Coast, and problems caused by climate change, particularly changes in hurricane tracks, have become more striking. We therefore plan to begin

sales in 2021 of the SHAWOOD brand, which features high resistance to earthquakes, fire and wind. Amid rising interest in sustainable living environments, we aim to further expand this business by developing a version of ZEH for the United States that leverages our strengths in environmentally friendly housing technology and popularizing designs that have become standard in Japan.

#### Master-planned community business

We build master-planned communities in various metropolitan areas across the United States where residents can commute to locations with high rates of growth in employment over the medium term. We rigorously select new investments with the aim of generating synergies through integrated management with the homebuilding business. We are carrying out individual projects while paying close attention to the timing for purchasing suitable development sites in light of economic fluctuations.



Union Denver



### Singapore

High-value-added development projects with local partners

In collaboration with leading local developers, we develop condominiums for the lifestyles that local residents aspire to and building complexes that include commercial facilities and offices. Because immigration policies are leading to a steady increase in population, we will continue to acquire land for projects and carry out high-value-added development.

In this intensely competitive market, we are working to differentiate ourselves from our competitors and raise our presence by incorporating various lifestyle design technologies and lifestyle proposals that we have cultivated in Japan into our local projects.



One Holland Village



### Australia

Help resolve consumer issues with basic and environmental performance developed in Japan

<p><b>Issues</b></p> <ul style="list-style-type: none"> <li>• Brisk housing demand due to population growth</li> <li>• Substantial room for improvement in housing quality</li> <li>• Rising electricity bills due to deregulation and other factors</li> </ul>	<p><b>Responses</b></p> <ul style="list-style-type: none"> <li>• Construction of a factory in suburban Sydney for the Australian version of SHAWOOD home</li> <li>• Establishment of a system for repetitive production of high-quality components</li> <li>• Construction of pilot ZEH SHINKA House</li> </ul>
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In Australia, we develop and sell residential land and condominiums, and have a steadily growing homebuilding business in the suburbs of Sydney to complement our residential land development there. The basic and environmental performance and service quality we have developed in Japan have a positive reputation in the Australian market, and awareness of our brand is increasing year by year. In 2010, we built a SHAWOOD factory in Sydney to establish a system capable of producing components suited to the local climate, landscape and needs. In addition, we will begin sales and rollout of the SHINKA House as a pilot ZEH house. SHINKA House can reduce electricity costs by 85%.



SHINKA House



### United Kingdom

Sales of pre-engineered housing in collaboration with a government agency and a major real estate company

<p><b>Issues</b></p> <ul style="list-style-type: none"> <li>• Shortage of 4 million houses</li> <li>• Need for quality housing to replace stone and brick houses</li> <li>• ZEH (zero carbon) scheduled to be mandatory by 2025</li> </ul>	<p><b>Responses</b></p> <ul style="list-style-type: none"> <li>• Establishment of joint venture with government agency Homes England and real estate company Urban Splash</li> <li>• In-house production of high-quality pre-engineered homes</li> <li>• Building environmentally friendly zero-carbon houses that use energy-saving technology</li> </ul>
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In May 2019, we made a full-scale entry into the U.K. housing market by forming a partnership with Homes England, which is the government agency in charge of the nation's housing supply, and general real estate company Urban Splash. We plan to accelerate growth by transferring our technologies and expertise in high-quality pre-engineered housing to Urban Splash's factory. Through the rollout of this business, we will help resolve the serious housing shortage in the U.K., meet needs for higher-quality housing that can be constructed more quickly, and contribute to market vitalization.



Northstowe



### China

Developing healthy and safe housing

Mainly in the cities of Shenyang, Suzhou, Wuxi and Taicang, we conduct businesses including a townhouse business that builds on a track record of multi-unit residential complex projects and environmentally friendly housing under our own Sekisui House Yuqin brand, and a condominium business that creates world-class living spaces.



Suzhou Yuqin Garden



## Making Home the Happiest Place in the World

# 18 Backstories

Through housing, we provide the intangible asset of happiness extending over many years. In the process, we organically link our diverse capabilities to create customer value and new technologies and services. Following is an introduction to the unique strengths of Sekisui House from a variety of perspectives.

The fundamental philosophy of Sekisui House since its founding has been love of humanity, and practicing this philosophy is the code of conduct of our employees. It drives our corporate development for the continuing happiness not just of our customers, but of everyone involved in creating housing.

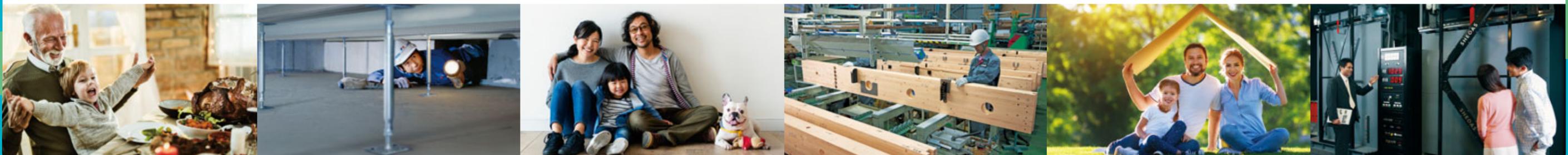
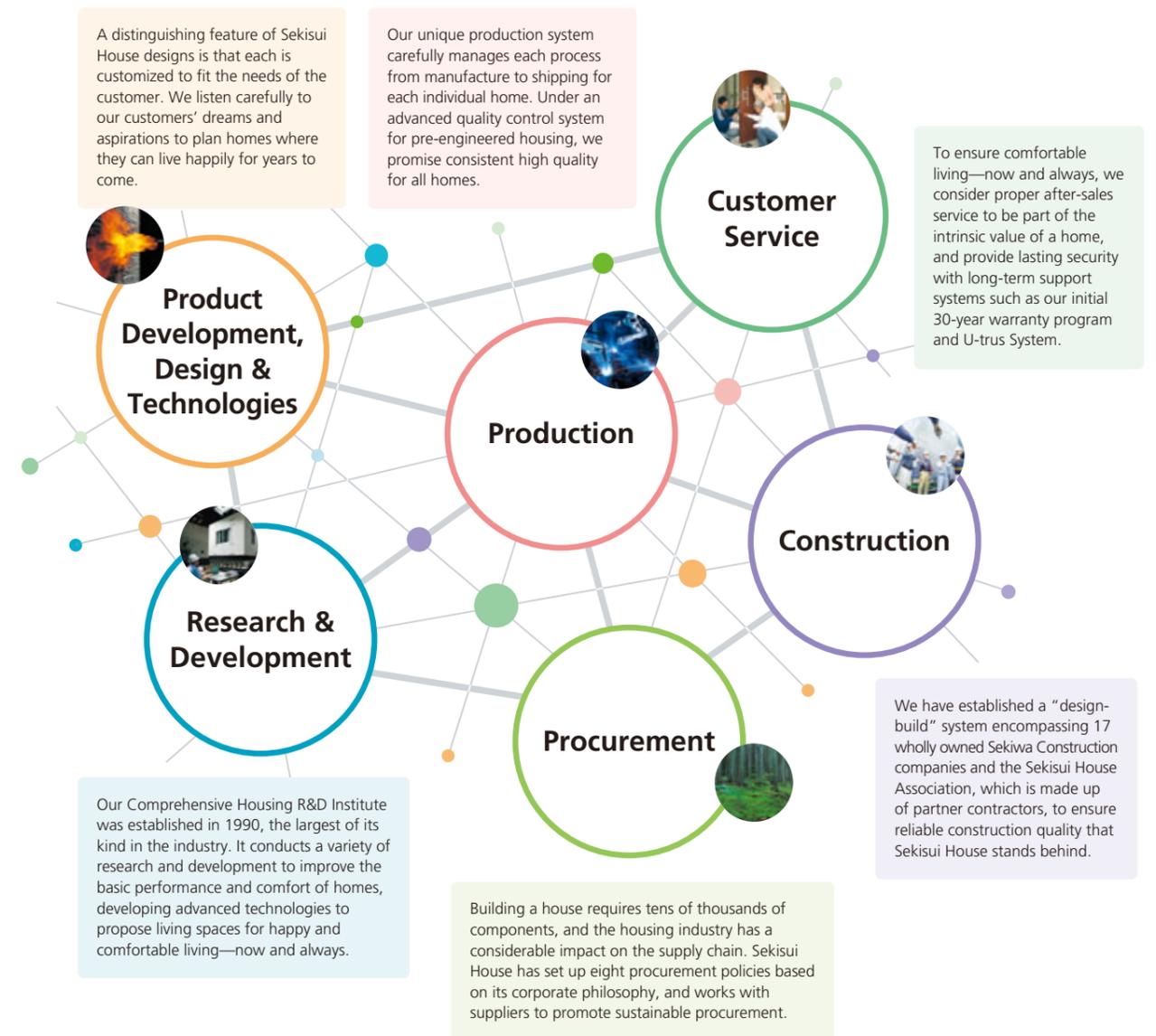
Based on this stance, the Sekisui House Group has been working to maximize the tangible and intangible value it can offer customers to make the home the happiest place in the world. In other words, we are making advances in the tangible elements of basic performance and environmental technologies that are essential for homes and combining them with the intangible elements of research and proposals for new ways of living. In this way, we are helping to create happy homes.

To implement this unique strategy of combining tangible and intangible elements, each individual business division has responsibility for the value chain, from research and development to product development, design and technologies,

procurement, production, construction and customer service. This value chain is the framework for the implementation of Sekisui House's unique strategy of integrating tangible and intangible elements. The active exchange of information and knowledge accumulated by divisions in this value chain leads to value creation. We have established a structure that enables us to share information and knowledge across organizational boundaries so we can coordinate our actions when an exciting business prospect comes to light or a customer or business partner consults with us on an important business opportunity. In short, the ability of the Sekisui Group to bring together its diverse capabilities and share information is a rich source of innovation that gives the Group a unique advantage.

The following 18 backstories explain Sekisui House's unique advantage in bringing together diverse capabilities throughout its value chain and generating synergies among those capabilities to create happy homes.

### The Sekisui House Value Chain



## We aim to create lasting happiness for residents

Sekisui House's R&D into residential housing began from a desire to provide houses where people can continue to live for many years. This has entailed more than just home safety and security in areas such as fireproofing and the earthquake and wind resistance that are characteristic of housing in Japan, where natural disasters are frequent. We also have a history of conducting research into technology and lifestyle design, based on the slogan "comfortable living—now and always," for all household members.

Sekisui House was early to incorporate the intangible element of people's lifestyles into its R&D. We opened the Human Life R&D Institute in 2018, becoming the first home builder in Japan to study the happiness of residents. Under the theme of "houses where happiness grows the longer you live there," we aim to infuse homes with the happiness of family bonds, quality of life and enjoyment.

This strand of R&D is made possible by our vast, industry-leading volume of data and our knowhow developed from relationships with customers in more than 2.46 million households. We believe that this unique strength will drive our future business.



## Research & Development

Since its founding, Sekisui House has kept its finger on the pulse of people's daily lives and remained attuned to changing lifestyles and diversifying values in order to create the homes of the future. Our ability to offer integrated proposals of technologies and lifestyle design under the theme of "houses where happiness grows the longer you live there" gives us a unique advantage.

## The tenacity to test until we are satisfied makes us strong

Sekisui House technicians have been instilled with a commitment to a hands-on approach of conducting tests and demonstrations and verifying them directly until they are satisfied. In this regard, Sekisui House has set its own strict standards for the durability of its houses based not only on results using testing equipment, but also on exposure data in actual external environments measured throughout Japan and survey results from reconstructed buildings. In addition, the launches of our SHEQAS seismic control system and Airkis high-quality indoor air system followed more than a decade of research that included testing in full-scale mock-up houses. Moreover, in addition to conducting testing and verification at our Comprehensive Housing R&D Institute, we place importance on constantly asking ourselves what has value and what customers and society truly need, and reflecting the answers in our products. Of course, this R&D process is only possible through collaboration between sales, production, construction and other divisions nationwide.

## We value relationships with our customers

It does not matter how superior the technology used in a house is or how outstanding the house's design may be if the residents don't find the house comfortable or want to live in it. Sekisui House values the frank opinions of regular consumers and incorporates their observations and ideas from their daily lives into its homes.

The *Nattoku Kobo* Studio (Home Amenities Experience Studio), which has been part of our Comprehensive Housing R&D Institute since it was established in 1990, is a hands-on facility where visitors can discover their ideal home, not just through verbal descriptions, but by touching and experiencing it. In 2013, we also established the Sumufumulab, the industry's first space for open innovation, inside Grand Front Osaka. At this interactive facility, we collect and convey information from a forward-looking perspective and collaborate with customers in giving shape to ideal homes. We reflect resident feedback from workshops and questionnaires in our R&D.

## Origins in protecting human life

Sekisui House began by providing pre-engineered housing that required only a short construction period to help resolve a housing shortage during Japan's period of rapid economic growth. Our products serve as shelter that protects people's lives and property, thus providing safety and security. We have always remained ahead of the times and lead the industry in the pursuit of superior quality and technologies. In addition to offering the highest level of durability and earthquake resistance, we have created a variety of original technologies that our competitors cannot match. These include our original construction method for steel-frame and wooden-frame houses that achieves spacious living areas with large doors and windows; the Flexible B System, which allows for flexible layouts on each floor without the need for multi-story columns; exterior wall materials such as DYNE CONCRETE and Bellburn, which offer superior performance including durability and maintenance, in addition to the decisive factor of design; and SHEQAS, Airkis and other systems.

Going forward, we will develop housing with superior resilience for disaster prevention and mitigation, including features that offer customers a higher level of safety and security, such as a water shut-off function to prevent overflow.



## Product Development, Design & Technologies

Our objective is to remain a leader in developing products with superior quality and leading technology that meet customer needs. The products we create based on this mission result in houses that realize customers' dreams through custom-made housing design using our advanced design proposal capabilities. We will continue to improve our product development and design capabilities to create happy homes from every perspective.

## A basic stance of everyday comfort and safety in emergencies

Sekisui House has remained ahead of the times in pursuing comfort and improving the basic performance of its residences. For example, one characteristic of Sekisui House homes is the use of metric specifications.

Although a *shaku* (30.3 centimeters) is a common unit of measurement in Japanese housing, Sekisui House was an early adopter of metric specifications, based on the concept of universal design. We have thus been building homes that are comfortable—now and always—with safe, secure living spaces that are roomy and easy to use, as well as experiential elements, manageability, beauty and other features that make residents feel at home.

A key point in residential construction going forward will be looking at what lies ahead for society and responding with flexibility and versatility to changing lifestyles. One example is a home that facilitates a variety of lifestyles by incorporating movable partitions to easily alter the floor plan without major remodeling when the makeup of the household changes or when one member begins working from home. Our Technology Division and R&D institutes are taking the lead in commercializing components with these functions.

## Toward the next generation of housing and people

Utilizing our tradition of constructing housing suitable for the Japanese climate and our knowledge based on a track record of more than 2.46 million dwellings built, we create unique, unparalleled homes for each of our customers. We have approximately 2,800 skilled first-class architects nationwide for that purpose. Among them are our Chief Architects, a group of about 280 top creators with superior design capabilities who supervise and direct technical matters. Selected under a strict qualification system, they not only provide high-quality homes to customers, but also play a role in the ongoing development of outstanding architects in-house. They act as role models for other architects, producing excellent designs that serve as best examples. They also direct training and conduct study tours for evaluating and learning from each other's notable sites and unusual properties. In such ways, our Chief Architects are improving the design technology of Sekisui House while constantly maintaining a pool of expertise by cultivating the next generation of human resources.



## Procurement

In procuring materials, we consider the challenges facing Japan's housing industry, such as the labor shortage and conservation of forest resources. We will pursue sustainability while coexisting and prospering with our suppliers.

### Shifting from CSR procurement to sustainable procurement based on the SDGs

Houses are made to be lived in for generations. Material procurement, including that necessary for maintenance while people inhabit a house, also continues for a long time, so sustainability must be considered. Based on the Ten Principles of the United Nations Global Compact (UNGC), ISO 26000 guidance on social responsibility, and other standards, we have formulated our CSR Procurement Guidelines covering the environment, quality and safety, human rights, labor and other topics, and have suppliers conduct self-evaluations of their own CSR initiatives. To ensure the reliability of these CSR evaluations, we monitor certain suppliers of particular interest.

Since signing the UNGC in August 2018, we have been expanding our existing socially responsible material procurement procedures through active involvement in the supply chain to help build a sustainable society (procurement based on the SDGs). Our Supplier Subcommittee meets to share case studies and issues, and has set key performance indicators for coverage rate and score. We will further strengthen cooperation to create long-term benefits for both ourselves and our suppliers.

### Thinking and acting together with key suppliers

Since its founding, Sekisui House has been primarily involved in the housing business and has become an industry leader. With a view toward the future, it is important to strengthen cooperation with suppliers for coexistence and co-prosperity.

Suppliers currently face many challenges, including a labor shortage. We have been visiting suppliers' factories to implement improvement activities and address various issues, including the need to raise quality. In recent years, we have been stepping up collaboration with suppliers to share these issues, think about solutions, and coordinate our policies. As a company that procures large amounts of diverse materials, we will work together with our suppliers to strengthen our supply chain based on our fundamental philosophy of love of humanity.

### A deep understanding of wood enhances our uniqueness

As a housing manufacturer that uses wood in large quantities, it is important for us to select lumber sourced in a manner that is fair to society and takes sustainability into account. Sekisui House has established Wood Procurement Guidelines that encompass FairWood lumber procurement initiatives as well as matters including legality and the ecosystems in logging areas. This has increased both supplier interest in the procurement process and the accuracy of traceability information.

For imported lumber, Sekisui House employees have been urging suppliers to make improvements as required, based on practices including due diligence, where employees confirm the condition of timber procurement via onsite visits or surveys. In 2019, they also began onsite checks of structural components being considered for use.

For domestic lumber, we check the process from logging to production of laminated wood. We brand materials by production area to contribute to local production for local consumption as well as to regional revitalization. Sekisui House has also begun unique initiatives including visits to logging sites and tours of the production process by salespeople to give them first-hand experience of the advantages and true value of Japanese wood so they can directly communicate its appeal to customers.



### A total commitment to in-house development for customers and for the Company

In recent years, our production operations have proactively adopted cutting-edge technologies such as artificial intelligence (AI) and the Internet of Things (IoT) in production lines. For example, in 2018 we introduced smart line technology that achieves more exacting quality control and greater savings in energy and labor. In the welding process, AI determines the optimal timing for the flow of structural materials, leading to improved productivity, workability and quality. The entire smart line, including its AI and IoT elements, was developed in-house by factory technicians in cooperation with the Technology Division and others. They immersed themselves in planning, designing and developing new equipment through a process of trial and error. The success of their efforts came from total concentration on delivering better products to customers.

Advantages of in-house development include speed and ease of management after implementation. Moreover, the technologies we accumulate during development become a Company asset. Being involved in building the houses that realize customers' desires is a source of great pride and joy for employees. This spirit of challenge and ambition to hone their skills are strengths of our Production Division.



## Production

Our pride and joy in being able to provide customers with the precious asset of a home is the driving force behind our untiring spirit of challenge and innovation. Our factories produce the structural components that ensure the safety and security that are fundamental to a home.

### New innovations arise from connectedness between people

Sekisui House's pre-engineered housing realizes build-to-order production with different specifications for each home while maintaining high quality. Particularly at sites producing the structural components that ensure home safety and security, we are working to improve and innovate manufacturing based on changing customer needs and social issues while maintaining a stable factory shipping system.

To enable these new innovations, Sekisui House places great importance on communication within and among factories.

At Sekisui House, the close communication of information and the speed of sharing and adoption of ideas among our five factories nationwide are particularly notable. For example, when one factory develops a new production technology or establishes a manufacturing line, the information and methods are promptly shared among all factories. A cooperative framework for sharing technologies and expertise through active personnel exchange among factories and verifying data from demonstrations to resolve problems also serves as a rich source of innovation. Personnel transfers are conducted among factories and personnel exchanges are conducted between each factory and the head office. In 2020, the Production Division was reorganized as the Production & Procurement Headquarters to establish conditions for promoting further technological innovation throughout the Sekisui House Group.

### Reforming production through synergy between people and cutting-edge technology

As a countermeasure to Japan's labor shortage, which is an issue common to all industries, we are increasing production capacity while saving labor through the use of industrial robots. Situations where we use AI, IoT and other information technologies have also increased in recent years. For example, for Bellburn earthenware exterior wall panels, which are made of ceramic and other natural materials, external factors such as temperature and humidity significantly affect the finished product. In addition to developing production technologies with this characteristic in mind, we are developing and introducing a system that uses AI in the inspection process to ensure uniform quality and minimize defects in external walls.

In introducing the latest technology, we have set a target of halving staff for labor-intensive processes while maintaining product quality and safety. However, human judgment is indispensable in producing a detached house. Going forward, we will incorporate the ideas of our production team in innovation at our factories.



## Clearing high hurdles with the spirit of a community with a common destiny

The members of our design-build system have shared the spirit of a community with a common destiny since Sekisui House was founded. A construction site is the creation of everyone involved, including the construction technicians and managers as well as the tradespeople. This spirit is indispensable for steadily securing skilled construction capabilities while improving quality and customer satisfaction. In addition, we have established vocational skills development schools certified by the Ministry of Health, Labour and Welfare at three locations nationwide, and are working to develop our next generation of human resources.

In 2019, we set up a skills training facility in Vietnam to maintain and strengthen our framework of a community with a common destiny. Under this framework, we are working together to provide high-quality housing in a short construction timeframe by sharing information on the production process and construction progress through close communication at factories and construction sites.



## Construction

### Striving for the world's happiest construction sites

With our fundamental philosophy of love of humanity, we also aim for the world's happiest construction sites in our construction process. Happiness must be for all—not only our customers and our company, but also the tradespeople who work on our sites. We therefore consider it important to improve conditions at construction sites to make them safer and to facilitate work. As one such initiative, in 2007 we introduced a construction reform request system to collect concerns and requests from people at our sites, and have been working earnestly to resolve each one. In 2020, we will upgrade this system with an emphasis on greater reliability. We have been working to improve onsite environments by developing and introducing a mobile tower crane that enables four-story construction on narrow sites, and by recommending and subsidizing the purchase of air-conditioned suits to combat heat stroke. In addition, we are actively providing a support system for ensuring a secure working environment at construction sites for non-Japanese technical trainees. The cumulative effect of these improvements will be happier construction sites, ultimately leading to a stable labor force and higher productivity.

The spirit of a “community with a common destiny” endures in our relationship of trust with Sekiwa Construction companies and the Sekisui House Association. This bond of solidarity, which has deepened since our founding, and the skills of the 11,000 workers on our sites are among the greatest strengths of Sekisui House.

### Considering housing from a broad perspective

The housing industry is now entering the era of integrated proposals that encompass new ways of living and the methods for realizing them. Given this trend, it is not enough to improve the specialized skills of individual employees and relevant departments. We also need human resources who can transcend the boundaries of their specialties to utilize various types of knowledge according to the work site.

We are currently focusing on cultivating human resources with diverse perspectives by recruiting new university graduates from a wide variety of majors and using job rotation to give employees working experience in multiple departments. We also have numerous in-house systems for recognizing and commending employees in each department. Systems include “Chief Constructor” and “Construction Meister” for employees with excellent construction knowledge and “CS (Customer Satisfaction) Meister” for employees in after-sales service. Their activities are directly linked to happy homes for our customers, and help increase both quality and the value of the Sekisui House brand.

## Proud to stand side by side with customers through thick and thin

One advantage of Sekisui House is the tendency for customer satisfaction to increase even after owners take possession of the house. This is the result of an approach to customer satisfaction that we foster at customer service centers nationwide: continually thinking of our customers and keeping watch over their homes throughout their lives. We value our relationships with customers even after they take possession, and work with our R&D institutes and Technology Division to provide them with maximum support.

Our customer service centers have a dedicated staff of approximately 1,500, or about one-tenth of our workforce. Under the slogan “comfortable living—now and always,” we will continue to respond to customers’ requests and inquiries for as long as they live in the homes we build, as we establish a system to provide meticulous after-sales service. We do it all for the smiles of our customers.



## Customer Service

We aim for customer service that impresses. This aspiration is part of our DNA, continuously passed down from senior to junior employees, and the essence of the Sekisui House brand. We will continue on this path together with our customers, keeping watch over their homes as a partner in creating happiness.

### The role of our customer service centers includes making sure houses can be lived in for a long time

Our customer service centers cooperate with Group companies to promote the resale of houses. Passing on high-quality housing to the next generation as a social asset rather than repeatedly tearing homes down and rebuilding helps to create a sustainable society that responsibly maintains housing assets. In addition, we are focusing on efforts to protect the value of buildings by establishing relationships with new owners after a change in occupants, so that quality housing can continue to be used. These initiatives are made possible by the big data that Sekisui House has accumulated over many years. Another important role of our customer service centers is to promptly provide high-quality services, supported by our unique system of centralized management of blueprints, equipment, maintenance and repair histories, and other information.

### The speed and accuracy of our response drives future business

In order to realize our vision of making home the happiest place in the world, our customer service centers must be closely attuned to residents and consistently provide superior service. Sekisui House is expediting large-scale upgrades to its support operations so that all services are available to all customers. For example, we plan to develop the capability to respond accurately to inquiries 24 hours a day, 365 days a year via social media, interactive apps and other channels, as well as an automated, knowledge-based system that uses AI to create a database of sample answers using the large number of inquiries we have received in the past as reference to provide relevant responses to customer inquiries. These measures are designed to ensure residents consider their homes the happiest place in the world.

# The Foundation Supporting ESG Management



**I want to create a vibrant, innovative organization and to make Sekisui House a leading company in ESG management.**

**Takashi Uchida**

Executive Vice President & Representative Director

Sekisui House has consistently dealt with the social issues of the day. We will continue to fulfill our social responsibilities as we provide new value for residents in the era of the 100-year lifespan and make steady progress as a leading company in ESG management.

## ESG Management as a Long-Term Growth Driver and a Pioneering Spirit for Our Times That Will Improve Management Quality

Looking ahead to the era of the 100-year lifespan, our business involving people and their homes is entering a new growth phase. At the same time, as a global trend, companies are expected to apply an ESG (environment, society and governance) approach in their management to enhance its quality.

In 2016, the Sekisui House Group formulated its Sustainability Vision 2050, with long-term goals for ESG management. In the following year, we incorporated mid-term goals for 2030 into our management strategy, factoring in the 17 Sustainable Development Goals (SDGs) adopted by the United Nations. We are steadily establishing the framework for a transition to enhancing the quality of our management in areas such as identifying the risks that society will face going forward and achieving long-term growth in corporate value.

Since our founding, we have encountered a variety of customers and with them we have faced and created solutions for many social issues. However, providing value by simply continuing business as usual is a slow process. Taking the viewpoint that constantly looking ahead to new challenges is vital, the Sekisui House Group aims for “Innovation and Communication,” which are also crucial for ESG management, and are having a positive impact. “Innovation” is a management orientation that turns environmental and social issues into growth drivers. “Communication” is indispensable for building relationships with customers and suppliers. At the same time, communication invigorates the employees and organizations that will generate innovation, thus enhancing management quality and complementing innovation over the long term.

## Thirteen Guidelines Based on Four Key Values



The sizes of the SDG pictograph conceptually represent the degree of relation to the Group's four key values.

## The Foundation of ESG Management: True Diversity and Inclusion for a Vibrant Organization That Generates Innovation for the Future

The Sekisui House Group's DNA of “a community with a common destiny,” which arises from its fundamental corporate philosophy of “love of humanity,” is deeply rooted in the culture it has cultivated as a company aiming to become a leader in ESG management. I take pride in that culture. However, complacency may cause us to fall behind amid the changes and rapid pace of the coming age. While it is important for Sekisui House to create new value with management that has assimilated an ESG and SDG-based approach, we are focusing at the same time on the degree of adoption of such an approach by employees, its effectiveness and its feasibility.

Sekisui House celebrates its 60th anniversary this year. During our first two 30-year phases, our business model and strategies as well as our corporate stance changed along with the times. In the third phase we are about to begin, I intend to focus seriously on aligning each employee's behavior and orientation with the ESG management that Sekisui House is aiming for. The proactive involvement of each employee creates a vibrant organization. We will be more than just a group of organizations that provides a rapid and well-balanced

response to ESG issues, as expected by society. We will also create a work environment that incorporates true diversity throughout. We also intend to deeply instill ESG management and SDG measures to further evolve into a robust organization that views social issues as growth opportunities. This is also part of our governance reforms.

Going forward, diversity will be an indispensable part of our approach in human resource strategies. Diversity tends to be simply viewed as the active participation of women and the employment of non-Japanese nationals and people with disabilities. However, I believe that true diversity is the sharing of individuals' differences to produce a unified result. We will transition into an organization where true diversity and inclusion is the norm—a place where human resources with diverse perspectives can engage in lively exchanges, regardless of gender, age, experience or other attributes, and as colleagues with the common goal of sustainable corporate growth. I am convinced that this will lead to real growth as a corporate group that can innovate from the bottom up. In practicing ESG management, I intend to hold to my view that people are what make a company.

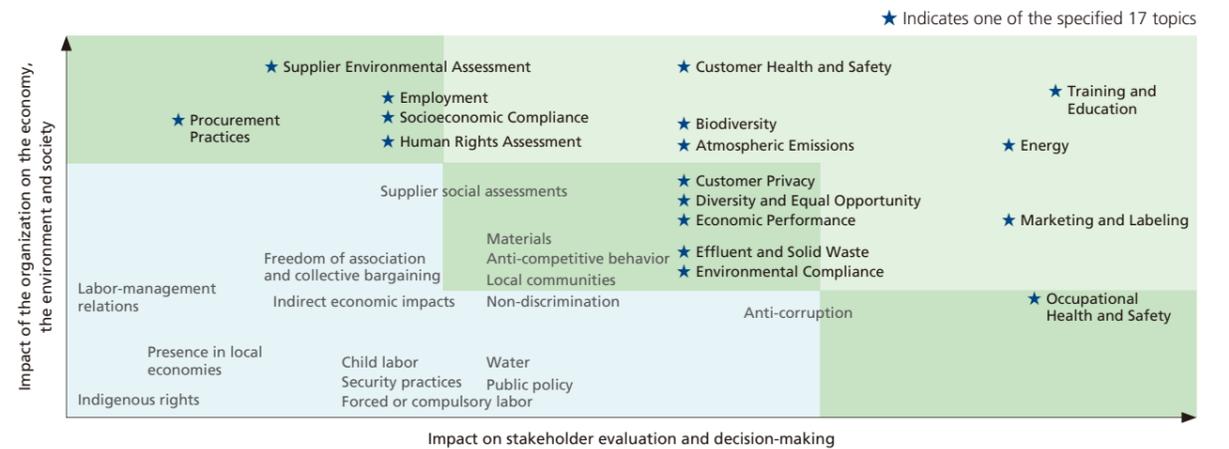
I intend to build a vibrant organization and a leading company in ESG management so that Sekisui House remains respected worldwide, essential to society, and recognized as a good company by our stakeholders for the next 30 years.

# Risks and Opportunities/Material Topics

The Sekisui House Group has specified that environmental, social, and governance (ESG) initiatives are important management topics, and as such they have been incorporated into its mid-term management plan. We are striving to create and develop a sustainable society as the foundation of our management.

Main ESG Management Themes		
<b>E</b> Environmental	<b>S</b> Social	<b>G</b> Governance
<ul style="list-style-type: none"> <li>Decarbonized society</li> <li>Society in which humans and nature coexist</li> <li>Circular economy</li> </ul>	<ul style="list-style-type: none"> <li>Pursuing customer satisfaction through our value chain</li> <li>Promoting diversity</li> <li>Workstyle innovations</li> <li>Human-resource development</li> <li>Respect for human rights</li> <li>Contributing to society</li> </ul>	<ul style="list-style-type: none"> <li>Strengthening our corporate governance system</li> <li>Compliance and risk management</li> <li>Occupational health and safety management</li> </ul>

## Material Topics (Critical Issues) for ESG Management



## Risks and Opportunities in the Context of ESG Management

Changes in the Business Environment		Specific Risk Scenarios	Specific Examples of Opportunities Created
Climate change	Acceleration of decarbonization due to concerns about global warming	Impact of extreme heat on lifestyles	Promoting net zero energy housing (ZEH)
		Impact of extreme heat on business (production and construction sites, etc.)	Promoting net zero energy buildings (ZEB)
		Impact of increasingly severe natural disasters	Popularizing highly durable (long-lasting) homes, etc.
		Introduction of carbon tax	Introducing and expanding renewable energy
Ecosystem conservation	Responses to ecosystem change due to global warming	Changes in growing ranges and areas suitable for plants used for afforestation	Effective landscaping proposals for shrubs and trees
		Demand for effective use and re-use of water resources	Popularization of water-saving housing facilities
Resource recycling	Demand for effective use and re-use of resources	Demand for higher quality recycling	Promotion of recycling business through the use of high-level, thorough sorting and "wide-area certification"
		Change in awareness, moving toward a society without plastic	Increased processing costs for plastic waste materials derived from fossil fuels
Economic and policy changes	Promotion of workstyle innovations	Reduced workforce due to declining employee satisfaction, turnover, and working-hour regulations should reforms not go ahead	Improved productivity due to better employee satisfaction, recruitment of talented personnel
		Acceptance of foreign workers	Ensuring a high-quality workforce through improvements in working environment
		Extension of loan deduction, expansion of housing benefit	Increased orders due to appropriate funding advice
		Increase in consumption tax	Various government support measures for home purchasing
Globalization	Acceleration of business globalization	Intensification of competition	Development of overseas business
		Changes in demand due to lost opportunities and changes in circumstances	Capturing long-term demand
		Lost opportunities due to an inability to respond to the needs of the new millennial generation	Expanding digital marketing opportunities
		Social participation of the millennial generation	
Changes in population movement	Coming of a super-aged society	Accidents in the home, lack of care services	Expanding Platinum Business, providing health-conscious housing
		Decline in the number of new housing starts, decline in the occupancy rate of properties under management, worsening problem of unoccupied houses	Provision of good-quality housing
		Decline of rural areas	Increased need for regional revitalization
		Delay in employees returning to work	Increased opportunities for preschool intake, improved child support systems
		Increasing complications and trouble with asset inheritance	Increased circulation of existing housing and need for real estate management trusts
		Competition to be first in advanced health-related technology	Promoting the sale of housing that contributes to health
Technological innovation	Coming of an IoT/AI era	Loss of business opportunities, rising necessity for security measures	Providing highly convenient housing
		Discontinuity in transfer of construction techniques	Improving construction efficiency

## Fifth Mid-Term Management Plan Measures and Initiatives

### E Environmental

- Strengthen and expand net zero energy housing (ZEH)
- Promote RE100<sup>1</sup> through Sekisui House Owner Denki<sup>2</sup>
- Be a global ESG leader

### S Social

- Build a pipeline of human resources to strategically develop into next-generation managers and leaders
- Strengthen recruitment ability and secure a range of talent for new business domains
- Promote diversity
  - Create workplaces that demonstrate the power of diversity
  - Increase growth generated by intangible assets
- Tackle social issues
  - Help create a society that delivers maximum value to customers and achieve the SDGs

### G Governance

- Senior Management Level**
  - Reform corporate governance systems and strengthen their effectiveness
    - Work to reform management through collaboration (collaborative creation) and the creation of fair and healthy tension with outside directors
  - Enhance information disclosure and promote dialogue with stakeholders
    - Gain trust of stakeholders through honest and fair information disclosure
- Business Management Level**
  - Increase integrity at business management level
    - Achieve governance by managers with integrity, based on mutual trust
  - Strengthen Group governance systems
    - Foster mutual trust between Group companies based on corporate philosophy

1. An international initiative of corporations that aims to use 100% renewable energy in their business activities  
 2. Program under which owners of Sekisui houses sell excess electricity generated by photovoltaic systems installed on their houses to Sekisui House, Ltd. for use in the Sekisui House Group's corporate activities

# Environmental Strategy

**Sekisui House is promoting the integration of its environmental strategies and business strategies to fulfill its mission of making life happy for customers.**

In our quest to make life happy for customers, we have made safety, security, comfort and health essential elements of the housing we provide. We are working to achieve this by constantly improving technology and quality.

For example, significantly improving thermal insulation has enabled people to enjoy warmth and comfort in large rooms with no partitions and to take in a view of their garden through large windows. We have also improved energy efficiency significantly with features such as photovoltaic systems for power generation, high-efficiency air conditioning and hot water supply. In addition, we work to make houses beautiful. For example, we have developed original roofing tiles that incorporate photovoltaic panels. Installed in a large number of buildings, they serve as both functional roofing materials and beautiful design elements. Our designs not only enable customers to enjoy comfort and utility bill savings by simply living as they normally do, but also add to the beauty of the townscape. Thus, we further our environmental strategies by offering customers environmentally friendly proposals as added value. In this way, we expand our businesses while helping to resolve environmental issues such as global warming.

Sekisui House consistently anticipates social trends in setting environmental goals and implementing concrete

initiatives. In 1999, we announced our Environmental Future Plan to fulfill our responsibilities to the future of the planet. We also issued our Declaration of Sustainability in 2005 as a management blueprint for helping to create a sustainable society. In 2008, we announced our 2050 Vision, becoming the first Japanese company to issue a decarbonization declaration. In 2009, we launched the Green First models that reduced the CO<sub>2</sub> emissions of daily living by 50% compared with 1990, and in 2013 we launched Green First Zero, a net zero energy house (ZEH) that features improved performance. Today, 87% of new houses we build are ZEH, and the cumulative total of 51,793 houses that we have sold to date makes us the industry leader in Japan.<sup>1</sup>

We will extend these initiatives by expanding ZEH sales promotion from newly built houses to existing houses, rental housing and condominiums. We are also considering ZEH initiatives in our overseas business. In addition to ZEH, Sekisui House is implementing other initiatives that integrate its environmental and business strategies to create added value for customers, such as the *Gohon no ki* (five trees) native tree landscaping project that promotes biodiverse landscaping. Such initiatives will help make life happy for all of our customers.

1. Source: Sekisui House data

## Fifth Mid-Term Management Plan Priority Measures

### Net Zero Energy Houses (ZEH): Targets<sup>2</sup> and Progress<sup>3</sup>

• **ZEH detached houses (Green First Zero)**  
**Target:** 90% of orders received for newly built houses  
**Progress:** 87% of orders received for newly built houses  
 (Cumulative total of 51,793 ZEH detached houses sold)

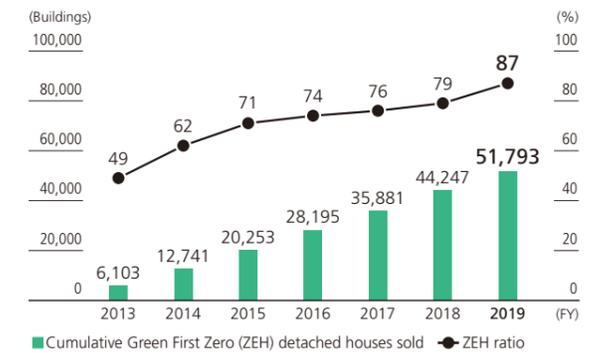
• **ZEH-M rental housing**  
**Target:** 2,500 newly built units per year  
**Progress:** 447 newly built units per year  
 (Cumulative total of 679 ZEH units sold)

• **ZEH-M condominiums**  
**Target:** Cumulative total of 540 units  
**Progress:** Cumulative total of 12 units

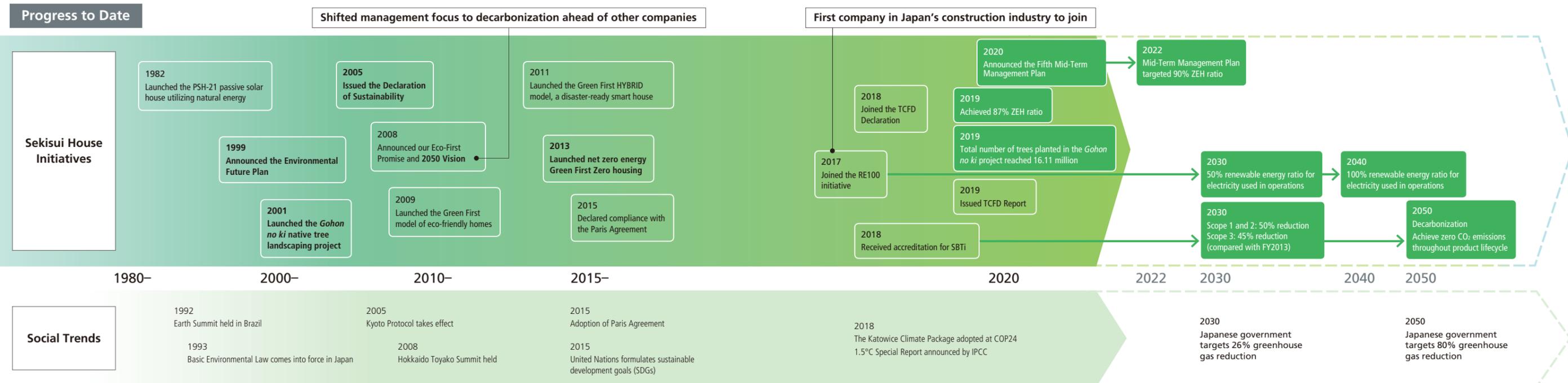
• **ZEB commercial buildings (net zero energy buildings)**  
 We are deploying our pre-engineered housing construction capabilities and ZEH technologies and expertise acquired over many years to transition to ZEB in our non-residential building business. Starting with the completion of the first ZEB in northern Japan—the new office of Sekiwa Construction Tohoku—we have constructed ZEB office buildings, nursing care facilities, and childcare facilities in other parts of the country.

2. Fifth Mid-Term Management Plan targets for achievement in FY2022  
 3. Results from April 2019 through March 2020; condominium data are cumulative

### Green First Zero (ZEH) Progress



Japan's first all ZEH-M rental housing units (Kanazawa City, Ishikawa Prefecture)



Addressing the Task Force on Climate-related Financial Disclosures (TCFD)

Sekisui House is targeting net zero CO<sub>2</sub> emissions throughout the entire life cycle of its housing products from material purchasing to production, sales, occupancy and demolition. At the same time, we recognize that various risks and opportunities may arise due to climate change during that process, so we will implement appropriate initiatives through our businesses to address changes in society as a whole.

Sekisui House quickly joined the TCFD Declaration in 2018, and in 2019 was the first non-financial company in Japan to issue a TCFD Report disclosing relevant financial information. We examined the validity of our existing strategies using an analysis of two scenarios: the risks and opportunities if we take actions to transition to a decarbonized society that limits the rise in average global temperature to the recommended 1.5°C, and the physical risks if the average global temperature rises to 4°C despite corporate actions. As a result of our analysis, we concluded that the Sekisui House Group's existing strategies presented few financial risks, rather, substantially greater opportunities because its strategy of pursuing not only environmental performance but also disaster resilience and the essential comfort that housing should provide had already begun to address decarbonization of its products and abnormal weather in all businesses.

Our TCFD Report presents climate-related risks and opportunities and their potential financial impact.

Sekisui House will continue to verify the validity of its climate change countermeasures and growth strategies in

corporate activities. We will also proactively disclose information on the results of this process and engage in dialogue with stakeholders.



Chairman Abe presenting at COP24, where our environmental initiatives were well received

Click here to view the Sekisui House TCFD Report.

[https://www.sekisuihouse.co.jp/english/tcfd/2019/TCFD\\_2019e.pdf](https://www.sekisuihouse.co.jp/english/tcfd/2019/TCFD_2019e.pdf)



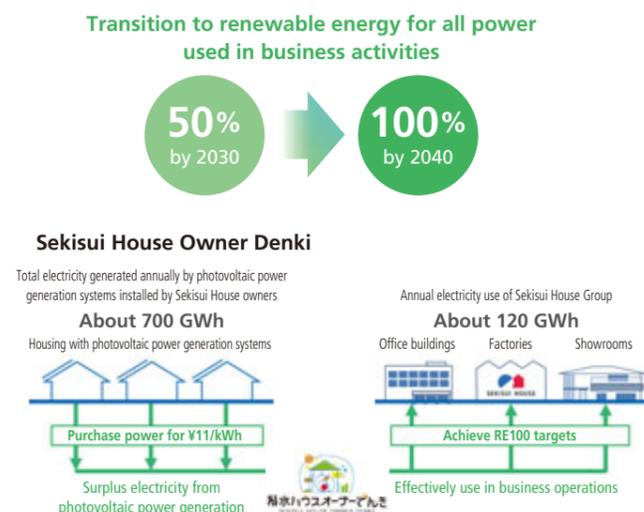
Readers can scan the QR code to access the PDF file.



Fifth Mid-Term Management Plan Priority Measures

Promoting RE100 with Sekisui House Owner Denki

In October 2017, Sekisui House was the first company in the Japanese construction industry to join the RE100 initiative. We are actively promoting the use of renewable energy in our business operations, and by 2040 will transition completely to power from renewable sources for all the Sekisui House Group's needs. Toward this end, in November 2019, we launched Sekisui House Owner Denki, a program through which we purchase surplus electricity for use by Group businesses from owners of Sekisui House products equipped with photovoltaic power generation systems. A total of 47% of eligible homeowners were participating in this program as of March 2020.



Climate-related Risks and Opportunities and Potential Financial Impact (excerpt from TCFD Report)

Risks		Climate-related Risks	Potential Financial Impact
Risks in Transitioning	Policy and regulations	Rising cost of greenhouse gas emissions	A carbon tax of ¥10,000 yen/t-CO <sub>2</sub> would increase our tax liability by ¥19.5 billion/year, or 0.9% of net sales, calculated using FY2018 emissions. RE100 and other initiatives will reduce CO <sub>2</sub> emissions, which would mitigate the impact of such a carbon tax if introduced. <b>¥19.5 billion/year</b>
	Technology	Replace existing products and services with low-emission options	We have already addressed this issue in core businesses. We will expand initiatives to all businesses, but this poses no development risk and does not necessitate major systemic changes. <b>Not material</b>
	Markets	Changing customer behavior	We are transitioning to decarbonization products such as ZEH, and have done so completely for detached houses. We are now extending initiatives to other products such as rental housing and condominiums. <b>Not material</b>
Physical Risks	Acute	Increased severity of extreme weather events such as cyclones and floods	We have already addressed heavy rain and strong winds by changing our design standards. On the other hand, the development of flood-resistant housing is an issue for future study, so we did not include it in our calculations. <b>Not quantified</b>
	Chronic	Changes in precipitation patterns and extreme changes in weather patterns	We assume that flood risk for our Kanto Factory is ¥28.5 billion, but we have insurance coverage for this. We have no significant assets such as land for sale that could be flooded, and we will continue to follow rules including hazard map confirmation when purchasing land. <b>¥28.5 billion</b>

Opportunities		Climate-related Opportunities	Potential Financial Impact
Opportunities	Energy sources	Use of lower-emission energy sources	Addressing this issue by purchasing non-fossil fuel energy certificates would cost ¥150 million/year, but we plan to achieve RE100 at no additional cost through the Sekisui House Owner Denki program. <b>¥150 million/year</b>
	Products and services	Development and/or extension of low-emission products and services	We assume that by around 2030, annual net sales will increase by ¥9.68 billion in the custom detached houses business, ¥4.08 billion in the rental housing business, ¥16.2 billion in the remodeling business, ¥2.5 billion in the real estate management fees business, and ¥3.3 billion in the overseas business. <b>¥35.76 billion/year</b>

\* Prepared with reference to Final Report: Recommendations of the Task Force on Climate-related Financial Disclosures (June 2017)

The Gohon No Ki Project: Promoting Biodiversity and Increasing Resident Value

Sekisui House has been implementing the *Gohon no ki* project since 2001 to plant native trees. "*Gohon no ki*" means "five trees" in Japanese, and the project concept is that three of five trees planted will be for birds and two will be for butterflies. In FY2019, 1.09 million trees were planted through the project, bringing the cumulative total to 16.11 million. This biodiversity conservation project has made Sekisui House a leading landscaping company in Japan.

Creating gardens through the *Gohon no ki* project offers customers greater comfort in their daily lives, adds beauty to townscapes, and helps increase property value. We are expanding the project from custom detached houses to rental housing and condominiums.

We have published an original illustrated book titled *Garden Trees* that includes an introduction of the features of the *Gohon no ki* project as well as a QR code that provides access to information including birdcalls and characteristics of the birds and butterflies that congregate in the trees we plant. This book, our efforts to conserve

biodiversity and our promotion of tree planting are just some examples of our environmental business strategies besides addressing climate change.

**Tree Selection for Hokkaido**  
For birds: Sargent's cherry, Japanese yew, Japanese spindle tree  
For butterflies: White birch, Weigela

**Tree Selection for Honshu, Shikoku and Kyushu Interior and Mountains**  
For birds: Mountain cherry, Longstalk holly, Burning bush  
For butterflies: Japanese bush clover, Clethra

**Tree Selection for Tohoku and Chubu Mountains**  
For birds: Mountain ash, Japanese yew, Linden viburnum  
For butterflies: Konara oak, Japanese bush clover

**Tree Selection for Honshu, Shikoku and Kyushu Coastal Areas**  
For birds: Japanese mountain cherry, Kobushi magnolia, Japanese eurya  
For butterflies: Sawtooth oak, Japanese maple

**Tree Selection for Shikoku and Kyushu Southern Coastal Areas**  
For birds: Japanese bayberry, False daphne, Japanese cheesewood  
For butterflies: Japanese silvertree, Japanese peppertree

A tree nametag

Readers can scan the QR code to access the website (Japanese only).

# Human Resources Strategy

## Providing houses where customers can feel happier by promoting a human resources strategy that lets all employees fully display their skills

Taking the perspective of women into account is important for enhancing our ability to respond to social changes in the housing and construction industry. Based on this management policy, in 2006 Sekisui House established the Diversity Development Team (currently the Diversity and Inclusion Promotion Department), which has been promoting diversity. Also in 2006, we announced a basic personnel policy of Human Resources Sustainability, consisting of three pillars: encouraging female employees to pursue career development; effectively utilizing diverse human resources; and promoting a variety of working styles and work-life balance. Moreover, in 2016 we established concrete policies and initiatives and a promotion framework to step up activities under Sekisui House's Action Plan for the Promotion of Active Participation by Women, which is based on the Act on Promotion of Women's Participation and Advancement in the Workplace. Company divisions are coordinating initiatives and engaging in regular discussions in steadily implementing those initiatives.

For the Company to grow sustainably and remain essential to society going forward, we believe that efforts to cultivate a corporate culture with opportunities for all employees to fully display their skills will lead to a more vibrant organization and generate innovation.

Under the Fifth Mid-Term Management Plan, we will work to secure and cultivate our next generation of innovative human resources and improve the work environment as a leading company in ESG management.

### Priority Measures under the Fifth Mid-Term Management Plan

#### Cultivating the Next Generation of Managers and Leaders

In this VUCA\* world, there is no guarantee that the achievements and human skills Sekisui House has accumulated will continue to be relevant going forward. We believe that even our human resources strategy requires the agility to adapt swiftly to environmental changes, as well as the ability to generate change itself. We will focus on building a human resources pipeline to systematically select and develop the next generation of managers and leaders as candidates for branch manager, division general manager and executive officer, starting with young employees under the age of 35.

\* An acronym for Volatility, Uncertainty, Complexity and Ambiguity

#### Recruitment Reform to Attract a Range of Talent

We aim to attract capable young talent with new sensibilities who will lead the next generation of leaders at Sekisui House. We are working to expand the channels for hiring new university graduates beyond conventional methods to include year-round recruiting, referrals and internships in cooperation with other industries.

It will also be essential under our long-term management

vision to enhance the capabilities of the new human resources who will support our third-phase growth strategy by incorporating open innovation. We are promoting innovation and digital transformation to contribute to society as a company that continues to provide happiness for residents in the era of the 100-year lifespan. We will reform recruitment to allow us to attract a range of talent, including high achievers and skilled specialists from other industries, human resources in the STEM (science, technology, engineering, mathematics) fields and highly skilled IT engineers. This will help us achieve the Fifth Mid-Term Management Plan core policy of further strengthening core businesses and embarking on new businesses.

#### Promoting Diversity

As a management strategy, the Sekisui House Group is promoting greater diversity within the organization. At the same time, we are promoting inclusion, with the aim of creating workplaces where all employees accept and make the most of each other to maximize the power of their diversity.

#### • Promoting the Active Participation of Female Employees

Top management has committed to a policy of "The active participation of women is vital for the Company's growth." Senior executives are regularly involved in discussions of diversity issues and initiatives as we work to promote career development and build networks for female employees by job type, rank and region.

We began actively recruiting female sales staff in 2005. Since 2007, we have been holding an annual nationwide meet-and-greet event for female sales staff to share success

stories of outstanding employees and to support career development and networking. We have also established a Female Sales Staff Promotion Committee to support the retention and development of young employees and the appointment of female branch managers. To further enhance our support system, in August 2019 we started a mentor system that pairs female employees so they can discuss concerns specific to women.

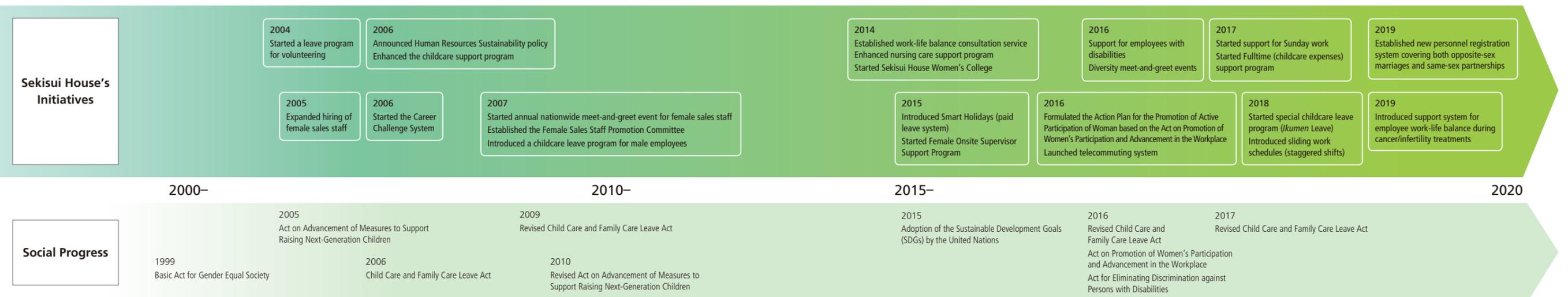
For technical positions, we are focusing on cultivating female leaders for management, as well as specialists such as certified Chief Architects who must have outstanding qualities, have made significant achievements and earned a high level of trust inside and outside the Company. To expand the range of technical positions for women, we conduct personnel exchanges with Group companies and systematically appoint female onsite supervisors. Through these and other measures, such as a support program for female onsite supervisors and guidance for working during pregnancy, we are striving to create comfortable workplaces for women.

In 2014, we opened Sekisui House Women's College to train and appoint female managers. Each year we select



Sixth graduating class of Sekisui House Women's College

### Progress to Date





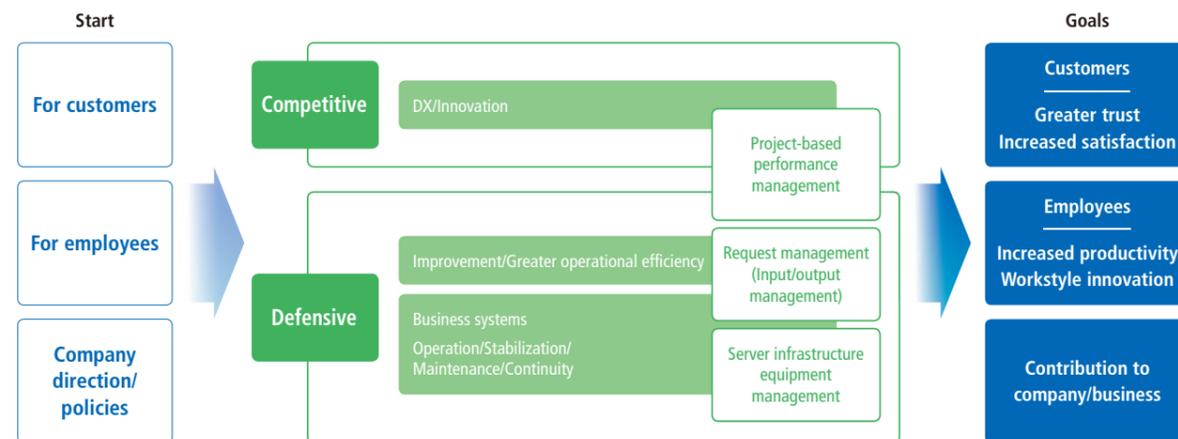
## Transforming Our Business Activities with Competitive and Defensive IT

Over the years, Sekisui House has continually revised the classification and role of its IT operations in light of changes in the business environment in order to maintain its competitive advantage in the industry. Until 2008, the current IT Operation Department was called the Information Systems Department and was part of the Administration Division. At that time, the department mainly performed contracted work, such as the installation and maintenance of individual systems tailored to the requests of the user department. Meanwhile, it also began to establish proposal-based activities. In these activities, the Information Systems Department gained an understanding of the essence of the user department's issues and created systems, such as a new application that linked data dispersed among various departments, that surpassed user expectations. Senior

management evaluated these activities and their results highly, changing the name of the department to the IT Business Department in 2009 to pursue the potential of IT. In 2018, the department was reclassified as part of the Business Strategy Division.

The labor shortage in Japan and workstyle innovation are urgent issues for the Sekisui House Group. However, we realize that it will be impossible to resolve them simply by continuing to enhance and upgrade our current information systems. Therefore, for the past several years we have been planning and promoting our IT strategy from both a defensive and a competitive perspective, based on our view that the value we create for all stakeholders (customers, owners, tenants, shareholders, employees, suppliers, partner building contractors and others) is value for our company.

### IT Strategy Promotion Framework



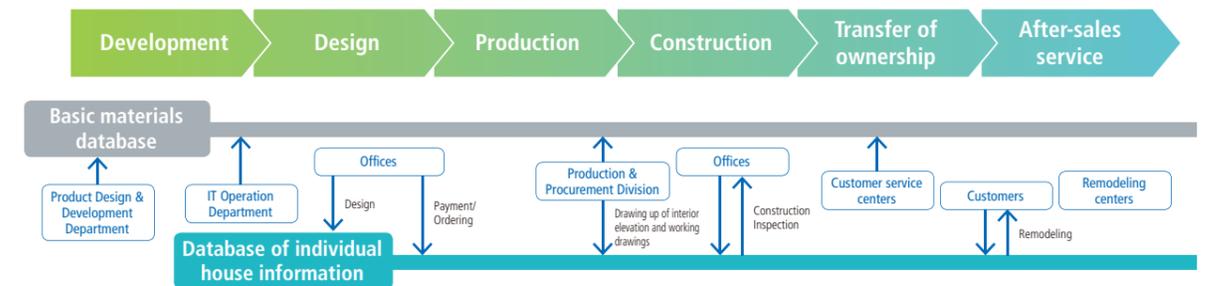
### Competitive IT Strategy

Competitive IT entails stepping up measures for advanced digital transformation (DX)<sup>1</sup> using the Internet of Things (IoT) and blockchain technology<sup>2</sup> with the aim of establishing an IT platform directly linked to profit. The customer information and enormous amount of design data that the Sekisui House Group has accumulated over the past 60 years are centrally managed as key information assets that underpin our competitive advantage. Using a secure IT platform, we have begun efforts to generate profit by deploying these assets in new businesses and services.

As part of these efforts, since 2019 we have been building a new real estate platform utilizing blockchain technology for the real estate management fees business. Current procedures for each stage from property search and

onsite inspection to the rental contract are cumbersome, requiring the preparation of many documents. We aim to make all procedures up to taking occupancy seamless using a website linked to a blockchain. Property information such as location, floor plan, household amenities and remodeling history, and tenant information such as payment history and actual occupancy of the property as a primary residence will be recorded on a blockchain. Tenants with long-term occupancy and no history of delinquent rent payments or similar factors will enjoy smoother background checks the next time they move, as well as the benefits of higher-grade services from cooperating telecommunications, gas and insurance companies. We are also considering tie-ups with municipal water departments, electric power companies, government agencies and other parties in the near future,

## Integrated Management of Customer Information and Design Data



with plans to create a cross-industry consortium that will both improve convenience for tenants and ensure profit for participating companies.

In addition, our previously announced Platform House Concept will use IoT and AI to generate new profits from services based on resident data.

1. Digital transformation (DX): Companies' transformation of their business models based on the needs of customers and society, using their accumulated data and digital technologies to respond to changes in the business environment, as well as the transformation of their organizations and corporate cultures to establish a competitive advantage
2. Blockchain technology: A method for using a combination of multiple computers and encryption technology on an open network such as the Internet to enable financial transactions and the exchange of important data that require a high level of reliability

### Defensive IT Strategy

Defensive IT entails raising operational efficiency through system-level reforms and upgrades, as well as constructing and stably operating system infrastructure that allows our competitive IT strategy to function. We believe that stable operation requires IT governance—defined rules for strategic control of investment in individual information systems and the related effects and risks. By continually minimizing risks and optimizing resources, we are working to maintain the Group's database and enhance the value created by our IT strategy.

For example, because the nature of our business requires handling customer information, we deal with security risks by aggregating important data on a cloud-based platform and providing thin client tablets to all employees. This environment facilitates information sharing among departments and supports workstyle innovation by enabling employees to work at any time and any place. It also reduces security risks through a mechanism that remotely disables lost tablets.

To gain a deeper understanding of workplaces, since 2017 the IT Operation Department has been conducting Caravan, a program in which all department members share the task of visiting and interviewing site supervisors, design staff and salespeople at the Company's more than 200 branches

nationwide. Based on the onsite needs and issues identified through Caravan, the department is working to enhance the usability of the tablet by improving the approximately 200 apps that have been developed in-house, as well as by developing new functions.

Since the IT Operation Department remains in close touch with work sites, management and back-office departments throughout Japan, it can act as an intermediary between various departments and levels of the hierarchy from an objective standpoint, thus helping to mobilize the diverse capabilities of each Group company and organization.



Using a tablet at a construction site

### Selected as a Competitive IT Strategy Company Stock for Three Consecutive Years

In recognition of its outstanding IT strategy, Sekisui House was included in the 2019 Competitive IT Strategy Company Stock Selection program conducted jointly by the Ministry of Economy, Trade and Industry and the Tokyo Stock Exchange. In this program, 29 companies were selected for their proactive efforts for IT utilization to improve management innovations, earnings and productivity in terms of improving mid-to-long-term corporate value and fortifying competitiveness. It was the third time for Sekisui House to be selected for inclusion.



## Basic Concept

Corporate governance provides the requisite framework for sustaining growth in corporate value while earning the trust of shareholders, investors and all other stakeholders. The Sekisui House Group (the Group) has structured its corporate governance system based on its corporate philosophy, which holds love of humanity at its core. This system enables speedy, sincere management characterized by integrity, and the Group shares the system's basic concept and framework with stakeholders through its Basic Policy on Corporate Governance.

The Sekisui House Group positioned FY2018 as the first year of governance reforms. Initiatives to improve corporate value included six specific measures to strengthen the corporate governance system. We are steadily implementing

each initiative to build a resilient management base for long-term, sustained growth in corporate value.

Integrity—sincerity and high moral values—is central to our governance reforms. This concept resonates with love of humanity, which is at the core of our corporate philosophy, and with our basic stance of truth and trust. We prioritize integrity in all corporate activities, from the actions of the Board of Directors to personnel evaluation, sales, production and construction, while implementing reforms as a leading company in ESG management.

Note: Details regarding the Basic Policy on Corporate Governance are available on our website. [https://www.sekisuihouse.co.jp/english/info/Governance\\_Guideline\\_E.pdf](https://www.sekisuihouse.co.jp/english/info/Governance_Guideline_E.pdf)

## Changes in Governance

2002	Executive officer system introduced
2003	Sekisui House Group Corporate Code of Conduct formulated
2005	CSR Committee established
2006	Retirement bonus system for directors abolished and stock remuneration-type stock option system introduced
2008	One outside director appointed
2009	Outside Audit & Supervisory Board members increased from two to three
2012	Outside directors increased to two
2016	Basic Policy on Corporate Governance formulated Personnel Affairs and Remuneration Committee and Risk Management Committee established as consultative bodies to the Board of Directors

### Positioned as the first year of corporate governance reforms, with steady implementation of various initiatives including six measures to strengthen the corporate governance system

2018-2019

1. Introduction of a mandatory retirement age of 70 for representative directors
2. Appointment of women as outside officers
3. Transparency and invigoration of meetings of the Board of Directors
4. Establishment of the Management Meeting
5. Clarification of departments under the control of directors
6. Evaluation of the effectiveness of the Board of Directors
7. Ensuring the independence and strengthening the check-and-balance functions of the Chief Manager of the General Affairs Department, Sales Administration Headquarters and general managers of the branches
8. Increasing the integrity of branch managers
9. Introduction of a restricted stock remuneration system
10. Abolition of the bonus system for outside directors

## Characteristics of Sekisui House Group Governance

The Group's governance reforms are characterized by both an increase in the effectiveness of governance and sustained growth. However, more active communication and individual employee growth are essential. Innovation and communication are therefore the watchwords of our initiatives.

Our first initiative was to establish the Management Meeting to help officers enliven the exchange of opinions and share information. Established as a new organization in 2018, the Management Meeting now functions as a deliberative body prior to Board of Directors meetings rather than as a reporting body. The lively exchange of opinions prior to Board of Directors resolutions facilitates constructive discussion among members of the board. Internal directors and full-time Audit & Supervisory Board members are required to attend Management Meetings, and outside directors and outside members of the Audit & Supervisory Board may attend every meeting if they wish, and several always do. Management Meetings also enhance discussion and help officers share candid opinions and detailed information through proactive reporting and deliberation

related to collective decisions, agendas and other matters not covered by the Board of Directors Proposal Standard.

Given the increasing sophistication and complexity of corporate management, the operation of the Management Meeting has enabled the Board of Directors to allocate the time needed to discuss essential strategies for long-term growth. It also helps the Group structure even more resilient corporate governance.

Our second initiative was to enhance open discussion by establishing regular meetings in 2018 centered on four representative directors. The members of the council utilize their combined expertise and knowledge to make appropriate decisions without concentrating authority in a single person. To expedite decision-making, the four representative directors hold meetings twice monthly, and other members of senior management attend, drawing on a collective understanding forged from the activity reports of individual council members and frank discussion of emerging management developments.

## Main Initiatives

<b>Revised term of office for directors</b>	We shortened the term of office for directors from two years to one year to clarify the management responsibilities of directors, increase opportunities for shareholders to take a vote of confidence, and build a management organization that can respond quickly to changes in the business environment.
<b>Abolished the executive advisor/advisor system</b>	We abolished the executive advisor/advisor system to add transparency to our management organization and clarify accountability to further strengthen corporate governance.
<b>Fundamentally revised the remuneration system for officers</b>	<ul style="list-style-type: none"> <li>• The General Meeting of Shareholders held in April 2019 introduced restricted stock remuneration and abolished the bonus system for outside directors.</li> <li>• The General Meeting of Shareholders held in April 2020 clarified basic remuneration policy, revised the basis for proportional allocation of remuneration and determined appropriate remuneration levels.</li> <li>• Introduced performance-related bonuses and a performance-related stock remuneration plan, revised the payment limits under the restricted stock remuneration plan, and clarified the key performance indicators (KPI) for performance-related remuneration and the calculation method.</li> </ul>
<b>Introduced shareholding guidelines</b>	We have established shareholding guidelines for relevant directors to ensure that value is shared continuously with shareholders. As a rule, the requisite base amount of shareholdings that directors must maintain during their terms of office, based on their positions and measured at market price, is twice the annual basic remuneration for representative directors and equal to the annual basic remuneration for other eligible directors.
<b>Established provisions for recovering stock remuneration (malus and clawback)</b>	In order to minimize excessive risk taking and to ensure sound management, we formulated malus and clawback provisions for recovering all or part of stock remuneration prior to vesting, applicable for specified reasons.
<b>Formulated criteria and procedures for appointing and dismissing senior management</b>	The Personnel Affairs and Remuneration Committee regularly deliberates on basic policies and procedures for appointing internal directors and succession plans for representative directors and other officers.
<b>Improved independence of the Board of Directors</b>	As of April 24, 2020, we increased the number of outside directors by one (constituting one-third or four of the 12 members of the Board of Directors) to further strengthen the management supervisory function of the Board of Directors and the corporate governance system.

**Direction of Reforms from 2020 Onward**

**1 Reforms at the Senior Management Level**

The General Meeting of Shareholders held in April 2020 increased the number of outside directors by one. Outside directors now constitute one-third of the Board of Directors. Our primary objective was to strengthen the board's management supervisory function. Other objectives were achieving the long-term management vision and management innovation through collaborative creation with outside directors and by engendering fair and healthy tension.

During the Fifth Mid-Term Management Plan that began in 2020, we will strengthen the effectiveness of the Personnel Affairs and Remuneration Committee, review the role of the Management Meeting, and review the overall design of our governance system with a focus on reforming the executive officer system. We will also implement a PDCA cycle that draws on third-party reviews and outside expertise, enhance information disclosure, and promote governance reforms at the senior management level based on dialogue with stakeholders.

**1) Systemic corporate governance reforms and enhanced effectiveness**

Aim for management innovation through collaborative creation with outside officers and by engendering fair and healthy tension.

- (1) Review the overall design of the governance system
  - A. Review the Personnel Affairs and Remuneration Committee system (chairperson and composition) to strengthen its effectiveness.
  - B. Review the role of the Management Meeting in the business execution system.
  - C. Reform the executive officer system and develop candidates for the senior management team.
- (2) Implement a PDCA cycle that uses third-party reviews and draws on outside expertise
  - A. Have an external third-party evaluate the effectiveness of the Board of Directors on a regular basis.
  - B. Improve the Corporate Governance Code and shareholder relations activities based on third-party and other reviews.

**2) Enhance information disclosure and promote dialogue with stakeholders**

Gain the trust of stakeholders through honest and fair information disclosure.

- A. Produce an Integrated Report to tell our corporate story.
- B. Further enhance opportunities for dialogue with institutional investors and individual shareholders.

The Group's governance reforms have made steady progress in the two years since 2018. We have promptly implemented specific measures such as invigorating Board of Directors

**2 Reforms at the Business Management Level**

Sekisui House Group strengths are a function of the ability of its front-line organization, including the Sales Administration Headquarters, branches, factories, and Group companies in Japan and overseas. This is because our front-line organization is most aware of operational issues from the perspective of customers. Accordingly, we will implement governance reforms at the business management level to further enhance our front-line capabilities.

During the Fifth Mid-Term Management Plan, we will develop business managers with a high level of integrity and achieve a governance system based on mutual trust by defining personnel requirements and by establishing and strengthening a training system. To ensure that our governance system maximizes management synergies for the entire Group, we will clarify the authority and responsibilities of the parent company and subsidiaries, build a network linking the administrative headquarters of the parent company and subsidiaries, establish lines of reporting, strengthen development of and appropriately assign governance-related human resources, and coordinate auditing at the parent company and subsidiaries.

**1) Increase integrity among business managers**

Achieve governance based on mutual trust through managers with a high level of integrity.

- (1) Clarify requirements of business managers and establish and strengthen systems for their development.
- (2) Expand the scope of those subject to integrity management training (including head office employees in positions of responsibility and Group officers).

**2) Strengthen Group governance systems**

Foster mutual trust among Group companies based on the corporate philosophy.

- (1) Establish a governance system that will maximize management synergies for the entire Group.
  - A. Clarify the authority and responsibilities of the parent company and subsidiaries and reflect these in the design of the organization.
  - B. Build a network linking the administrative headquarters of the parent company and subsidiaries, and establish lines of reporting.
- (2) Strengthen the development of human resources and allocate them appropriately.
  - A. Strengthen development of governance-related human resources. (Recruitment from outside the Group, exchange of human resources among Group companies) (Integrity + Experience and Knowledge + Ability to Act)
  - B. Allocate such human resources appropriately, including to overseas subsidiaries.
- (3) Promote cooperation among auditors at the parent company and at subsidiaries.

meetings, enhancing their transparency and appointing a female outside officer to strengthen our governance system. The General Meeting of Shareholders held in April 2020

fundamentally revised the officer remuneration system with emphasis on objectivity, transparency, and accountability to stakeholders. Reforms included increasing the ratio of outside directors on the Board of Directors and shortening the term of office for directors.

Under our third-phase vision for 2020 onward, we aim to be a leading company in ESG management, to promote the spread of Sekisui House technologies worldwide, and to

evolve into a global company that offers integrated proposals of technologies, lifestyle designs and services, based on the residential domain. Backed by this mindset, from 2020 we will further enhance the effectiveness of corporate governance by implementing governance reforms at the senior management and business management levels, and by fostering an organizational climate for realizing innovation and communication.

**Evaluation of Effectiveness**

Sekisui House positioned FY2018 as the first year of governance reform. One of the six specific measures we undertook for strengthening our corporate governance system was initiating an annual analysis and evaluation of the effectiveness of the entire Board of Directors. This measure includes checking the status of support systems for directors and Audit & Supervisory Board members, and uses a PDCA cycle to improve the effectiveness of the Board of Directors and strengthen corporate governance.

In 2019, we used an independent third-party evaluation company to prepare a questionnaire that we administered to directors and Audit & Supervisory Board members. Prepared

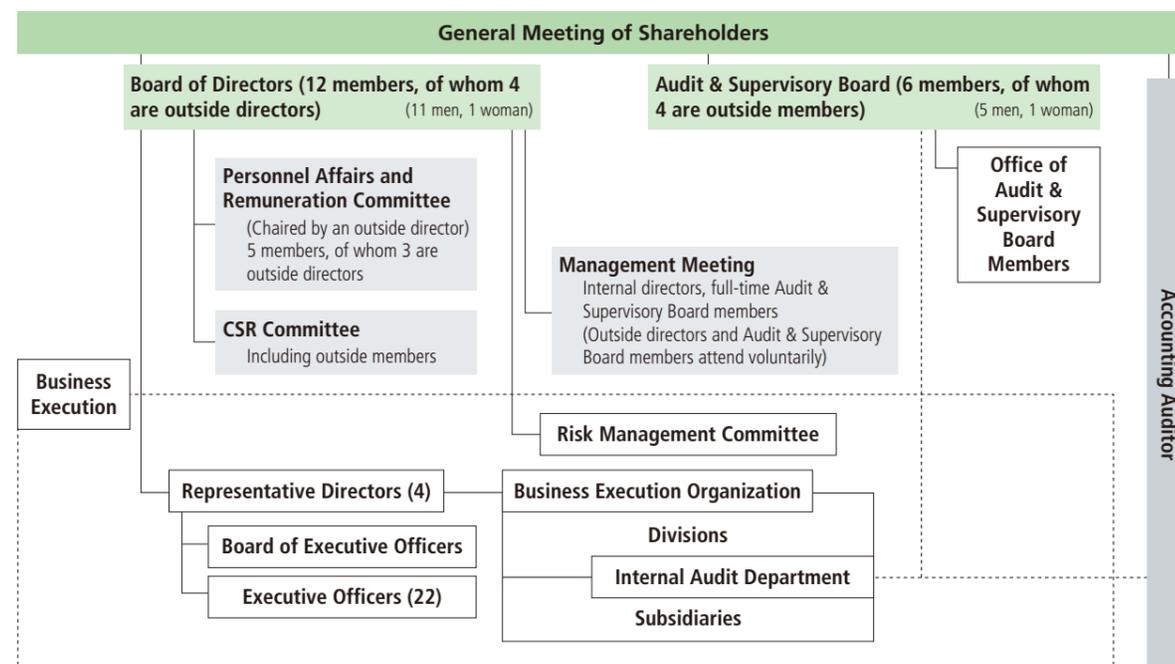
from a third-party perspective, the questionnaire was used to objectively analyze and evaluate the effectiveness of our Board of Directors. Based on the results of the questionnaire, nine directors and six Audit & Supervisory Board members were interviewed. The results indicated that the strengths of our Board of Directors include its composition, structure and lively discussions, and that it was highly effective in general. We will make further improvements by continuing to enhance corporate governance through various measures including strengthening the effectiveness of the Personnel Affairs and Remuneration Committee.

**Initiatives to Enhance the Effectiveness of the Board of Directors**

FY2018 Evaluation and FY2019 Initiatives	
<b>FY2018 Evaluation</b>	We confirmed significant improvements in the agenda and discussions of the Board of Directors, and saw steady progress in governance reforms to improve the transparency of and to invigorate meetings. (Key findings from the questionnaire) <ul style="list-style-type: none"> <li>• Discussions were more meaningful than in the previous year.</li> <li>• The atmosphere of the meetings facilitated discussion.</li> </ul>
<b>FY2019 Initiatives</b>	<ul style="list-style-type: none"> <li>• We enhanced discussions of business strategy and the mid-term management plan.</li> <li>• We optimized handling of agenda items for the overseas business and urban redevelopment business.</li> <li>• We further enhanced the system for providing explanation and information to outside directors and outside Audit &amp; Supervisory Board members in advance of Board of Directors meetings.</li> <li>• We further enhanced and systematized training for directors and Audit &amp; Supervisory Board members.</li> </ul>
FY2019 Evaluation and FY2020 Initiatives	
<b>FY2019 Evaluation</b>	Generally, the Board of Directors was found to be highly effective, with strengths including its composition and structure, lively discussions, deliberation on investment projects, and mechanisms for discussing medium- and long-term issues. (Key findings from the questionnaire and interviews) <ul style="list-style-type: none"> <li>• The board's structure was well-balanced, with a core of four representative directors and a system that emphasized effectiveness.</li> <li>• Measures including the use of tablet devices to provide advance information supported lively discussions.</li> <li>• Deliberation of investment projects was supported by ample reference materials and sufficient time for discussion.</li> <li>• The use of deliberative bodies such as the Management Meeting ensured sufficient time to discuss the improvement of corporate value over the medium to long term.</li> </ul>
<b>FY2020 Initiatives</b>	<ul style="list-style-type: none"> <li>• Strengthen the effectiveness of the Personnel Affairs and Remuneration Committee.</li> <li>• Create succession plans.</li> <li>• Establish a system for auditing subsidiaries.</li> </ul>

**Governance System**

Corporate Governance System (As of April 24, 2020)



**Board of Directors**

In principle, the Board of Directors meets once per month. To improve corporate value over the medium to long term, the Board of Directors shall be responsible mainly for establishing management policies, strategies and plans, and making decisions on the execution of important operations, as well as for supervising and evaluating the execution of duties by directors and executive officers and for establishing systems, such as internal control and risk management, to ensure the soundness of management.

To promote constructive exchange of opinions, we decided not to combine the positions of the chairman of the Board of Directors and the convener. Therefore, the vice chairman serves as the chairman of the Board, while the president serves as the convener.

The Board of Directors comprises members who are well-informed and knowledgeable about the Company's business, and members who are well-versed in financial accounting and legal compliance. The board's composition balances diversity, including that of gender, and has an appropriate number of members, including three or more outside directors, who account for at least one-third of members.

In the fiscal year ended January 2020, the Board of Directors met 12 times with an attendance rate of 99.0% (100% for outside directors and 97.9% for outside Audit & Supervisory Board members). We use a third-party organization to periodically conduct analysis and evaluation of the overall effectiveness of the Board of Directors in order to enhance the board's effectiveness and promote its ongoing reform and improvement.

Board of Director Composition (As of April 24, 2020)

Directors (Including Outside Directors)	Outside Directors	Age		
		Under 50	50-59	60 and above
12 (11 men, 1 woman)	4 (3 men, 1 woman)	0	2	10

**Personnel Affairs and Remuneration Committee**

As a consultative body to the Board of Directors, the Personnel Affairs and Remuneration Committee provides opinions on matters relating to the directors and executive officers and their remuneration in order to ensure fairness and transparency.

A majority of the members of the committee are outside directors. The committee is chaired by an outside director selected by resolution of the Board of Directors. Member composition is currently as follows.

**Chair:** Yukiko Yoshimaru (Outside Director)

**Members:** Shiro Wakui (Outside Director), Satoshi Tanaka (Outside Director), Toshinori Abe (Chairman and Representative Director), and Yoshihiro Nakai (President and Representative Director)

**Audit & Supervisory Board**

The Audit & Supervisory Board formulates audit plans, and regularly inspects offices and conducts hearings regarding risks and other issues pertaining to the assigned duties of directors and executive officers based on those audit plans.

In addition, Audit & Supervisory Board members exchange opinions and work closely with the Internal Audit Department, hold regular meetings with accounting auditors and engage in mutual cooperation to ensure that all audit activities are carried out efficiently and effectively.

Furthermore, we established the Office of Audit & Supervisory Board Members as a dedicated organization to which several employees including full-time staff are assigned to assist in Audit & Supervisory Board operations. If said employees are concurrently assigned other duties, they must not be influenced by guidance or commands from the other division to which they are concurrently assigned and, with regard to human resource matters pertaining to these employees, the opinions of auditors must be considered to ensure the independence of such employees with regard to Audit & Supervisory Board operations.

Audit & Supervisory Board Composition (As of April 24, 2020)

Audit & Supervisory Board Members (Including Outside Members)	Outside Audit & Supervisory Board Members	Age		
		Under 50	50-59	60 and above
6 (5 men, 1 woman)	4 (3 men, 1 woman)	0	0	6

**Management Meeting**

The objective of the Management Meeting is to contribute to appropriate decision making related to the execution of important operations through a vigorous exchange of opinions from the perspective of consistency with management policies and strategies before resolutions at the meetings of the Board of Directors or before initiating the collective decision-making system for important operations, such as investments, Group-wide management policies and formulation of management strategies and plans. Internal directors and full-time Audit & Supervisory Board members are required to attend these meetings, and outside directors and outside Audit & Supervisory Board members can also attend by request.

**Risk Management Committee**

As a consultative body to the Board of Directors, the Risk Management Committee creates appropriate risk management systems and provides opinions to the Board of Directors on matters relating to the maintenance of risk management systems with the aim of ensuring effective operation.

In principle, the committee meets once per month. In fiscal 2019, its goal was to identify and verify the implementation status of risk management systems in each division. To do so, the committee monitored relevant departments and took action on medium- to long-term issues including (1) compliance with labor laws; (2) compliance with construction laws; (3) business site governance; (4) security; and (5) issues at Group companies.

**Officer Remuneration**

The fundamental revision of officer remuneration is a key governance reform theme for Sekisui House, and the Personnel Affairs and Remuneration Committee has been discussing this issue on an ongoing basis. The 69th Ordinary General Shareholders' Meeting on April 23, 2020 implemented the following basic measures for reforming remuneration to provide sound incentives for directors

(excluding outside directors) to continuously increase corporate value over the long term and to encourage them to share even more value with shareholders. The meeting also adjusted the composition of remuneration to include fixed basic remuneration, short-term performance-related bonuses, medium-term performance-related stock remuneration, and long-term restricted stock remuneration.

**Basic Remuneration Policies**

- (1) To be fair to shareholders, investors, customers, employees and all other stakeholders in accordance with our fundamental corporate philosophy of love of humanity, remuneration governance shall be sophisticated to ensure objectivity, transparency and full accountability.
- (2) In order to become a leader in ESG management, we shall focus on social significance and make a clear commitment to consistently executing innovative growth strategies, and our remuneration system shall provide sound incentives for consistently increasing corporate value over the long term.
- (3) We shall emphasize the link between remuneration and the development and evaluation of the senior management team, motivate the next generation of managers to grow, and increase the organizational vitality of the Group over the long term.

**Structure, Key Performance Indicators (KPIs), and Calculation Method for Remuneration of Eligible Directors**

Types of Remuneration		KPI	Outline of the Calculation Methods
Fixed	Basic remuneration	—	The amount shall be determined according to the position and paid on a monthly basis. (¥43 million or less per month (including outside directors; as before))
Variable	Performance-related bonus (Short-term)	Consolidated ordinary income	The amount to be paid shall be calculated by multiplying a bonus coefficient according to the position of each Eligible Director by consolidated ordinary income for each fiscal year. The total amount to be paid shall be capped at 0.18% of consolidated ordinary income for each fiscal year. The bonuses shall not be paid if net income attributable to owners of parent for each fiscal year is less than ¥100 billion.
	Performance-related stock remuneration (Medium-term)	ROE and ESG management indicators*	The Reference Number of Share Units for each Eligible Director shall be determined according to his/her position, and after the end of the evaluation period of three consecutive fiscal years, the percentage amount of payment shall be determined according to the achievement of predetermined KPIs. The number of shares to be granted and cash for the tax payment shall be determined based on such percentage amount of payment. The fixed reference number of share units for the eligible directors shall be up to 270,000 shares per annum in total; the number of the Company's shares to be granted to the eligible directors shall be up to 135,000 shares per annum in total; and the upper limit of the sum of the monetary remuneration claims and Cash for the tax payments to be paid to the eligible directors shall be the amount calculated by multiplying the upper limit total of the fixed reference number of share units by the stock price at the time of granting.
	Restricted stock remuneration (Long-term)	—	The number of shares of the Company's common stock with a restriction on transfer for a certain period of time (from three up to 30 years) equivalent to the basic amount for each position shall be granted. The remuneration limit shall be up to ¥180 million per annum and the number of shares of the Company's common stock to be granted shall be up to 180,000 shares per annum.

\* The Board of Directors makes remuneration decisions based on Personnel Affairs and Remuneration Committee deliberations of the KPIs for performance-related stock remuneration. ROE and ESG with an 80:20 weighting are the KPIs for the three-year evaluation period ending January 31, 2023.

**Remuneration Governance**

To ensure objective and transparent decision-making concerning the remuneration system for directors and executive officers, total remuneration paid, and remuneration paid to individual officers, as well as KPI targets for performance-related remuneration and

achievement of those targets, the Personnel Affairs and Remuneration Committee, an advisory body to the Board of Directors, deliberates these matters before resolutions are adopted by the Board of Directors, which respects the opinions of the committee.

**[Summary of Revisions]**

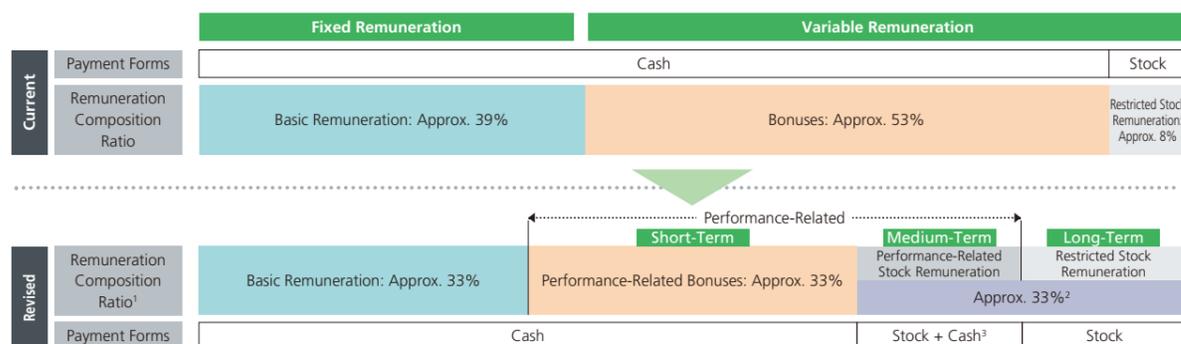
**Introduction of Shareholding Guidelines**

We have established shareholding guidelines for eligible directors to ensure they consistently share value with our shareholders. As a rule, during their terms of office, directors are obligated to maintain ownership of Sekisui House shares equivalent to baseline monetary values derived from market price and according to their positions. The baseline monetary value is two times annual basic remuneration for representative directors and equal to annual basic remuneration for other eligible directors.

**Prescription of Stock Remuneration Return Regulation (so-called Malus and Clawback Provisions)**

In this revision, we prescribed so-called malus and clawback provisions that require officers to return their stock remuneration in full or in part before vesting if certain events occur, in order to control excessive risk-taking to ensure the soundness of management.

**Composition of Remuneration**



1. The remuneration composition ratio will vary depending on the position, the Company's performance and the achievement of KPIs. The remuneration composition ratio for Representative Directors at base performance is presented.  
2. The composition ratio of performance-related stock remuneration to restricted stock remuneration is approximately 1:1 (at the base performance).  
3. 50% of the performance-related stock remuneration will be paid in cash for the purpose of appropriation to funds for tax payments.

**Officer Remuneration for FY2019**

**Total Remuneration for Parent Company Officers by Category, Type of Remuneration, and Number of Eligible Officers** (Millions of yen)

Officer Category	Total Remuneration	Total Remuneration by Type				Number of Eligible Directors
		Basic Remuneration	Stock Options	Restricted Stock Remuneration	Bonuses	
Directors (excluding outside directors)	953	394	11	47	500	8
Audit & Supervisory Board members (excluding outside Audit & Supervisory Board members)	57	57	—	—	—	2
Outside directors	157	156	0	—	—	7

**Individuals Receiving ¥100 Million or More in Total Remuneration** (Consolidated)

(Millions of yen)

Name	Officer Category	Company Category	Remuneration by Type				Total Remuneration
			Basic Remuneration	Stock Options	Restricted Stock Remuneration	Bonuses	
Toshinori Abe	Director	Sekisui House	72	2	11	120	205
Shiro Inagaki	Director	Sekisui House	60	2	8	87	158
Yoshihiro Nakai	Director	Sekisui House	60	1	8	87	157
Takashi Uchida	Director	Sekisui House	48	1	5	60	114

Note: At the General Meeting of Shareholders held in April 2019, a resolution was approved to introduce a restricted stock remuneration plan. Accordingly, stock options as remuneration for directors have been abolished, except for those already issued. No new stock options were granted in FY2019, but amounts presented are expenses recorded in FY2019 for stock options granted in previous fiscal years.

## Compliance and Risk Management

### Promoting Compliance

Sekisui House Group is committed to thorough compliance, which it sees as an ongoing management concern that needs to be addressed at all times, not only in terms of adherence to laws and regulations, but also regarding the promotion of CSR initiatives.

The Risk Management Committee, established in 2016 as a consultative body to the Board of Directors, and the Governance Committee, established in fiscal 2017 under the auspices of the CSR Committee as part of our program to promote CSR, work together to resolve compliance issues using a PDCA cycle.

The Group formulated the Sekisui House Corporate Ethics Guidelines\* in October 2003 and currently applies them as a set of articles related to corporate ethics to be shared and observed by the Company, its officers and employees in promoting the corporate activities of each Group company. We are broadening the scope of application of the Sekisui House Corporate Ethics Guidelines to the entire Group and revising its content from the standpoint of changes in the social environment, evolution of our corporate activities, and Group management. In 2018, we added articles on maintaining and improving employee health. Since 2005, we also hold a Compliance with Corporate Ethics Check every October in which all executives and employees submit a Pledge of Compliance with the Corporate Ethics Guidelines. This submission is made to thoroughly enforce our policy on corporate ethics throughout the entire Group.

The entire Group will continue to work together to proactively apply our corporate ethics policy.

\* The full Sekisui House Corporate Ethics Guidelines are available on our website. <https://www.sekisuihouse.co.jp/english/info/philosophy.html>

### Risk Management System Enhancement

Sekisui House Group's risk management is conducted by the head office and by all departments. Initiatives are also conducted according to duties within technical department and administrative department manager meetings. As part of our structural reforms in April 2018, we set up divisions that group multiple head office departments together in order to clarify the responsibilities and authorities of directors and executive officers.

The Risk Management Committee (headed by the vice president), serves as a consultative body to the Board of Directors, collecting and verifying information on the status of implementation of risk management systems in each Sekisui House Group division, receiving reports when risk incidents occur and verifying measures to prevent recurrence in an effort to strengthen risk management.

### Business Continuity Planning

The Group has established business continuity planning (BCP) to cope with major natural disasters and similar events. In February 2013, we revised traditional guidelines emphasizing recovery and formulated the disaster manual now in use for the Sales Administration Headquarters and business headquarters. The current manual stipulates consideration of the continuation of business activities. In August 2018, we concluded the Emergency Fueling Agreement to secure gasoline for our business vehicles in disaster-stricken areas.

Additionally, in the increasingly likely event of a Nankai Trough Megathrust Earthquake in the near future, enormous damage is expected in Osaka City, where our head office (Umeda Sky Building) is located. In preparation for the likelihood of business continuity challenges at our head office, we have created a manual for the establishment and operation of a disaster countermeasures office at our head office and have formulated BCP. In the event of a disaster at the head office, we will use the Tokyo office (Akasaka, Minato-ku) and the Comprehensive Housing R&D Institute (Kizugawa, Kyoto) as substitute head offices to continue business activities.

We are also focusing efforts on business continuity management (BCM) and conducting disaster response system drills at supplier companies that provide numerous components and parts necessary for the construction of houses. These drills enable us to confirm the BCM status of supplier companies while we work to upgrade to a system that enables us to quickly gather information and formulate countermeasures. We will continue to regularly conduct training and drills, as well as verifying and revising manuals.

We do business internationally, which puts our local staff and employees on international business trips at risk of natural disasters, terrorist attacks and riots. Should such an event occur, the related divisions of the head office will promptly gather information and take initial action.

## Messages from an Outside Director and an Outside Audit & Supervisory Board Member



**Yukiko Yoshimaru**  
Outside Director

### Establishing Steady Growth for the Coming 30 Years toward the Next Sekisui House

"Next Sekisui House" is the name of Sekisui House's long-term global vision for the next 30 years to make home the happiest place in the world. As a member of the Board of Directors, I was involved from the start in formulating the Fifth Mid-Term Management Plan, which lays the groundwork for the long-term global vision. In an age when the outlook is unclear, it is all the more important to have a clear vision for the future and firm beliefs. As an outside director, I will support and contribute to management that realizes the happiness of all stakeholders in the era of the 100-year lifespan.

Therefore, I believe one of my roles in attending Board of Directors meetings is to further deepen and enhance the effectiveness of the governance reforms the Company has been prioritizing since 2018. Through questionnaires and interviews conducted by an independent third-party organization of experts, the evaluation of the effectiveness of the Board of Directors for

the fiscal year ended January 2020 confirmed that lively discussion at the Company's Board of Directors meetings plays a major role in determining the direction of management and in conducting effective monitoring.

In addition, a fundamental revision of the remuneration system for officers, which was approved at the General Meeting of Shareholders in April 2020, established a framework for senior management to commit to the medium-to-long-term performance of the Sekisui House Group.

We must now improve the board's effectiveness, confirming and evaluating progress at each milestone along the way. Moreover, developing the next generation of senior management is a priority issue. In addition to the Sekisui House management training program *Keiei-juku*, which has already produced many regional branch and office managers, I will support the establishment and monitor the effectiveness of mechanisms for developing the human resources who will be responsible for managing the Sekisui House Group of the future. Another issue for the future is more thoroughgoing supervision of the management of Group companies, including those in the Overseas Business. I expect not only an approach that incorporates defensive measures such as risk management, but also an approach that values bold management based on local circumstances.

Above all, I believe that open dialogue centered on speedy information disclosure will further raise stakeholder trust.



**Hisako Makimura**  
Outside Audit & Supervisory Board Member

### Our Third Phase: First Step toward Emerging Fields from 2050

Following its founding phase and growth phase, Sekisui House has entered its third phase with the 2020 launch of its Fifth Mid-Term Management Plan. Thirty years from now, in 2050, will be a time for the Company to enter emerging fields that we cannot even imagine at this point. Although changes can be predicted in the domestic market to a certain extent, global-level changes are difficult to predict. However, the next three years are an important time for providing information both inside and outside the Company about promptly responding to change, and for taking action.

The SDGs are the basic principles of the 2030 Agenda for Sustainable Development. The environment, economy and society are inseparable, and corporations are being called upon to consider what they can do to help resolve social issues both in Japan and overseas. At the request of stakeholders, institutional investors are emphasizing environmental, social and governance initiatives (ESG) and non-financial information as long-term value drivers, and an increasing number of young people and consumers are likely to take a more serious view of corporate attitudes

toward society. A high level of sensitivity to value for society will be essential, and will lead to business expansion and employee motivation. In addition to attending to my regular auditing functions, I would also like to see better alignment of the attitudes that have come to be accepted within the "corporate community" with the views of the public and consumers around the world.

Sekisui House attaches great importance to ESG management. The Company is working with a sense of urgency to improve corporate governance. Further improvement will require livelier communication and discussion, and the Company expects to take concrete action through its governance system to become a leading company in ESG management. Sekisui House's goal for its third phase is "happiness in the era of the 100-year lifespan." Expectations are highest for the Platform House Concept of health, connectedness, and learning, with the development of HED-Net, the world's first in-home early detection network for acute illnesses at home as its first step. Expectations are also high for initiatives in areas such as creating open spaces with greenery that are conducive to health for the happiness of all generations outside the home and in everyday circumstances.

Sekisui House has 276 consolidated subsidiaries. There are 27 key subsidiaries. Among them, Otori Holdings Co., Ltd., which became a consolidated subsidiary last year, and 12 overseas subsidiaries are particularly important. The number of subsidiaries outside Japan will grow with the rollout of the Overseas Business, and the amount of investment may increase significantly in the future. Organizational frameworks, collaboration with the head office, and information and communication systems are being established in order to audit subsidiaries, but Sekisui House needs to build a system that goes one step further.

# Directors and Audit & Supervisory Board Members

(As of April 24, 2020)



**Toshinori Abe**  
**Chairman & Representative Director**  
 Apr. 1975: Joined the Company  
 Apr. 2004: Executive Officer  
 May 2005: Managing Officer  
 Apr. 2006: Director  
 May 2007: Senior Managing Officer  
 Apr. 2008: President & Representative Director and COO  
 Feb. 2018: Chairman & Representative Director (current position)



**Shiro Inagaki**  
**Vice Chairman & Representative Director**  
**Management of Investor Relations Division**  
 Apr. 1973: Joined the Company  
 Apr. 2002: Executive Officer  
 Apr. 2004: Managing Officer  
 Apr. 2006: Director  
 Apr. 2006: Senior Managing Officer  
 May 2011: Executive Vice President & Director  
 Executive Vice President & Executive Officer  
 Apr. 2012: CFO  
 Apr. 2016: Management of Corporate Management Planning, Accounting & Finance and Auditing, in charge of IT Operation  
 Feb. 2018: Vice Chairman & Representative Director (current position)  
 Apr. 2018: Management of Investor Relations Division (current position)



**Toshiharu Miura**  
**Director, Senior Managing Officer,**  
**In charge of Technology Division and Production & Procurement Division**  
 Apr. 1979: Joined the Company  
 Apr. 2014: Executive Officer, assigned to the post of Chief Manager of Product Design & Development Department  
 Apr. 2016: Managing Officer  
 Apr. 2016: Assigned to the post of General Manager of Technology Headquarters and Chief Manager of Product Design & Development Department  
 Feb. 2018: Assigned to the post of General Manager of Technology Headquarters  
 Apr. 2018: In charge of Technology Division  
 Apr. 2018: Director (current position)  
 Feb. 2020: In charge of Technology Division and Production & Procurement Division (current position)  
 Apr. 2020: Senior Managing Officer (current position)



**Toru Ishii**  
**Director, Senior Managing Officer,**  
**In charge of Development Business,**  
**Condominiums Business and International Business**  
 Apr. 1990: Joined the Company  
 May 2012: Chief Manager of Development Department  
 Apr. 2014: Executive Officer, assigned to the post of Chief Manager of Development Department  
 Apr. 2016: Managing Officer  
 Feb. 2019: In charge of Development business and assigned to the post of Chief Manager of International Business Department  
 Feb. 2020: In charge of Development and Condominiums Business and assigned to Chief Manager of International Business Department  
 Apr. 2020: Senior Managing Officer, in charge of Development Business, Condominiums Business and International Business (current position)  
 Apr. 2020: Director (current position)



**Yoshihiro Nakai**  
**President & Representative Director**  
 Apr. 1988: Joined the Company  
 Apr. 2014: Executive Officer, assigned to the post of Chief Manager of Corporate Management Planning Department  
 Apr. 2016: Managing Officer  
 In charge of Corporate Management Planning and Accounting & Finance  
 Apr. 2016: Director  
 Feb. 2018: President & Representative Director (current position)



**Takashi Uchida**  
**Executive Vice President & Representative Director**  
**Management of Administration Division**  
 Apr. 1976: Joined the Company  
 Apr. 2004: Executive Officer, assigned to the post of Chief Manager of Accounting Department  
 Apr. 2006: Managing Officer  
 Assigned to the post of Chief Manager of Accounting & Finance Department  
 Apr. 2006: Director  
 Feb. 2009: In charge of Administrative Control of Subsidiary & Affiliated Companies  
 May 2010: Assigned to the post of General Manager of Saitama Sales Administration Headquarters  
 Feb. 2012: Assigned to the post of Chief Manager of Personnel Department  
 May 2012: In charge of Administrative Control of Subsidiary & Affiliated Companies  
 Apr. 2014: Senior Managing Officer  
 Feb. 2018: In charge of Personnel and Administrative Control of Subsidiary & Affiliated Companies  
 Apr. 2018: Executive Vice President & Director  
 Executive Vice President & Executive Officer  
 Management of Administration Division (current position)  
 Apr. 2018: Executive Vice President & Representative Director (current position)



**Haruyuki Iwata**  
**Standing Audit & Supervisory Board Member**  
 Apr. 1975: Joined the Company  
 Apr. 2010: Executive Officer, assigned to the post of Chief Manager of Purchasing Department  
 Apr. 2016: Managing Officer  
 Apr. 2018: Standing Audit & Supervisory Board Member (current position)



**Hisao Yamada**  
**Standing Audit & Supervisory Board Member**  
 Apr. 1974: Joined the Company  
 Apr. 2010: Executive Officer, assigned to the post of General Manager of CS Promoting Headquarters  
 Feb. 2011: Assigned to the post of Chief Manager of CS Promoting Department (organizational changes)  
 Apr. 2018: Standing Audit & Supervisory Board Member (current position)



**Shiro Wakui**  
**Director**  
 Jan. 1972: Established Ishikatsu Exterior Inc.  
 President & Representative Director of Ishikatsu Exterior Inc.  
 Jun. 2002: Executive Advisor of Ishikatsu Exterior Inc. (current position)  
 Jun. 2008: Director of Sekisui Jushi Corporation (current position)  
 Apr. 2010: Professor (currently Special Professor) of Tokyo City University (current position)  
 Apr. 2014: Director of the Company (current position)  
 Jun. 2019: Director of TOKYU LAND CORPORATION (current position)



**Yukiko Yoshimaru**  
**Director**  
 Apr. 1982: Joined Oki Electric Industry Co., Ltd.  
 Apr. 1998: Director of Oki America Inc.  
 Head of New York Office of Oki Electric Industry Co., Ltd.  
 Oct. 2004: Chief Manager of Diversity Development Office of NISSAN MOTOR CO., LTD.  
 Apr. 2008: Joined Nifco Inc.  
 Jun. 2011: Executive Officer of Nifco Inc.  
 Apr. 2018: Director of the Company (current position)  
 Jun. 2019: Director of Mitsu Chemicals, Inc. (current position)



**Takashi Kobayashi**  
**Audit & Supervisory Board Member**  
 Apr. 1976: Appointed as a public prosecutor  
 Jan. 2004: Assumed the office of chief public prosecutor, the Nara District Public Prosecutor's Office  
 Dec. 2004: Assumed the office of the public prosecutor of the Supreme Public Prosecutor's Office  
 Sep. 2005: Assumed the office of deputy chief public prosecutor, the Maebashi District Public Prosecutor's Office  
 Jun. 2007: Assumed the office of deputy chief public prosecutor, the Osaka High Public Prosecutor's Office  
 Jul. 2008: Assumed the office of the public safety director of the Supreme Public Prosecutor's Office  
 Jan. 2010: Assumed the office of chief public prosecutor, the Osaka District Public Prosecutor's Office  
 Feb. 2011: Registered as a lawyer  
 Apr. 2017: Audit & Supervisory Board Member of the Company (current position)  
 Jun. 2017: Director of the Board of Sanryo Special Steel Co., Ltd. (current position)



**Hisako Makimura**  
**Audit & Supervisory Board Member**  
 Apr. 1993: Professor of Nara Bunka Women's Junior College  
 Apr. 1996: Professor of Nara Prefectural College of Commerce  
 Apr. 2000: Professor of Kyoto Women's University  
 Jun. 2011: Audit & Supervisory Board Member of the Kansai Electric Power Co., Inc.  
 Apr. 2013: Visiting Scholar of the Institute of Religion and Culture of Kyoto Women's University (current position)  
 Apr. 2017: Visiting Professor of Kansai University  
 Apr. 2018: Audit & Supervisory Board Member of the Company (current position)  
 Jun. 2019: Outside Director of the Kansai Electric Power Co., Inc. (current position)  
 Oct. 2019: Visiting Scholar of the Research Center for Societal Safety Sciences, Faculty of Societal Safety Sciences of Kansai University (current position)



**Toshifumi Kitazawa**  
**Director**  
 Apr. 1977: Joined Tokio Marine & Fire Insurance Co., Ltd.  
 Jul. 2003: Director of Tokio Marine Medical Service Co., Ltd.  
 Jun. 2008: Managing Director of Tokio Marine & Nichido Anshin Life Insurance Co., Ltd.  
 Jun. 2009: Senior Managing Director of Tokio Marine & Nichido Anshin Life Insurance Co., Ltd.  
 Jun. 2010: President & Director of Tokio Marine & Nichido Anshin Life Insurance Co., Ltd.  
 Jun. 2010: Director of Tokio Marine Holdings, Inc.  
 Apr. 2014: Vice President & Director of Tokio Marine & Nichido Fire Insurance Co., Ltd.  
 Jun. 2014: Vice President Executive Officer of Tokio Marine Holdings, Inc.  
 Apr. 2016: President & Chief Executive Officer of Tokio Marine & Nichido Fire Insurance Co., Ltd.  
 Jun. 2016: Director of Tokio Marine Holdings, Inc.  
 Apr. 2019: Vice Chairman & Director of Tokio Marine & Nichido Fire Insurance Co., Ltd. (current position)  
 Apr. 2020: Director of the Company (current position)



**Satoshi Tanaka**  
**Director**  
 Apr. 1981: Joined MITSUI & CO., LTD.  
 Apr. 2004: General Manager of Investor Relations Division of MITSUI & CO., LTD.  
 Apr. 2007: General Manager of Corporate Planning & Strategy Division of MITSUI & CO., LTD.  
 Jul. 2010: Deputy General Manager of Consumer Service Business Unit of MITSUI & CO., LTD.  
 Apr. 2011: Executive Officer; General Manager of Consumer Service Business Unit of MITSUI & CO., LTD.  
 Apr. 2013: Managing Officer; General Manager of Consumer Service Business Unit of MITSUI & CO., LTD.  
 Apr. 2015: Senior Managing Director; President of Asia Pacific Business Unit of MITSUI & CO., LTD. and President of MITSUI & CO. (ASIA PACIFIC) PTE. LTD.  
 Apr. 2017: Vice President & Executive Officer; CAO (Chief Administrative Officer); CIO (Chief Information Officer); CPO (Chief Privacy Officer) of MITSUI & CO., LTD.  
 Jun. 2017: Representative Director; Vice President and Executive Officer of MITSUI & CO., LTD.  
 Jun. 2019: Counselor of MITSUI & CO., LTD. (current position)  
 Mar. 2020: Director of Kuraray Co., Ltd. (current position)  
 Apr. 2020: Director of the Company (current position)



**Ryuichi Tsuruta**  
**Audit & Supervisory Board Member**  
 Oct. 2000: Manager of IR Office of Corporate Finance & IR Group of Panasonic Corporation  
 Apr. 2007: General Manager of Corporate International Affairs Group of Panasonic Corporation  
 Jun. 2011: Chief Manager of Office of Audit & Supervisory Board Member of Panasonic Corporation  
 Nov. 2014: Advisor of Panasonic Corporation  
 May 2015: Audit & Supervisory Board Member of ZUIKO CORPORATION  
 Apr. 2018: Audit & Supervisory Board Member of the Company (current position)  
 Jun. 2019: Special Instructor of The Graduate School of Project Design (current position)



**Yoritomo Wada**  
**Audit & Supervisory Board Member**  
 Apr. 1978: Joined Tohmatsu Awoki & Co. (currently Deloitte Touche Tohmatsu LLC)  
 Jun. 1996: Partner of Tohmatsu & Co. (currently Deloitte Touche Tohmatsu LLC)  
 Jun. 2019: Statutory Corporate Auditor of NIPPON SHOKUBAI CO., LTD. (current position)  
 Apr. 2020: Audit & Supervisory Board Member of the Company (current position)



**Kunpei Nishida**  
**Director, Senior Managing Officer; General Manager of Broking and Leasing Business Headquarters**  
 Apr. 1976: Joined the Company  
 Apr. 2012: Executive Officer, assigned to the post of General Manager of Kansai Sha Maison Sales Administration Headquarters  
 Aug. 2012: Assigned to the post of General Manager of West Japan Sha Maison Sales Administration Headquarters  
 Apr. 2014: Managing Officer, in charge of Sha Maison Sales (West Japan)  
 Apr. 2014: Director (current position)  
 Apr. 2018: Senior Managing Officer (current position)  
 Assigned to the post of General Manager of West Japan Building Sales Administration Headquarters  
 Feb. 2019: In charge of West Japan Building Sales Administration, assigned to the post of General Manager of Broking and Leasing Business Headquarters  
 Feb. 2020: General Manager of Broking and Leasing Business Headquarters (current position)



**Yosuke Horiuchi**  
**Director, Senior Managing Officer**  
**In charge of Investor Relations Division and Transaction Promotion Division**  
 Apr. 1980: Joined the Company  
 Apr. 2012: Executive Officer, assigned to the post of General Manager of Tokyo Sha Maison Sales Administration Headquarters  
 Apr. 2014: Managing Officer, in charge of Sha Maison Sales (East Japan)  
 Apr. 2016: Director (current position)  
 Dec. 2017: Assigned to the post of General Manager of Tokyo Sha Maison Sales Administration Headquarters and General Manager of Condominium Headquarters  
 Apr. 2018: Senior Managing Officer (current position)  
 In charge of Transaction Promotion Division, assigned to the post of General Manager of East Japan Building Sales Administration Headquarters  
 Aug. 2018: In charge of Transaction Promotion Division and East Japan Building Sales Administration  
 Feb. 2020: In charge of Investor Relations Division and Transaction Promotion Division (current position)

# 8-Year Highlights (Consolidated)

## Financial Data

	(Millions of yen)							
(Fiscal year)	2012	2013	2014	2015	2016	2017	2018	2019
<b>Business performance</b>								
Net sales	1,613,816	1,805,102	1,912,721	1,858,879	2,026,931	2,159,363	2,160,316	<b>2,415,186</b>
Gross profit	299,503	358,499	368,446	373,867	418,297	445,082	444,596	<b>478,036</b>
Gross profit margin (%)	18.6	19.9	19.3	20.1	20.6	20.6	20.6	<b>19.8</b>
Selling, general and administrative expenses	213,306	226,569	221,851	224,222	234,132	249,541	255,373	<b>272,780</b>
Operating income	86,196	131,930	146,595	149,645	184,164	195,540	189,223	<b>205,256</b>
Operating margin (%)	5.3	7.3	7.7	8.1	9.1	9.1	8.8	<b>8.5</b>
Ordinary income	91,767	137,794	156,426	160,589	190,989	203,678	195,190	<b>213,905</b>
Profit attributable to owners of parent	46,458	79,801	90,224	84,302	121,853	133,224	128,582	<b>141,256</b>
<b>Return on investment</b>								
ROE: Net income ÷ Shareholders' equity (%)	6.0	9.2	9.0	7.9	11.3	11.6	10.8	<b>11.5</b>
ROA: (Operating income + Interest and dividend income + Equity in earnings of affiliates) ÷ Total assets (%)	6.0	8.2	8.4	8.3	9.4	9.0	8.3	<b>8.8</b>
<b>Assets and interest-bearing debt</b>								
Total assets	1,539,272	1,769,005	1,929,409	2,029,794	2,184,895	2,419,012	2,413,035	<b>2,634,748</b>
Net assets	814,063	941,415	1,079,064	1,068,428	1,118,264	1,208,121	1,196,923	<b>1,306,850</b>
Equity capital	806,406	930,944	1,068,423	1,057,696	1,103,359	1,194,975	1,182,808	<b>1,266,195</b>
Equity capital ratio (%)	52.39	52.63	55.38	52.11	50.50	49.40	49.02	<b>48.06</b>
Interest-bearing debt	268,622	289,860	351,731	426,013	491,017	622,084	639,510	<b>586,891</b>
Debt/Equity ratio (%) <sup>1</sup>	33.3	31.1	32.9	40.3	44.5	52.1	54.1	<b>46.4</b>
Asset turnover ratio (Times)	1.08	1.09	1.03	0.94	0.96	0.94	0.89	<b>0.96</b>
<b>Cash flows</b>								
Net cash provided by (used in) operating activities	82,582	78,073	117,358	45,884	115,820	165,355	125,088	<b>363,766</b>
Net cash provided by (used in) investing activities	(58,124)	(80,637)	(128,529)	(76,166)	(107,397)	(76,150)	(70,184)	<b>(65,229)</b>
Net cash provided by (used in) financing activities	(17,289)	(782)	19,611	32,084	5,511	30,154	(31,030)	<b>(148,160)</b>
Cash and cash equivalents at end of period	179,242	181,324	195,008	192,338	204,701	324,693	342,898	<b>583,297</b>
<b>Investments</b>								
Capital expenditure	60,915	130,243	121,550	81,258	98,277	68,799	58,680	<b>73,255</b>
Depreciation	19,015	22,581	25,692	24,438	23,125	21,983	22,155	<b>21,518</b>
Research and development expenses	4,318	4,507	4,726	4,772	4,991	5,181	6,041	<b>7,313</b>
<b>Corporate value</b>								
Market capitalization at end of period	680,946	985,007	1,067,964	1,329,946	1,297,656	1,379,985	1,123,051	<b>1,630,703</b>
Stock price at end of period (Yen)	1,006	1,434	1,526	1,874	1,828.5	1,998	1,626	<b>2,361</b>
<b>Per-share information</b>								
EPS: Net income (earnings) per share (Yen)	69.17	118.63	130.91	120.16	175.48	193.06	186.53	<b>205.79</b>
BPS: Book value per share (Yen)	1,200.63	1,358.60	1,527.52	1,508.81	1,598.90	1,731.60	1,718.82	<b>1,852.62</b>
Dividends per share (Yen)	28.00	43.00	50.00	54.00	64.00	77.00	79.00	<b>81.00</b>
Dividend payout ratio (%)	40.5	36.3	38.2	44.9	36.5	39.9	42.4	<b>39.4</b>
<b>Stock price</b>								
PER: Stock price at end of period ÷ Net income per share (Times)	14.54	12.09	11.66	15.60	10.42	10.35	8.72	<b>11.47</b>
PBR: Stock price at end of period ÷ Shareholders' equity per share (Times)	0.84	1.06	1.00	1.24	1.14	1.15	0.95	<b>1.27</b>

1. Excluding hybrid bonds

## Key Performance Indicators

	(Fiscal year)							
(Fiscal year)	2012	2013	2014	2015	2016	2017	2018	2019
<b>New Housing Starts in Japan (Units)<sup>2</sup></b>								
Owner-occupied houses	311,589	354,772	285,270	283,366	292,287	284,283	283,235	<b>288,738</b>
Built for sale houses	246,810	263,931	237,428	241,201	250,532	255,191	255,263	<b>267,696</b>
Condominiums	123,203	127,599	110,475	115,652	114,570	114,830	110,510	<b>117,803</b>
Detached houses	122,590	134,888	125,421	123,624	133,739	138,189	142,393	<b>147,522</b>
Rented houses	318,521	356,263	362,191	378,718	418,543	419,397	396,404	<b>342,289</b>
Corporate houses	5,877	5,059	7,372	6,014	5,875	5,770	7,468	<b>6,400</b>
Total	882,797	980,025	892,261	909,299	967,237	964,641	942,370	<b>905,123</b>
<b>Number of Houses Built by Sekisui House (Units)</b>								
Custom detached houses	13,945	15,049	13,104	11,248	11,105	10,617	9,822	<b>10,663</b>
Built for sale houses	2,246	2,368	2,162	2,364	2,071	2,677	2,336	<b>2,589</b>
Rental houses	27,869	30,414	34,709	32,631	35,156	32,937	30,078	<b>27,981</b>
Condominiums (for sale)	1,038	1,921	1,250	2,002	1,231	1,184	1,499	<b>2,081</b>
Total	45,098	49,752	51,225	48,245	49,563	47,415	43,735	<b>43,314</b>
Sekisui House's market share in Japan (%)	5.1	5.1	5.7	5.3	5.1	4.9	4.6	<b>4.8</b>
Total number of houses built	2,135,437	2,185,189	2,236,414	2,284,659	2,334,222	2,381,637	2,425,372	<b>2,468,686</b>
<b>Trends in Housing Built by Sekisui House</b>								
Built-to-order detached houses								
Sales per detached house (Thousands of yen)	33,442	34,503	35,659	37,002	37,292	38,074	38,753	<b>39,935</b>
Floor area per detached house (Square meters)	139.93	141.09	140.25	140.43	138.63	137.94	138.03	<b>137.68</b>
Built-to-order low-rise apartments								
Sales per building (Thousands of yen)	55,196	61,284	68,549	76,771	83,612	93,959	100,194	<b>102,415</b>
Floor area per building (Square meters)	301.67	324.95	346.64	366.10	385.19	418.35	432.28	<b>427.67</b>
<b>Trends in Sekisui House Real Estate Block Leasing Operation</b>								
Occupancy rate (%) <sup>3</sup>	96.0	96.2	96.4	96.5	96.5	96.7	97.8	<b>97.7</b>
Number of units under management (Units)	506,353	526,276	545,757	565,471	584,096	601,582	619,494	<b>639,780</b>

2. Calendar year basis

3. Presentation changed to monthly data from month-end data as of FY2018.

## Non-Financial Data

Customer satisfaction level (%)	95.0	95.1	95.3	95.3	95.4	95.6	95.8	<b>95.9</b>
Green First Zero (Net zero energy house) contracts (%) <sup>4</sup>	—	49	62	71	74	76	79	<b>87</b>
CO <sub>2</sub> emission reduction rate for custom detached houses sold (Compared with fiscal 1990) (%) <sup>4</sup>	55.7	61.5	73.4	75.5	80.1	83.6	82.6	<b>82.7</b>
Number of employees	21,476	22,379	22,913	23,089	23,299	24,391	24,775	<b>27,397</b>
Number of new university graduate hires	594	880	823	680	570	660	664	<b>669</b>
Number of new female university graduate hires (in above)	215	291	331	276	237	266	250	<b>281</b>
Ratio to number of new university graduate hires (%)	36.2	33.1	40.2	40.6	41.6	40.3	37.7	<b>42.0</b>
Average age (Years) <sup>5</sup>	39.9	40.3	40.7	41.2	41.8	42.2	42.5	<b>42.8</b>
Average years of service <sup>5</sup>	15.5	15.3	15.4	15.6	16.0	16.1	16.3	<b>16.5</b>
Number of female employees in managerial positions (Group-wide)	53	65	101	114	141	158	176	<b>206</b>
Ratio of female employees in managerial positions (Group-wide) (%)	1.58	1.52	2.26	2.43	2.79	2.94	3.10	<b>3.44</b>
Ratio of persons with disabilities (%) <sup>5</sup>	1.89	1.97	2.08	2.21	2.20	2.38	2.53	<b>2.61</b>
Training investment (Millions of yen) <sup>6</sup>	583	649	692	734	704	873	848	<b>887</b>

4. Data for the period from April 1, 2019 through March 31, 2020

5. Non-consolidated

6. Non-consolidated until FY2019

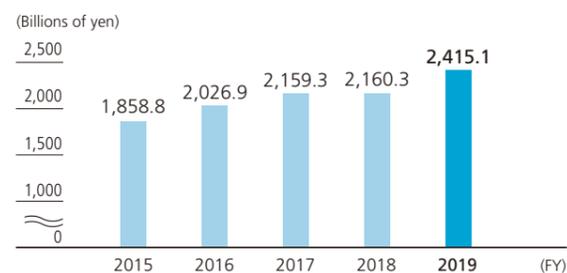
# Financial Analysis

## Operating Results

### Net Sales

Net sales increased ¥254.8 billion year on year, or 11.8%, to ¥2,415.1 billion, driven by growth of sales in the built-to-order business and the overseas business centered on business in the United States, steady expansion of the supplied housing business, and the contribution of sales of Otori Holdings, which became a consolidated subsidiary in October 2019.

#### Net Sales



### Operating Income

Operating income increased ¥16.0 billion year on year, or 8.5%, to ¥205.2 billion, with contributions from higher income in the built-to-order business and the supplied housing business and from property sales in the overseas business.

#### Operating Income



### Non-operating Income, Non-operating Expenses, Extraordinary Income and Extraordinary Loss

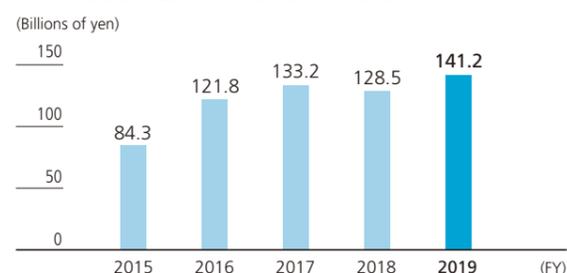
Non-operating income increased ¥5.5 billion year on year to ¥20.6 billion, partly due to an increase in equity in earnings of affiliates. Non-operating expenses increased ¥2.8 billion to ¥11.9 billion.

Extraordinary income increased ¥9.6 billion to ¥12.9 billion due to factors including gain on step acquisitions associated with making Otori Holdings a consolidated subsidiary and gain on sales of shares of subsidiaries and affiliates. Extraordinary loss increased ¥4.4 billion to ¥15.4 billion due to an increase in loss on impairment of fixed assets.

### Profit Attributable to Owners of Parent

Profit attributable to owners of parent increased ¥12.6 billion, or 9.9%, year on year to ¥141.2 billion. Factors included a ¥23.9 billion increase in profit before income taxes to ¥211.3 billion, a ¥5.0 billion increase in income taxes to ¥62.8 billion, and a ¥6.2 billion increase in profit attributable to non-controlling interests to ¥7.2 billion. Earnings per share were ¥205.79.

#### Profit Attributable to Owners of Parent



## Financial Position and Cash Flows

### Financial Position

#### Assets, Liabilities and Net Assets

Total assets as of January 31, 2020 increased 9.2% from a year earlier to ¥2,634.7 billion. Current assets increased 15.7% to ¥1,816.0 billion due largely to accounts receivable from completed construction contracts and cash and deposits associated with the consolidation of Otori Holdings. Total noncurrent assets decreased 3.0% to ¥818.7 billion due to a decrease in property, plant and equipment.

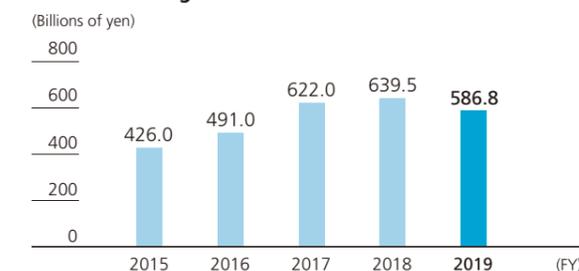
Total liabilities as of January 31, 2020 increased 9.2% from a year earlier to ¥1,327.8 billion. Current liabilities increased 5.2% to ¥821.8 billion due largely to increases in advances received on construction projects in progress and notes and accounts payable associated with the consolidation of Otori Holdings. Long-term liabilities increased 16.4% to ¥506.0 billion due to factors including an increase in long-term debt.

Net assets increased 9.2% from a year earlier to ¥1,306.8 billion due to factors including an increase in retained earnings as a result of profit attributable to owners of parent of ¥141.2 billion.

#### Net Assets and Total Assets



#### Interest-Bearing Debt



### Cash Flows

Cash and cash equivalents (cash) as of January 31, 2020 increased ¥240.3 billion from a year earlier to ¥583.2 billion. Net cash provided by operating activities increased to ¥363.7 billion. Net cash used in investing activities was ¥65.2 billion. Free cash flow increased ¥243.6 billion to ¥298.5 billion. Net cash used in financing activities was ¥148.1 billion. Change in the scope of consolidation increased cash by ¥93.9 billion.

#### Cash Flows from Operating Activities

Net cash provided by operating activities increased ¥238.6 billion to ¥363.7 billion due to factors including profit before income taxes of ¥211.3 billion.

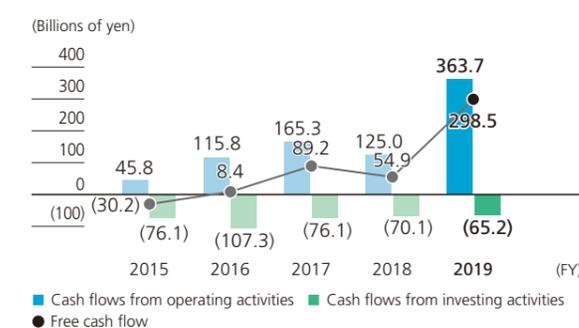
#### Cash Flows from Investing Activities

Net cash used in investing activities decreased ¥4.9 billion year on year to ¥65.2 billion. Purchases of property, plant and equipment, including real estate for lease, decreased ¥12.7 billion to ¥66.6 billion.

#### Cash Flows from Financing Activities

Net cash used in financing activities increased ¥117.1 billion year on year to ¥148.1 billion. Cash dividends paid decreased ¥0.5 billion to ¥55.0 billion.

#### Cash Flows



## Results by Segment

### Built-to-Order Business

Sales and income increased in the built-to-order business. Sales increased 3.6% year on year to ¥801.6 billion, and operating income increased 2.4% to ¥94.8 billion. The custom detached houses business focused on selling Family Suite, which is the result of happiness research, and high-value-added houses such as ZEH. It also launched REGNUM COURT steel-frame 3- and 4-story urban housing. The rental housing business focused on selling 3- and 4-story rental housing by conducting exhaustive area marketing centered on urban districts, and made steady progress selling in non-residential markets such as hotels and nursery schools.

### Supplied Housing Business

Sales and income increased in the supplied housing business. Sales increased 4.9% year on year to ¥687.6 billion, and operating income increased 6.7% to ¥64.5 billion. The remodeling business continued to improve profit margins with proposal-based and environment-based remodeling. It also made aggressive remodeling proposals for rental housing. The real estate management fees business maintained high occupancy rates by supplying high-quality, distinctive rental housing and by effectively implementing its area marketing strategy. In real estate trading, it also strengthened the real estate sales brokerage business.

### Development Business

Sales and income decreased in the development business, but were in line with the Company's plan and on target for the full fiscal year. Sales decreased 6.0% year on year to ¥387.1 billion, and operating income decreased 32.0% to ¥39.4 billion. The houses for sale business worked to promote sales by proactively purchasing land and holding events, and promoted the development of communities that have high asset value. The condominiums business implemented its Grande Maison brand strategy. Sales of high-rise condominiums, including a ZEH-M high-rise condominium, were strong. Handovers were as planned. The urban redevelopment business maintained high occupancy rates for Group-owned rental properties while selling office buildings to Sekisui House Reit, Inc.

### Overseas Business

Sales and income increased in the overseas business. Sales increased 58.5% year on year to ¥389.8 billion, and operating income increased 172.6% to ¥44.5 billion. The U.S. multifamily business sold seven rental housing properties, and condominium sales in China also contributed to results. In Australia, we sold equity in a commercial facility. We have also decided to enter the U.K. housing market in partnership with Homes England and Urban Splash House Holdings Ltd.

### Sales and Operating Income by Segment

(Fiscal year)		2010	2011	2012	2013
Sales	<b>Built-to-Order Business</b>				
	Custom detached houses	455,239	475,330	465,149	517,691
	Rental housing	277,659	289,027	303,712	356,202
	Subtotal	732,899	764,358	768,862	873,894
	<b>Supplied Housing Business</b>				
	Remodeling	91,443	102,180	111,548	125,046
	Real estate management fees	361,988	378,247	393,978	408,403
	Subtotal	453,432	480,427	505,527	533,450
	<b>Development Business</b>				
	Houses for sale	146,470	127,123	127,810	133,405
	Condominiums	77,185	39,681	52,538	63,083
	Urban redevelopment	22,208	37,720	45,528	42,428
	Subtotal	245,864	204,524	225,877	238,917
<b>Overseas Business</b>					
Subtotal	6,825	24,264	54,844	85,392	
Other Businesses	49,348	57,002	58,704	73,447	
<b>Total</b>	<b>1,488,369</b>	<b>1,530,577</b>	<b>1,613,816</b>	<b>1,805,102</b>	
Operating income	<b>Built-to-Order Business</b>				
	Custom detached houses	45,772	52,476	48,800	65,813
	Rental housing	26,195	26,595	27,547	36,492
	Subtotal	71,968	79,072	76,347	102,306
	<b>Supplied Housing Business</b>				
	Remodeling	8,530	9,624	11,542	14,037
	Real estate management fees	12,429	14,260	17,039	20,064
	Subtotal	20,959	23,885	28,582	34,101
	<b>Development Business</b>				
	Houses for sale	516	3,685	1,580	8,143
	Condominiums	(1,009)	(9,947)	1,004	3,978
	Urban redevelopment	4,812	9,974	9,787	8,561
	Subtotal	4,319	3,712	12,372	20,683
<b>Overseas Business</b>					
Subtotal	(2,065)	(3,176)	4,247	8,581	
Other Businesses	(3,950)	(35)	(445)	1,690	
Eliminations and adjustments	(34,876)	(32,560)	(34,907)	(35,434)	
<b>Total</b>	<b>56,354</b>	<b>70,897</b>	<b>86,196</b>	<b>131,930</b>	

(Millions of yen)						
	2014	2015	2016	2017	2018	2019
	427,044	393,786	383,129	371,171	357,944	<b>390,995</b>
	398,483	400,601	440,312	442,845	416,062	<b>410,622</b>
	825,527	794,388	823,442	814,017	774,006	<b>801,618</b>
	134,166	134,458	133,498	136,843	141,416	<b>152,729</b>
	428,227	448,751	469,132	489,891	514,035	<b>534,876</b>
	562,393	583,210	602,631	626,735	655,452	<b>687,606</b>
	118,730	137,484	142,014	155,481	148,880	<b>151,268</b>
	56,699	81,470	66,125	77,497	89,581	<b>103,984</b>
	178,344	93,038	130,491	103,777	173,391	<b>131,920</b>
	353,774	311,993	338,631	336,756	411,853	<b>387,173</b>
	79,835	89,522	182,127	306,716	245,953	<b>389,866</b>
	91,190	79,764	80,099	75,137	73,050	<b>148,922</b>
	<b>1,912,721</b>	<b>1,858,879</b>	<b>2,026,931</b>	<b>2,159,363</b>	<b>2,160,316</b>	<b>2,415,186</b>
	48,894	47,208	49,514	48,043	42,255	<b>45,942</b>
	45,825	51,918	60,832	60,883	50,376	<b>48,938</b>
	94,719	99,127	110,347	108,926	92,632	<b>94,881</b>
	14,997	15,847	17,544	19,760	21,109	<b>23,535</b>
	23,405	26,819	31,278	33,133	39,407	<b>41,054</b>
	38,402	42,667	48,823	52,893	60,516	<b>64,589</b>
	8,491	11,919	8,822	13,460	11,088	<b>12,259</b>
	4,738	8,031	2,248	9,229	6,478	<b>10,134</b>
	25,802	24,747	23,414	16,994	40,403	<b>17,045</b>
	39,032	44,698	34,485	39,684	57,970	<b>39,439</b>
	4,419	(5,673)	25,172	29,761	16,340	<b>44,551</b>
	3,123	2,511	726	1,234	(44)	<b>4,229</b>
	(33,102)	(33,686)	(35,390)	(36,960)	(38,192)	<b>(42,434)</b>
	<b>146,595</b>	<b>149,645</b>	<b>184,164</b>	<b>195,540</b>	<b>189,223</b>	<b>205,256</b>

# Sekisui House, Ltd. and Subsidiaries Consolidated Financial Statements

Year ended January 31, 2020

## Contents

93	Independent Auditor's Report
94	Consolidated Balance Sheet
96	Consolidated Statement of Income
97	Consolidated Statement of Comprehensive Income
98	Consolidated Statement of Changes in Net Assets
99	Consolidated Statement of Cash Flows
100	Notes to Consolidated Financial Statements

Notes: These financial statements and notes audited by an independent auditor are presented based on the consolidated financial statements prepared pursuant to the Japanese accounting principles after implementing the reclassification of account titles in consideration of the use overseas and making other adjustments, such as the rounding of fractions less than the indicated units. Therefore, some financial figures may be inconsistent with those on other pages of this report, which was translated based on the Japanese version.

## Independent Auditor's Report

The Board of Directors  
Sekisui House, Ltd.

We have audited the accompanying consolidated financial statements of Sekisui House, Ltd. and subsidiaries, which comprise the consolidated balance sheet as at January 31, 2020, and the consolidated statements of income, comprehensive income, changes in net assets, and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

### Management's Responsibility for the Consolidated Financial Statements

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

### Auditor's Responsibility

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

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

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

### Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Sekisui House, Ltd. and subsidiaries as at January 31, 2020, and their consolidated financial performance and cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

### Convenience Translation

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

*Ernst & Young ShinNihon LLC*

April 23, 2020  
Osaka, Japan

Ernst & Young ShinNihon LLC

# Consolidated Balance Sheet

Sekisui House, Ltd. and Subsidiaries  
January 31, 2020

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2020	2019	2020
<b>Assets</b>			
<b>Current assets:</b>			
Cash and cash equivalents (Note 20).....	¥ 583,298	¥ 342,899	\$ 5,348,414
Short-term investments (Notes 5, 11 and 20).....	1,338	460	12,268
Notes and accounts receivable:			
Affiliates.....	1,535	744	14,075
Trade (Note 20).....	133,978	42,504	1,228,480
Other.....	34,980	35,679	320,741
Less allowance for doubtful accounts.....	(1,187)	(1,440)	(10,884)
	169,306	77,487	1,552,412
Inventories (Notes 6 and 11).....	1,005,204	1,100,188	9,216,982
Other current assets.....	56,859	48,284	521,355
Total current assets	1,816,005	1,569,318	16,651,431
<b>Property, plant and equipment, at cost:</b>			
Land (Notes 6, 7, 9 and 11).....	284,769	304,371	2,611,122
Buildings and structures (Notes 6, 7, 9 and 11).....	355,788	346,776	3,262,314
Machinery, equipment and other (Note 7).....	109,815	99,077	1,006,923
Construction in progress.....	28,268	21,889	259,197
	778,640	772,113	7,139,556
Less accumulated depreciation.....	(268,084)	(241,718)	(2,458,133)
Property, plant and equipment, net	510,556	530,395	4,681,423
<b>Investments and other assets:</b>			
Long-term loans receivable.....	36,568	24,157	335,302
Less allowance for doubtful accounts.....	(487)	(218)	(4,466)
	36,081	23,939	330,836
Investments in securities (Notes 5, 11 and 20).....	115,809	90,642	1,061,883
Investments in affiliates (Notes 8 and 20).....	41,906	66,317	384,247
Goodwill (Note 22).....	3,097	4,586	28,397
Intangible assets.....	15,564	15,981	142,711
Deferred income taxes (Note 12).....	31,008	37,728	284,321
Asset for retirement benefits (Note 13).....	1,503	383	13,781
Other assets (Note 11).....	63,219	73,747	579,672
Total investments and other assets	308,187	313,323	2,825,848
	¥ 2,634,748	¥ 2,413,036	\$24,158,702

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2020	2019	2020
<b>Liabilities and net assets</b>			
<b>Current liabilities:</b>			
Short-term loans (Notes 10, 11 and 20).....	¥ 166,486	¥ 239,472	\$ 1,526,554
Short-term bonds (Notes 10 and 20).....	15,000	20,000	137,539
Current portion of long-term debt and lease obligation (Notes 10, 11 and 20).....	19,527	64,781	179,048
Notes and accounts payable (Note 20):			
Affiliates.....	3,206	5,062	29,397
Trade.....	216,344	142,367	1,983,716
Accrued income taxes (Note 12).....	30,981	33,009	284,073
Advances received on construction projects in progress (Note 23).....	241,806	156,606	2,217,183
Accrued employees' bonuses.....	27,939	25,527	256,180
Accrued directors' and corporate auditors' bonuses.....	1,524	1,477	13,974
Provision for warranties for completed construction.....	3,352	2,788	30,735
Other current liabilities.....	95,702	90,229	877,517
Total current liabilities	821,867	781,318	7,535,916
<b>Long-term liabilities:</b>			
Long-term debt and lease obligation (Notes 10, 11 and 20).....	385,878	315,257	3,538,217
Guarantee deposits received (Note 11).....	59,165	60,701	542,499
Accrued retirement benefits for directors and corporate auditors.....	1,108	1,061	10,160
Liability for retirement benefits (Note 13).....	49,414	49,989	453,090
Deferred income taxes (Note 12).....	2,179	1,090	19,980
Other liabilities (Note 14).....	8,287	6,696	75,986
Total long-term liabilities	506,031	434,794	4,639,932
<b>Contingent liabilities (Notes 11 and 15)</b>			
<b>Net assets:</b>			
<b>Shareholders' equity (Notes 16 and 27):</b>			
Common stock:			
Authorized: 1,978,281,000 shares			
Issued: 690,683,466 shares in 2020 and 2019.....	202,591	202,591	1,857,611
Capital surplus.....	258,994	251,563	2,374,785
Retained earnings.....	786,592	700,951	7,212,470
Less treasury stock, at cost.....	(13,668)	(4,216)	(125,326)
Total shareholders' equity	1,234,509	1,150,889	11,319,540
<b>Accumulated other comprehensive income:</b>			
Net unrealized holding gain on securities.....	39,894	33,147	365,799
Deferred loss on hedges.....	(60)	(56)	(550)
Translation adjustments.....	11,174	21,270	102,458
Retirement benefits liability adjustments.....	(19,322)	(22,441)	(177,169)
Total accumulated other comprehensive income	31,686	31,920	290,538
Stock subscription rights (Note 16).....	610	803	5,593
Non-controlling interests.....	40,045	13,312	367,183
Total net assets	1,306,850	1,196,924	11,982,854
	¥ 2,634,748	¥ 2,413,036	\$24,158,702

\*See notes to consolidated financial statements.

## Consolidated Statement of Income

Sekisui House, Ltd. and Subsidiaries  
Year ended January 31, 2020

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2020	2019	2020
<b>Net sales (Notes 9, 22 and 23)</b> .....	<b>¥ 2,415,187</b>	¥ 2,160,317	<b>\$22,145,489</b>
<b>Cost of sales (Notes 6, 9 and 16)</b> .....	<b>1,937,150</b>	1,715,720	<b>17,762,241</b>
Gross profit .....	<b>478,037</b>	444,597	<b>4,383,248</b>
<b>Selling, general and administrative expenses (Notes 16 and 17)</b> .....	<b>272,780</b>	255,374	<b>2,501,192</b>
Operating income .....	<b>205,257</b>	189,223	<b>1,882,056</b>
<b>Other income (expenses):</b>			
Interest and dividend income .....	<b>5,788</b>	4,028	<b>53,072</b>
Interest expense .....	<b>(4,916)</b>	(4,722)	<b>(45,076)</b>
Loss on disposal or sales of fixed assets .....	<b>(1,492)</b>	(1,607)	<b>(13,681)</b>
Equity in earnings of affiliates .....	<b>10,484</b>	7,751	<b>96,131</b>
Gain on step acquisitions (Note 26) .....	<b>8,598</b>	–	<b>78,837</b>
Gain on sales of shares of subsidiaries and affiliates .....	<b>3,640</b>	181	<b>33,376</b>
Gain on sales of investments in securities (Note 5) .....	<b>718</b>	3,094	<b>6,584</b>
Loss on sales of investments in securities (Note 5) .....	<b>(434)</b>	(72)	<b>(3,979)</b>
Foreign exchange gain (loss), net .....	<b>717</b>	(554)	<b>6,574</b>
Loss on impairment of fixed assets (Notes 7 and 22) .....	<b>(13,553)</b>	(9,393)	<b>(124,271)</b>
Loss on revaluation of investments in securities (Note 5) .....	<b>–</b>	(2)	<b>–</b>
Other, net .....	<b>(3,424)</b>	(535)	<b>(31,396)</b>
Profit before income taxes .....	<b>211,383</b>	187,392	<b>1,938,227</b>
<b>Income taxes (Note 12):</b>			
Current .....	<b>60,197</b>	51,301	<b>551,962</b>
Deferred .....	<b>2,656</b>	6,473	<b>24,354</b>
	<b>62,853</b>	57,774	<b>576,316</b>
Profit .....	<b>148,530</b>	129,618	<b>1,361,911</b>
<b>Profit attributable to :</b>			
Non-controlling interests .....	<b>7,273</b>	1,035	<b>66,688</b>
Owners of parent .....	<b>¥ 141,257</b>	¥ 128,583	<b>\$ 1,295,223</b>

\*See notes to consolidated financial statements.

## Consolidated Statement of Comprehensive Income

Sekisui House, Ltd. and Subsidiaries  
Year ended January 31, 2020

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2020	2019	2020
Profit .....	<b>¥ 148,530</b>	¥ 129,618	<b>\$1,361,911</b>
Other comprehensive loss (Note 24) :			
Net unrealized holding gain (loss) on securities .....	<b>7,382</b>	(15,001)	<b>67,687</b>
Translation adjustments .....	<b>(10,152)</b>	(28,303)	<b>(93,086)</b>
Retirement benefits liability adjustments .....	<b>3,279</b>	(38,656)	<b>30,066</b>
Share of other comprehensive loss of affiliates accounted for by the equity method .....	<b>(450)</b>	(966)	<b>(4,126)</b>
Total other comprehensive income (loss) .....	<b>59</b>	(82,926)	<b>541</b>
Comprehensive income .....	<b>¥ 148,589</b>	¥ 46,692	<b>\$1,362,452</b>
Total comprehensive income attributable to :			
Owners of parent .....	<b>¥ 141,024</b>	¥ 45,694	<b>\$1,293,086</b>
Non-controlling interests .....	<b>7,565</b>	998	<b>69,366</b>

\*See notes to consolidated financial statements.

# Consolidated Statement of Changes in Net Assets

Sekisui House, Ltd. and Subsidiaries  
Year ended January 31, 2020

	Millions of yen												
	Number of shares in issue	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Accumulated other comprehensive income							Total net assets
						Net unrealized holding gain on securities	Deferred (loss) gain on hedges	Translation adjustments	Retirement benefits liability adjustments	Stock subscription rights	Non-controlling interests		
<b>Balance at February 1, 2018</b>	<b>690,683,466</b>	<b>¥202,591</b>	<b>¥251,563</b>	<b>¥626,961</b>	<b>¥ (948)</b>	<b>¥ 48,033</b>	<b>¥ (69)</b>	<b>¥ 50,678</b>	<b>¥ 16,166</b>	<b>¥ 762</b>	<b>¥ 12,384</b>	<b>¥1,208,121</b>	
Cash dividends.....	-	-	-	(54,532)	-	-	-	-	-	-	-	(54,532)	
Profit attributable to owners of parent for the year.....	-	-	-	128,583	-	-	-	-	-	-	-	128,583	
Purchases of treasury stock.....	-	-	-	-	(3,377)	-	-	-	-	-	-	(3,377)	
Sales of treasury stock.....	-	-	-	(61)	109	-	-	-	-	-	-	48	
Other changes.....	-	-	-	-	(14,886)	13	(29,408)	(38,607)	41	928	-	(81,919)	
<b>Balance at February 1, 2019</b>	<b>690,683,466</b>	<b>¥202,591</b>	<b>¥251,563</b>	<b>¥700,951</b>	<b>¥ (4,216)</b>	<b>¥ 33,147</b>	<b>¥ (56)</b>	<b>¥ 21,270</b>	<b>¥ (22,441)</b>	<b>¥ 803</b>	<b>¥ 13,312</b>	<b>¥1,196,924</b>	
Cumulative effects of changes in accounting policies.....	-	-	-	(304)	-	-	-	-	-	-	-	(304)	
<b>Restated balance</b>	<b>690,683,466</b>	<b>¥202,591</b>	<b>¥251,563</b>	<b>¥700,647</b>	<b>¥ (4,216)</b>	<b>¥ 33,147</b>	<b>¥ (56)</b>	<b>¥ 21,270</b>	<b>¥ (22,441)</b>	<b>¥ 803</b>	<b>¥ 13,312</b>	<b>¥1,196,620</b>	
Cash dividends.....	-	-	-	(55,079)	-	-	-	-	-	-	-	(55,079)	
Profit attributable to owners of parent for the year.....	-	-	-	141,257	-	-	-	-	-	-	-	141,257	
Purchases of treasury stock.....	-	-	-	-	(10,012)	-	-	-	-	-	-	(10,012)	
Sales of treasury stock.....	-	-	-	(233)	560	-	-	-	-	-	-	327	
Purchases of shares of consolidated subsidiaries.....	-	-	308	-	-	-	-	-	-	-	-	308	
Change in equity of parent arising from transaction with non-controlling shareholders.....	-	-	7,123	-	-	-	-	-	-	-	-	7,123	
Other changes.....	-	-	-	-	6,747	(4)	(10,096)	3,119	(193)	26,733	-	26,306	
<b>Balance at January 31, 2020</b>	<b>690,683,466</b>	<b>¥202,591</b>	<b>¥258,994</b>	<b>¥786,592</b>	<b>¥ (13,668)</b>	<b>¥ 39,894</b>	<b>¥ (60)</b>	<b>¥ 11,174</b>	<b>¥ (19,322)</b>	<b>¥ 610</b>	<b>¥ 40,045</b>	<b>¥1,306,850</b>	

	Thousands of U.S. dollars (Note 1)											
	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Accumulated other comprehensive income							Total net assets
					Net unrealized holding gain on securities	Deferred (loss) gain on hedges	Translation adjustments	Retirement benefits liability adjustments	Stock subscription rights	Non-controlling interests		
<b>Balance at February 1, 2019</b>	<b>\$1,857,611</b>	<b>\$2,306,648</b>	<b>\$6,427,205</b>	<b>\$ (38,658)</b>	<b>\$ 303,934</b>	<b>\$ (513)</b>	<b>\$ 195,030</b>	<b>\$ (205,768)</b>	<b>\$7,363</b>	<b>\$122,061</b>	<b>\$10,974,913</b>	
Cumulative effects of changes in accounting policies.....	-	-	(2,787)	-	-	-	-	-	-	-	(2,787)	
<b>Restated balance</b>	<b>\$1,857,611</b>	<b>\$2,306,648</b>	<b>\$6,424,418</b>	<b>\$ (38,658)</b>	<b>\$ 303,934</b>	<b>\$ (513)</b>	<b>\$ 195,030</b>	<b>\$ (205,768)</b>	<b>\$7,363</b>	<b>\$122,061</b>	<b>\$10,972,126</b>	
Cash dividends.....	-	-	(505,034)	-	-	-	-	-	-	-	(505,034)	
Profit attributable to owners of parent for the year.....	-	-	1,295,223	-	-	-	-	-	-	-	1,295,223	
Purchases of treasury stock.....	-	-	-	(91,803)	-	-	-	-	-	-	(91,803)	
Sales of treasury stock.....	-	-	(2,137)	5,135	-	-	-	-	-	-	2,998	
Purchases of shares of consolidated subsidiaries.....	-	2,824	-	-	-	-	-	-	-	-	2,824	
Change in equity of parent arising from transaction with non-controlling shareholders.....	-	65,313	-	-	-	-	-	-	-	-	65,313	
Other changes.....	-	-	-	-	61,865	(37)	(92,572)	28,599	(1,770)	245,122	241,207	
<b>Balance at January 31, 2020</b>	<b>\$1,857,611</b>	<b>\$2,374,785</b>	<b>\$7,212,470</b>	<b>\$ (125,326)</b>	<b>\$ 365,799</b>	<b>\$ (550)</b>	<b>\$ 102,458</b>	<b>\$ (177,169)</b>	<b>\$5,593</b>	<b>\$367,183</b>	<b>\$11,982,854</b>	

\*See notes to consolidated financial statements.

# Consolidated Statement of Cash Flows

Sekisui House, Ltd. and Subsidiaries  
Year ended January 31, 2020

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2020	2019	2020
	<b>Cash flows from operating activities</b>		
Profit before income taxes.....	<b>¥ 211,383</b>	¥ 187,392	<b>\$ 1,938,227</b>
Adjustments for:			
Depreciation and amortization.....	<b>21,519</b>	22,155	<b>197,313</b>
Loss on impairment of fixed assets.....	<b>13,553</b>	9,393	<b>124,271</b>
Increase (decrease) in liability for retirement benefits.....	<b>550</b>	(9,410)	<b>5,043</b>
Increase in asset for retirement benefits.....	<b>(1,568)</b>	(3,383)	<b>(14,377)</b>
Interest and dividend income.....	<b>(5,788)</b>	(4,028)	<b>(53,072)</b>
Interest expense.....	<b>4,916</b>	4,722	<b>45,076</b>
Equity in earnings of affiliates.....	<b>(10,484)</b>	(7,751)	<b>(96,131)</b>
Gain on step acquisitions.....	<b>(8,598)</b>	-	<b>(78,837)</b>
Gain on sales of investments in securities, net.....	<b>(284)</b>	(3,022)	<b>(2,605)</b>
Loss on revaluation of investments in securities.....	<b>-</b>	2	<b>-</b>
Gain on sales of shares of subsidiaries and affiliates.....	<b>(3,640)</b>	(181)	<b>(33,376)</b>
(Increase) decrease in notes and accounts receivable.....	<b>(18,176)</b>	3,159	<b>(166,660)</b>
Decrease in inventories.....	<b>161,677</b>	4,851	<b>1,482,459</b>
Decrease in notes and accounts payable.....	<b>(13,523)</b>	(29,518)	<b>(123,996)</b>
Increase in advances received on construction projects in progress.....	<b>71,973</b>	14,818	<b>659,940</b>
Other.....	<b>6,083</b>	(15,864)	<b>55,777</b>
Subtotal.....	<b>429,593</b>	173,335	<b>3,939,052</b>
Interest and dividends received.....	<b>8,794</b>	8,769	<b>80,634</b>
Interest paid.....	<b>(6,441)</b>	(6,523)	<b>(59,059)</b>
Income taxes paid.....	<b>(68,180)</b>	(50,493)	<b>(625,160)</b>
Net cash provided by operating activities.....	<b>363,766</b>	125,088	<b>3,335,467</b>
<b>Cash flows from investing activities</b>			
Proceeds from redemption of short-term investments.....	<b>-</b>	590	<b>-</b>
Purchases of property, plant and equipment.....	<b>(66,623)</b>	(53,878)	<b>(610,884)</b>
Proceeds from sales of property, plant and equipment.....	<b>413</b>	4,468	<b>3,787</b>
Purchases of investments in securities.....	<b>(10,645)</b>	(5,966)	<b>(97,607)</b>
Proceeds from sales and redemption of investments in securities.....	<b>8,627</b>	5,832	<b>79,103</b>
Increase in loans receivable.....	<b>(955)</b>	(220)	<b>(8,757)</b>
Collection of loans receivable.....	<b>6,928</b>	1,431	<b>63,525</b>
Other.....	<b>(2,975)</b>	(22,441)	<b>(27,278)</b>
Net cash used in investing activities.....	<b>(65,230)</b>	(70,184)	<b>(598,111)</b>
<b>Cash flows from financing activities</b>			
(Decrease) increase in short-term loans, net.....	<b>(70,524)</b>	44,222	<b>(646,653)</b>
Proceeds from long-term debt.....	<b>88,131</b>	48,690	<b>808,096</b>
Repayment of long-term debt.....	<b>(62,354)</b>	(50,807)	<b>(571,740)</b>
Redemption of bonds.....	<b>(20,000)</b>	(15,000)	<b>(183,385)</b>
Cash dividends paid.....	<b>(55,078)</b>	(54,532)	<b>(505,025)</b>
Purchases of treasury stock.....	<b>(10,012)</b>	(3,375)	<b>(91,803)</b>
Payment for acquisition of treasury stock by a consolidated subsidiary.....	<b>(7,931)</b>	-	<b>(72,721)</b>
Purchases of shares of subsidiary that do not result in change in scope of consolidation.....	<b>(1,709)</b>	-	<b>(15,670)</b>
Other.....	<b>(8,683)</b>	(228)	<b>(79,617)</b>
Net cash used in financing activities.....	<b>(148,160)</b>	(31,030)	<b>(1,358,518)</b>
Effect of exchange rate changes on cash and cash equivalents.....	<b>(3,959)</b>	(5,668)	<b>(36,302)</b>
Net increase in cash and cash equivalents.....	<b>146,417</b>	18,206	<b>1,342,536</b>
Cash and cash equivalents at beginning of period.....	<b>342,899</b>	324,693	<b>3,144,132</b>
Net increase in cash and cash equivalents resulting from change in scope of consolidation (Note 25).....	<b>93,982</b>	-	<b>861,746</b>
Cash and cash equivalents at end of period.....	<b>¥ 583,298</b>	¥ 342,899	<b>\$ 5,348,414</b>

\*See notes to consolidated financial statements.

# Notes to Consolidated Financial Statements

Sekisui House, Ltd. and Subsidiaries  
January 31, 2020

## 1. Basis of Preparation

The accompanying consolidated financial statements of Sekisui House, Ltd. (the "Company") and its subsidiaries (collectively, the "Group") have been compiled from the consolidated financial statements prepared by the Company as required by the Financial Instruments and Exchange Act of Japan, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards (IFRS). In preparing the accompanying consolidated financial statements, certain reclassifications and rearrangements have been made to present them in a form which is familiar to readers outside Japan. In addition, the notes to the accompanying consolidated financial statements include information which is not required under accounting principles generally accepted in Japan but is presented herein as additional information.

Certain reclassifications of previously reported amounts have been made to conform the accompanying consolidated financial statements for the year ended January 31, 2019 to the 2020 presentation. Such reclassifications had no effect on consolidated profit or cash flow.

The translation of Japanese yen amounts into U.S. dollars is included solely for the convenience of the readers and has been made at ¥109.06 = U.S.\$1.00, the approximate rate of exchange in effect on January 31, 2020. 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 significant subsidiaries over which substantial control is exerted through either majority ownership of voting stock and/or by other means. All significant intercompany transactions and accounts have been eliminated in consolidation.

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

Investments in unconsolidated subsidiaries and affiliates are stated at cost. If the equity method of accounting had been applied to the investments in these companies, the effect on the accompanying consolidated financial statements would not be material.

When the Company holds ownership interests of more than 20% to 50% of voting stock in an investee but does not have significant influence over the entity, it is excluded from the scope of equity-method affiliates.

For consolidation purposes, the financial statements of the subsidiaries whose balance sheet dates are either March 31, May 31 or November 30 were prepared based on a provisional

settlement of accounts as of January 31, 2020.

The balance sheet date of overseas subsidiaries and certain domestic subsidiaries is December 31. In addition, for certain other domestic subsidiaries whose balance sheet date is September 30, their financial statements were prepared based on a provisional settlement of accounts as of December 31, for consolidation purposes. Any significant differences in intercompany accounts and transactions arising from intervening intercompany transactions during the period from January 1 through January 31 have been adjusted, if necessary.

### (b) Foreign currency translation

All monetary assets and liabilities denominated in foreign currencies are translated into yen at the rates of exchange in effect at the balance sheet date, except that receivables and payables hedged by qualified forward foreign exchange contracts are translated at the corresponding forward foreign exchange contract rates. Gain or loss on each translation is credited or charged to income.

All assets and liabilities of overseas subsidiaries are translated into yen at the rate of exchange in effect at the balance sheet date except that the components of net assets are translated at their historical exchange rates. The income statement accounts are translated at the average exchange rate during the year. Differences arising from the translations are included in "Translation adjustments" and "Non-controlling interests" in the accompanying consolidated balance sheets.

### (c) Cash and cash equivalents

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

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

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

Trading securities, consisting of debt and marketable equity securities, are stated at fair value. Gain or loss, both realized and unrealized, is credited or charged to income. Held-to-maturity debt securities are stated at amortized cost. Marketable securities classified as other securities are carried at fair value with any changes in unrealized holding gain or loss, net of the applicable income taxes, reported as a separate component of accumulated other comprehensive income. Cost of securities sold is determined by the moving average method. Non-marketable securities classified as other securities are carried at cost determined by the moving average method.

Under the Corporation Law of Japan (the "Law"), unrealized holding gain on other securities, net of the related taxes, is not available for distribution as dividends.

### (e) Inventories

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

### (f) Property, plant and equipment (except for leased assets)

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

### (g) Goodwill

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

### (h) Intangible assets (except for leased assets)

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

### (i) Leases

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

### (j) Income taxes

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

### (k) Consumption taxes

Transactions subject to consumption taxes are recorded at amounts exclusive of consumption taxes.

Consumption taxes paid not offset by consumption taxes received in accordance with the Consumption Tax Act of Japan are charged to income when incurred. In certain subsidiaries, which are mainly engaged in the real estate leasing business, consumption taxes paid not offset by consumption taxes received in accordance with the

Consumption Tax Act of Japan that arise from the purchases of tangible fixed assets are recorded as "Other assets" and amortized over 5 years by the straight-line method.

### (l) Allowance for doubtful accounts

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

### (m) Accrued employees' bonuses

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

### (n) Accrued directors' and corporate auditors' bonuses

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

### (o) Provision for warranties for completed construction

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

### (p) Retirement benefits

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

Actuarial gain or loss is amortized from the year following the year in which such gain or loss is recognized principally by the straight-line method over a period of 5-14 years.

Prior service cost is amortized by the straight-line method over a period of 5-14 years.

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

### (q) Recognition of revenues and costs of construction contracts

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

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

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

**(s) Research and development cost**

Research and development cost is charged to income as incurred.

**(t) Capitalization of interest expenses**

Interest expenses incurred for real estate development projects conducted by certain overseas subsidiaries have been capitalized as a part of the development cost of such projects. For the years ended January 31, 2020 and 2019, interest expenses that were capitalized and included in inventories as part of "Construction for sale, including projects under construction," "Land held for sale" and "Land held for development" were ¥7,485 million (\$68,632 thousand) and ¥9,174 million, ¥9,672 million (\$88,685 thousand) and ¥8,018 million, and ¥673 million (\$6,171 thousand) and ¥734 million, respectively.

**(u) Derivative transactions and hedge accounting**

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

When forward foreign exchange contracts meet certain criteria, receivables and payables covered by the contract are translated at the contracted rates ("allocation method").

Hedging instruments and hedged items are as follows:

- |                          |   |
|--------------------------|---|
| (i) Hedging instruments  | Foreign exchange contracts  |
| Hedged items             | Foreign currency trade receivables and payables and forecasted transactions |
| (ii) Hedging instruments | Interest rate swap contracts  |
| Hedged items             | Bank loans  |

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

The Company also formally assesses, at the hedge's inception, whether the derivatives used in the hedging transactions are highly effective in offsetting any changes in fair values or cash flows of the hedged items so that the actual fluctuations of

each hedge are within the acceptable range of approximately 80% to 125%. However, an evaluation of effectiveness of forward foreign exchange contracts was omitted because the significant terms related to the hedged items and hedging instruments are the same and cash flows are also fixed.

**(Accounting standards issued but not yet effective)**

*Accounting Standard and Implementation Guidance for Revenue Recognition*

**(1) Overview**

On March 30, 2018, the ASBJ issued "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29) and "Implementation Guidance on Accounting Standard for Revenue Recognition" (ASBJ Guidance No. 30). The International Accounting Standards Board ("IASB") and the Financial Accounting Standards Board ("FASB") in the United States co-developed comprehensive accounting standards for revenue recognition and issued "Revenue from Contracts with Customers" (issued as IFRS 15 by the IASB and Topic 606 by the FASB) in May 2014. The ASBJ developed comprehensive accounting standards on revenue recognition and issued them in conjunction with the implementation guidance based on the fact that IFRS 15 has been applied from fiscal years starting on or after January 1, 2018 and Topic 606 has been applied from fiscal years starting after December 15, 2017.

As the basic policy of the ASBJ in developing accounting standards for revenue recognition, the ASBJ defined the accounting standard starting with incorporating the basic principle of IFRS 15 from a standpoint of comparability between financial statements, which is one benefit of ensuring consistency with IFRS 15. Furthermore, the ASBJ added alternative accounting treatment without impairing comparability when there are matters to be considered related to common accounting practices in Japan, etc.

**(2) Scheduled date of adoption**

The Company and its domestic subsidiaries plan to adopt the accounting standard and implementation guidance effective from February 1, 2022.

**(3) Impact of the adoption of accounting standard and implementation guidance**

The Company is currently evaluating the effect of adopting the accounting standard and implementation guidance on its consolidated financial statements.

**3. Changes in Accounting Policies****(1) Adoption of ASU No. 2014-09 "Revenue from Contracts with Customers"**

The overseas subsidiaries which apply US GAAP have adopted "Revenue from Contracts with Customers" (ASU No. 2014-09 May 28, 2014), from the beginning of the fiscal year ended January 31, 2020. In line with this adoption, revenue is recognized upon the transfer of promised goods or services to customers in an amount that reflects the consideration an entity expects to receive in exchange for those goods or services. The impact of this adoption on the accompanying consolidated financial statements for the current fiscal year is immaterial.

**(2) Adoption of IFRS 16 "Leases"**

The overseas subsidiaries which apply IFRS have adopted "Leases" (IFRS 16 January 13, 2016), from the beginning of the fiscal year ended January 31, 2020. In line with this adoption, the Company principally recognizes assets and liabilities of lease as a lessee. The impact of this adoption on the accompanying consolidated financial statements for the current fiscal year is immaterial.

**4. Changes in Presentation Method****Application of "Partial Amendments to Accounting Standard for Tax Effect Accounting"**

"Partial Amendments to Accounting Standard for Tax Effect Accounting" (ASBJ Statement No. 28 issued on February 16, 2018) have been applied from the beginning of the current fiscal year. "Deferred tax assets" are now presented under "Investments and other assets" of the consolidated balance sheet, and "Deferred tax liabilities" are now presented under "Long-term liabilities."

In applying the revised standard, "Deferred tax assets" under "Current assets" decreased by ¥24,806 million (\$227,453 thousand) and "Deferred tax assets" under "Investments and other assets" increased by ¥24,788 million (\$227,288 thousand) as of the end of the previous fiscal year. "Deferred tax liabilities" under "Long-term liabilities" decreased by ¥18 million (\$165 thousand) as of the end of the previous fiscal year.

In addition, "Deferred tax assets" and "Deferred tax liabilities" of the same taxable entity are offset, and total assets decreased by ¥18 million (\$165 thousand) compared to previous method as of the end of the previous fiscal year.

Also, Note 12. Income Taxes has been expanded in accordance with No. 8 (except for total valuation allowance) and 9 of annotations on Interpretive Notes in Article 3 to 5 of the Partial Amendments to Accounting Standard for Tax Effect Accounting. However, comparative information for the previous fiscal year has not been disclosed in Note 12.

Income Taxes in accordance with the transitional provisions set forth in Article 7 of the Partial Amendments to

Accounting Standard for Tax Effect Accounting.

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

There were no held-to-maturity debt securities at January 31, 2020 and 2019.

Information on other securities with determinable market value at January 31, 2020 and 2019 was as follows:

	Millions of yen							
	Other securities							
	2020				2019			
Acquisition cost	Gross unrealized gain	Gross unrealized loss	Gross carrying value (estimated fair value)	Acquisition cost	Gross unrealized gain	Gross unrealized loss	Gross carrying value (estimated fair value)	
Market value determinable:								
Equity securities	¥44,083	¥61,579	¥(514)	¥105,148	¥35,223	¥46,070	¥(470)	¥80,823

	Thousands of U.S. dollars			
	Other securities			
	2020			
Acquisition cost	Gross unrealized gain	Gross unrealized loss	Gross carrying value (estimated fair value)	
Market value determinable:				
Equity securities	\$ 404,209	\$ 564,634	\$ (4,713)	\$ 964,130

Sales of other securities for the years ended January 31, 2020 and 2019 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Proceeds from sales	¥ 3,370	¥ 5,279	\$30,900
Gross realized gain	718	3,094	6,584
Gross realized loss	(434)	(72)	(3,979)

The Group has recognized loss on revaluation of investments in securities classified as other securities of ¥2 million for the year ended January 31, 2019.

There was no loss on revaluation of investments in securities classified as other securities for the year ended January 31, 2020.

**6. Inventories**

Inventories at January 31, 2020 and 2019 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Land held for sale	¥ 541,524	¥ 579,001	\$ 4,965,377
Land held for development	94,828	106,934	869,503
Construction for sale, including projects under construction	342,595	393,538	3,141,344
Contracts in process	17,934	12,169	164,442
Other	8,323	8,546	76,316
	¥1,005,204	¥1,100,188	\$ 9,216,982

Loss on devaluation of inventories included in cost of sales for the years ended January 31, 2020 and 2019 amounted to ¥10,296 million (\$94,407 thousand) and ¥11,982 million, respectively.

Due to changes in holding purpose, ¥1,090 million (\$9,994 thousand) and ¥463 million of inventories, which were

included in "Construction for sale, including projects under construction" and "Land held for sale", were principally reclassified to "Buildings and structures" and "Land" at January 31, 2020 and 2019, respectively. In addition, ¥75,623 million (\$693,407 thousand) and ¥43,047 million of investment real estate, which were mainly included in "Buildings and structures" and "Land", were reclassified to "Construction for sale, including projects under construction" and "Land held for sale", classified as inventories in the accompanying consolidated balance sheets at January 31, 2020 and 2019, respectively.

### 7. Impairment of Fixed Assets

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

For the years ended January 31, 2020 and 2019, the Group has written down certain real estate for lease and certain assets to their respective net recoverable values.

Consequently, the Group recorded losses on impairment of fixed assets of ¥13,553 million (\$124,271 thousand) and ¥9,393 million in the accompanying consolidated statements of income for the years ended January 31, 2020 and 2019, respectively.

The losses on impairment of fixed assets for the years ended January 31, 2020 and 2019 are outlined as follows:

2020				
Location	Use	Classification	Millions of yen	Thousands of U.S. dollars
Shenyang City China etc.	Real estate for lease etc.	Buildings and structures	¥ 9,842	\$ 90,244
		Machinery, equipment and other	47	431
		Land	2,213	20,291
		Other	1,451	13,305
			<u>¥13,553</u>	<u>\$124,271</u>

2019				
Location	Use	Classification	Millions of yen	Thousands of U.S. dollars
Nakamura-ku, Nagoya City etc.	Real estate for lease etc.	Buildings and structures	¥ 1,072	
		Machinery, equipment and other	416	
		Land	7,874	
		Other	31	
			<u>¥ 9,393</u>	

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

### 8. Investments in Affiliates

Investments in affiliates at January 31, 2020 and 2019 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Investments in capital stock, at cost	¥ 31,885	¥ 31,746	\$ 292,362
Equity in undistributed earnings since acquisition, net	10,021	34,571	91,885
	<u>¥ 41,906</u>	<u>¥ 66,317</u>	<u>\$ 384,247</u>

### 9. Investment and Rental Properties

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

For the years ended January 31, 2020 and 2019, rental profit and loss on impairment of these rental properties amounted to ¥6,418 million (\$58,848 thousand) and ¥7,451 million and ¥12,811 million (\$117,467 thousand) and ¥8,970 million, respectively.

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

The carrying value in the accompanying consolidated balance sheets as of January 31, 2020 and 2019 and corresponding fair value of those properties are as follows:

Millions of yen			
	Carrying value		Fair value
January 31, 2019	Net change	January 31, 2020	January 31, 2020
¥ 443,737	¥ (37,667)	¥ 406,070	¥ 518,348
Millions of yen			
	Carrying value		Fair value
January 31, 2018	Net change	January 31, 2019	January 31, 2019
¥ 468,213	¥ (24,476)	¥ 443,737	¥ 547,840
Thousands of U.S. dollars			
	Carrying value		Fair value
January 31, 2019	Net change	January 31, 2020	January 31, 2020
\$ 4,068,742	\$ (345,379)	\$ 3,723,363	\$ 4,752,870

Notes:

- The carrying value represents the acquisition cost less accumulated depreciation and impairment losses.
- For the years ended January 31, 2020 and 2019, the main components of net change in carrying value are the increase of ¥58,058 million (\$532,349 thousand) and ¥43,086 million in acquisitions of real estate and the decreases of ¥75,158 million (\$689,144 thousand) and ¥42,528 million in transfer to inventories, ¥12,811 million (\$117,467 thousand) and ¥8,970 million in loss on impairment of the rental properties and ¥8,569 million (\$78,571 thousand) and ¥9,431 million in depreciation, respectively.
- The fair value of main real estate is computed based on appraisal amounts valued by real estate appraisers. The fair value of the others is computed by the Group in accordance with "Real Estate Appraisal Standards."

### 10. Short-Term Loans, Short-Term Bonds and Long-Term Debt

Short-term loans consist of unsecured bank loans. The average interest rates on the short-term loans outstanding at January 31, 2020 and 2019 were 2.86% and 3.39%, respectively.

Long-term debt at January 31, 2020 and 2019 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Unsecured loans from banks and insurance companies at interest rates ranging from 0.12% to 7.45%, due from 2020 to 2033	¥ 163,025	¥ 117,096	\$ 1,494,819
Nonrecourse bank loans at interest rates ranging from 1.77% to 6.00%, due from 2020 to 2023	34,596	41,215	317,220
Unsecured bonds denominated in yen at an interest rate of 0.18%, due 2019	–	20,000	–
Unsecured bonds denominated in yen at an interest rate of 0.22%, due 2020	15,000	15,000	137,539
Unsecured bonds denominated in yen at an interest rate of 0.04%, due 2021	30,000	30,000	275,078
Unsecured bonds denominated in yen at an interest rate of 0.11%, due 2023	30,000	30,000	275,078
Unsecured bonds denominated in yen at an interest rate of 0.20%, due 2026	20,000	20,000	183,385
Deferrable and early redeemable subordinated unsecured bonds denominated in yen at an interest rate of 0.81%, due 2077	120,000	120,000	1,100,312
Lease obligations	7,784	6,727	71,373
	<u>420,405</u>	<u>400,038</u>	<u>3,854,804</u>
	<u>(34,527)</u>	<u>(84,781)</u>	<u>(316,587)</u>
	<u>¥ 385,878</u>	<u>¥ 315,257</u>	<u>\$ 3,538,217</u>
Less current portion			

The aggregate annual maturities of long-term debt subsequent to January 31, 2020 are summarized as follows:

Year ending January 31,	Millions of yen	Thousands of U.S. dollars
2021	¥ 34,527	\$ 316,587
2022	98,402	902,274
2023	44,366	406,804
2024	85,821	786,915
2025 and thereafter	157,289	1,442,224
	<u>¥420,405</u>	<u>\$ 3,854,804</u>

In order to achieve more efficient and flexible financing, the Company has concluded line-of-credit agreements with certain financial institutions. The status of these lines of credit at January 31, 2020 and 2019 is as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Lines of credit	¥ 440,837	¥ 467,940	\$ 4,042,151
Credit utilized	165,740	208,748	1,519,714
Available credit	<u>¥ 275,097</u>	<u>¥ 259,192</u>	<u>\$ 2,522,437</u>

### 11. Mortgaged and Pledged Assets

At January 31, 2020 and 2019, the following assets were either mortgaged or pledged for guarantees of a third party bank loan, guarantee deposits received and long-term bank loan, including current portion and totaled ¥47,942 million (\$439,543 thousand) and ¥42,439 million, respectively.

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Inventories	¥ 80,280	¥ 107,143	\$ 736,108
Land	6,077	2,650	55,722
Buildings and structures	2,080	478	19,072
Investments in securities	1,563	321	14,331
Long-term loans	3	–	28
Short-term loans	0	–	0
	<u>¥ 90,003</u>	<u>¥ 110,592</u>	<u>\$ 825,261</u>

Short-term loans, Long-term loans, and Investments in securities are mortgaged for guarantees of liabilities of investees.

As of January 31, 2020 and 2019, ¥80,234 million (\$735,687 thousand) and ¥107,097 million of inventories were pledged as collateral for nonrecourse liabilities of short-term and long-term debt, including current portion and totaled ¥34,596 million (\$317,220 thousand) and ¥41,215 million, respectively. These nonrecourse liabilities and corresponding assets are included in the above table.

In addition, for the purpose of covering warranty obligations for latent defects on certain housing, ¥294 million (\$2,696 thousand) and nil of short-term investments, and ¥8,402 million (\$77,040 thousand) and ¥7,743 million of other assets were deposited in accordance with relevant laws at January 31, 2020 and 2019, respectively.

### 12. Income Taxes

The Company and its domestic subsidiaries are subject to several taxes based on income which, in the aggregate, resulted in statutory tax rates of approximately 30.5% and 30.7% for the years ended January 31, 2020 and 2019 respectively. Overseas subsidiaries are subject to the income taxes of the countries in which they operate.

The reconciliation of the differences between the statutory tax rates and the effective tax rates for the year ended January 31, 2020 and 2019 were omitted because such differences are less than 5% of the statutory tax rate.

The significant components of the Group's deferred tax assets (liabilities) at January 31, 2020 and 2019 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Deferred tax assets:			
Liability for retirement benefits	¥ 13,740	¥ 15,437	\$ 125,986
Loss on revaluation of real estate held for sale	13,223	16,276	121,245
Accumulated losses on impairment of fixed assets	9,534	8,825	87,420
Accrued employees' bonuses	8,706	7,944	79,827
Tax loss carryforwards	7,378	3,970	67,651
Unrealized gain on fixed assets	5,007	4,577	45,910
Loss on revaluation of securities	1,435	1,551	13,158
Others	20,328	14,156	186,393
Gross deferred tax assets	<u>79,351</u>	<u>72,736</u>	<u>727,590</u>
Valuation allowance for tax loss carryforwards (b)	(7,038)	–	(64,533)
Valuation allowance for total deductible temporary differences	(14,805)	–	(135,751)
Total valuation allowance (a)	<u>(21,843)</u>	<u>(16,451)</u>	<u>(200,284)</u>
Total deferred tax assets	<u>57,508</u>	<u>56,285</u>	<u>527,306</u>
Deferred tax liabilities:			
Net unrealized holding gain on securities	(17,593)	(12,840)	(161,315)
Others	(11,086)	(6,807)	(101,650)
Total deferred tax liabilities	<u>(28,679)</u>	<u>(19,647)</u>	<u>(262,965)</u>
Net deferred tax assets	<u>¥ 28,829</u>	<u>¥ 36,638</u>	<u>\$ 264,341</u>

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

(b) A breakdown of tax loss carryforwards and deferred tax assets by expiry dates is as follows:

	Millions of yen						Total
	Within 1 year	After 1 year through 2 years	After 2 years through 3 years	After 3 years through 4 years	After 4 years through 5 years	After 5 years	
Tax loss carryforwards (*)	¥ 578	¥ 1,188	¥ 1,178	¥ 1,131	¥ 1,253	¥ 2,050	¥ 7,378
Valuation allowance	(543)	(1,188)	(1,178)	(1,131)	(1,253)	(1,745)	(7,038)
Deferred tax assets	35	-	-	-	-	305	340

	Thousands of U.S. dollars						Total
	Within 1 year	After 1 year through 2 years	After 2 years through 3 years	After 3 years through 4 years	After 4 years through 5 years	After 5 years	
Tax loss carryforwards (*)	\$ 5,300	\$ 10,893	\$ 10,801	\$ 10,371	\$ 11,489	\$ 18,797	\$ 67,651
Valuation allowance	(4,979)	(10,893)	(10,801)	(10,371)	(11,489)	(16,000)	(64,533)
Deferred tax assets	321	-	-	-	-	2,797	3,118

(\*) The amount of tax loss carryforwards is calculated by multiplying the statutory income tax rate.

### 13. Retirement Benefit Plans

The Company and its subsidiaries have defined benefit plans, which consist of corporate pension funds and lump-sum payment retirement plan and defined contribution pension plans.

Certain domestic subsidiaries have calculated their retirement benefit obligation and retirement benefit expenses based on the amount which would be payable at the year end if all eligible employees terminated their services voluntarily (the "Simplified Method").

In certain cases, special retirement benefits may be paid to employees.

#### Defined benefit plans

The changes in the retirement benefit obligations, including those for which the Simplified Method is applied, during the years ended January 31, 2020 and 2019 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Retirement benefit obligations at the beginning of the year	¥ 304,623	¥ 269,101	\$ 2,793,169
Service cost	12,222	10,407	112,067
Interest cost	2,453	3,757	22,492
Actuarial loss	4,513	29,093	41,381
Retirement benefit paid	(8,661)	(7,735)	(79,415)
Amount of increase resulting from change in scope of consolidation	11,222	-	102,897
Retirement benefit obligations at the end of the year	¥ 326,372	¥ 304,623	\$ 2,992,591

The changes in plan assets, including those for which the Simplified Method is applied, during the years ended January 31, 2020 and 2019 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Plan assets at the beginning of the year	¥ 255,017	¥ 262,321	\$ 2,338,319
Expected return on plan assets	6,350	6,529	58,225
Actuarial gain (loss)	8,993	(14,780)	82,459
Contributions paid by the Company	8,181	7,855	75,014
Retirement benefits paid	(7,342)	(6,908)	(67,321)
Amount of increase resulting from change in scope of consolidation	7,262	-	66,587
Plan assets at the end of the year	¥ 278,461	¥ 255,017	\$ 2,553,283

The following table sets forth the funded status of the plan assets and the amounts recognized in the consolidated balance sheets as of January 31, 2020 and 2019 for the Company's and domestic subsidiaries' defined benefit plans, including those for which the Simplified Method is applied:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Funded retirement benefit obligation	¥ 297,970	¥ 280,572	\$ 2,732,166
Plan assets at fair value	(278,461)	(255,017)	(2,553,283)
	19,509	25,555	178,883
Unfunded retirement benefit obligation	28,402	24,051	260,426
Net liability for retirement benefits in the balance sheets	¥ 47,911	¥ 49,606	\$ 439,309
Liability for retirement benefits	¥ 49,414	¥ 49,989	\$ 453,090
Asset for retirement benefits	(1,503)	(383)	(13,781)
Net liability for retirement benefits in the balance sheet	¥ 47,911	¥ 49,606	\$ 439,309

The components of retirement benefit expenses for the years ended January 31, 2020 and 2019 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Service cost	¥ 12,222	¥ 10,407	\$ 112,067
Interest cost	2,453	3,757	22,492
Expected return on plan assets	(6,350)	(6,528)	(58,225)
Amortization of actuarial loss (gain)	4,924	(6,061)	45,150
Amortization of prior service cost	(4,760)	(5,686)	(43,646)
Other	666	524	6,107
Retirement benefit expenses	¥ 9,155	¥ (3,587)	\$ 83,945

(Note)

Retirement benefit expenses of certain subsidiaries adopting the Simplified Method are included in "service cost."

"Other" mainly consists of special retirement benefits paid to employees.

The components of retirement benefits liability adjustments included in other comprehensive income (before tax effect) for the years ended January 31, 2020 and 2019 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Prior service cost	¥ (4,760)	¥ (5,686)	\$ (43,646)
Actuarial loss (gain)	9,397	(49,934)	86,164
Total	¥ 4,637	¥ (55,620)	\$ 42,518

The components of retirement benefits liability adjustments included in accumulated other comprehensive income (before tax effect) as of January 31, 2020 and 2019 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Unrecognized prior service cost	¥ 57	¥ 4,724	\$ 522
Unrecognized actuarial loss	(27,845)	(37,228)	(255,318)
Total	¥ (27,788)	¥ (32,504)	\$ (254,796)

The fair values of plan assets, by major category, as a percentage of total plan assets as of January 31, 2020 and 2019 are as follows:

	2020	2019
Debt securities	41%	31%
Equity securities	22	24
General accounts at insurance companies	14	14
Credit	10	4
Private equity	3	1
Cash and deposits	3	2
Other	7	24
Total	100%	100%

The expected rate of return on plan assets has been estimated considering the anticipated allocation to each asset class and the expected long-term rates of returns on various components of pension assets in each category.

The assumptions used in accounting for the above retirement benefit plans for the years ended January 31, 2020 and 2019 are as follows:

	2020	2019
Discount rate	Mainly 0.8%	0.8%
Expected long-term rate of return on plan assets	Mainly 2.5%	2.5%
Expected rate of salary increase	Mainly 4.5%	4.5%

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

#### Defined contribution pension plans

Total contributions paid by the subsidiaries to the defined contribution plan for the years ended January 31, 2020 and 2019 were ¥147 million (\$1,348 thousand) and ¥110 million, respectively.

### 14. Asset Retirement Obligations

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

The asset retirement obligations included in other liabilities are determined and discounted to their present value using a risk-free rate at the beginning of the year and the anticipated

future useful lives for each housing exhibition, office or real estate.

The changes in asset retirement obligations for the years ended January 31, 2020 and 2019 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Balance at the beginning of the year	¥ 2,747	¥ 2,723	\$ 25,188
Liabilities incurred for assets acquired	1,159	154	10,627
Accretion expense	19	18	174
Liabilities settled	(226)	(148)	(2,072)
Balance at the end of the year	¥ 3,699	¥ 2,747	\$ 33,917

### 15. Contingent Liabilities

The Group had the following contingent liabilities at January 31, 2020:

	Millions of yen	Thousands of U.S. dollars
Guarantees of housing loans to 3,639 customers	¥ 115,070	\$ 1,055,107
Guarantees of bank loan of affiliated companies	31,162	285,733
Guarantees of bank loan of a third party	108	990
Guarantees of repayment of sales contract deposit of a third party	442	4,053
Guarantees of bank loans of a third party with mortgaged assets	40	367

### 16. Shareholders' Equity

The Companies Act of Japan (the "Act") requires the Company to transfer an amount equal to 10% of the amount to be disbursed as distributions of capital surplus (other than the capital reserve) and retained earnings (other than the legal reserve) to the capital reserve and the legal reserve, respectively, until the sum of the capital reserve and the legal reserve equals 25% of the capital stock account. Such distributions can be made at any time by resolution of the shareholders, or by the Board of Directors if certain conditions are met.

The Company's legal reserve included in retained earnings at January 31, 2020 and 2019 amounted to ¥23,129 million (\$212,076 thousand).

Under the Act, upon the issuance and sales of new shares of common stock, the entire amount of the proceeds is required to be accounted for as common stock, although a company may, by resolution of the Board of Directors, account for an amount not exceeding one-half of the proceeds of the sale of new shares as capital surplus.

#### Stock option plan

Stock option expenses per accounts for the years ended January 31, 2020 and 2019 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Cost of sales	¥ 1	¥ 2	\$ 9
Selling, general and administrative expenses	18	86	165

Description of each stock option plan as of January 31, 2020 is as follows:

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

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

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

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

	Plan approved on May 17, 2018 (the 2018 plan)
Individuals covered by the plan	Total 32 Directors and Executive Officers
Type and number of shares to be issued upon the exercise of the share subscription rights	69,000 shares of common stock
Grant date	June 14, 2018
Vesting period	No applicable period of service is specified
Exercise period	From June 15, 2018 to June 14, 2038

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

	Number of shares													
	2019													
	The 2006 plan	The 2007 plan	The 2008 plan	The 2009 plan	The 2010 plan	The 2011 plan	The 2012 plan	The 2013 plan	The 2014 plan	The 2015 plan	The 2016 plan	The 2017 plan	The 2018 plan	
Number of stock options:														
Non-vested														
Outstanding at February 1, 2019	6,000	7,000	23,000	26,000	37,000	48,000	73,000	35,000	69,000	41,000	50,000	47,000	69,000	
Granted	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Forfeited	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Vested	—	—	2,000	—	2,000	3,000	3,000	2,000	3,000	1,000	3,000	2,000	4,000	
Outstanding at January 31, 2020	6,000	7,000	21,000	26,000	35,000	45,000	70,000	33,000	66,000	40,000	47,000	45,000	65,000	
Vested														
Outstanding at February 1, 2019	11,000	12,000	29,000	26,000	42,000	52,000	62,000	28,000	31,000	22,000	16,000	17,000	—	
Vested	—	—	2,000	—	2,000	3,000	3,000	2,000	3,000	1,000	3,000	2,000	4,000	
Exercised	11,000	12,000	30,000	25,000	30,000	36,000	38,000	19,000	18,000	10,000	11,000	11,000	4,000	
Forfeited	—	—	—	—	—	—	—	—	—	—	—	—	—	
Outstanding at January 31, 2020	—	—	1,000	1,000	14,000	19,000	27,000	11,000	16,000	13,000	8,000	8,000	—	
Exercise price	¥ 1	¥ 1	¥ 1	¥ 1	¥ 1	¥ 1	¥ 1	¥ 1	¥ 1	¥ 1	¥ 1	¥ 1	¥ 1	
Average stock price at exercise	¥1,753	¥1,757	¥1,817	¥1,808	¥1,961	¥1,993	¥1,934	¥1,882	¥1,856	¥1,755	¥1,761	¥1,763	¥1,790	
Fair value price at grant date	¥ — (*)	¥1,571	¥876	¥681	¥717	¥592	¥495	¥1,071	¥974	¥1,507	¥1,356	¥1,415	¥1,283	
Exercise price	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	
Average stock price at exercise	\$16	\$16	\$17	\$17	\$18	\$18	\$18	\$17	\$17	\$16	\$16	\$16	\$16	
Fair value price at grant date	\$ —	\$14	\$8	\$6	\$7	\$5	\$5	\$10	\$9	\$14	\$12	\$13	\$12	

(\*) The fair value of stock options is omitted since they had been issued before the date of enactment of the Act.

#### Treasury stock

Movements in treasury stock during the years ended January 31, 2020 and 2019 are summarized as follows:

	Number of shares			
	2020			
	January 31, 2019	Increase	Decrease	January 31, 2020
Treasury stock	2,531,961	5,010,699	320,590	7,222,070

The increase in treasury stock consists of 5,000,000 shares resulting from the repurchasing based on the article of incorporation of the Company under Article 165 (2) of the Act, 2,400 shares resulting from gratis acquisition of the restricted shares due to retirement of directors and executive officers, 8,222 shares resulting from the purchase of shares

less than one unit by the Company, and 77 shares of treasury stock attributable to the Company resulting from the purchase by an affiliate for the year ended January 31, 2020. The decrease in treasury stock consists of 90 shares resulting from sale of shares less than one unit by the Company, 65,500 shares resulting from the procedure of payments in kind regarding the disposal of treasury shares as restricted stock remuneration and 255,000 shares resulting from the exercise of stock option plans for the year ended January 31, 2020.

	Number of shares			
	2019			
	January 31, 2018	Increase	Decrease	January 31, 2019
Treasury stock	586,249	2,007,885	62,173	2,531,961

The increase in treasury stock consists of 2,000,000 shares resulting from the repurchasing based on the article of incorporation of the Company under Article 165 (2) of the Act, 6,873 shares resulting from the purchase of shares less than one unit by the Company, and 1,012 shares of treasury stock attributable to the Company resulting from the purchase by an affiliate for the year ended January 31, 2019. The decrease in treasury stock consists of 173 shares resulting from sale of shares less than one unit by the Company, and 62,000 shares resulting from the exercise of stock option plans for the year ended January 31, 2019.

#### 17. Research and Development Cost

Research and development cost included in selling, general and administrative expenses amounted to ¥7,313 million (\$67,055 thousand) and ¥6,041 million for the years ended January 31, 2020 and 2019, respectively.

#### 18. Leases

##### (Lessee)

The Company has leased assets under finance lease transactions which do not transfer ownership to the lessee, mainly consisting of business-use servers, vehicles and software.

Regarding the depreciation method of leased assets under finance lease transactions which do not transfer ownership to the lessee, please refer to Note 2 (i).

Future minimum lease payments subsequent to January 31, 2020 under non-cancellable operating leases are summarized as follows:

Year ending January 31,	Millions of yen	Thousands of U.S. dollars
2021	¥ 5,733	\$ 52,568
2022 and thereafter	57,249	524,931
	¥ 62,982	\$ 577,499

##### (Lessor)

Lease receivables from finance lease transactions in which the

ownership of the leased assets is not transferred to the lessee as of January 31, 2020 and 2019 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Current assets:			
Gross lease receivables	¥ 11,491	¥ 8,695	\$ 105,364
Less unearned interest income	(3,975)	(2,369)	(36,448)
Net lease receivables	¥ 7,516	¥ 6,326	\$ 68,916

Contractual maturities of lease receivables from finance lease transactions subsequent to January 31, 2020 in which the ownership of the leased assets is transferred to the lessee are as follows:

Year ending January 31,	Millions of yen	Thousands of U.S. dollars
2021	¥ 225	\$ 2,063
2022	225	2,063
2023	212	1,944
2024	212	1,944
2025	212	1,944
2026 and thereafter	4,164	38,181
	¥ 5,250	\$ 48,139

Contractual maturities of the above gross lease receivables subsequent to January 31, 2020 in which the ownership of the leased assets is not transferred to the lessee are as follows:

Year ending January 31,	Millions of yen	Thousands of U.S. dollars
2021	¥ 440	\$ 4,034
2022	440	4,034
2023	441	4,044
2024	441	4,044
2025	441	4,044
2026 and thereafter	9,288	85,164
	¥11,491	\$105,364

Future minimum lease receipts subsequent to January 31, 2020 under non-cancellable operating leases are summarized as follows:

Year ending January 31,	Millions of yen	Thousands of U.S. dollars
2021	¥ 5,242	\$ 48,065
2022 and thereafter	25,927	237,732
	¥ 31,169	\$ 285,797

Lease receivables and lease obligations in which the ownership of the leased assets is not transferred to the lessee as of January 31, 2020 and 2019 under sub-lease transactions are as follows

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Lease receivables:			
Current	¥ 4,011	¥ 4,166	\$ 36,778
Lease obligations:			
Current	187	187	1,715
Non-current	3,993	4,180	36,613

## 19. Amounts per Share

Per share amounts as of and for the years ended January 31, 2020 and 2019 are as follows:

	Yen		U.S. dollars
	2020	2019	2020
Profit attributable to owners of parent:			
Basic	¥ 205.79	¥ 186.53	\$ 1.89
Diluted	205.57	186.29	1.88
Net assets	1,852.62	1,718.82	16.99
Cash dividends	81.00	79.00	0.74

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

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

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

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

Financial data for the computation of basic and diluted profit per share for the years ended January 31, 2020 and 2019 in the table above is summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Information on basic profit per share:			
Profit	¥ 141,257	¥ 128,583	\$ 1,295,223
Profit not attributable to common stockholders	—	—	—
Adjusted profit attributable to common stockholders	¥ 141,257	¥ 128,583	\$ 1,295,223

	Thousands of shares	
	2020	2019
Weighted-average number of shares of common stock outstanding during the year	686,401	689,337

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020

Information on diluted profit per share for the years ended January 31, 2020 and 2019 in the table above is summarized as follows:

Adjustments to profit attributable to common stockholders	¥ —	¥ —	\$ —
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	Thousands of shares	
	2020	2019

Increase in common stock:		
Stock subscription rights	741	895

Financial data for the computation of net assets per share at January 31, 2020 and 2019 in the table above is summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Total net assets	¥ 1,306,850	¥ 1,196,924	\$ 11,982,853
Deductions from total net assets:			
Stock subscription rights	(610)	(803)	(5,593)
Non-controlling interests	(40,045)	(13,312)	(367,183)
Total net assets attributable to common stockholders	¥ 1,266,195	¥ 1,182,809	\$ 11,610,077

	Thousands of shares	
	2020	2019
Number of shares of common stock used in the calculation of net assets per share	683,461	688,152

## 20. Financial Instruments and Related Disclosures

The Group manages cash surpluses mainly through low-risk financial assets. The Group raises funds mainly through bank loans and direct finance such as issuance of bonds. The Group enters into derivative transactions for the purpose of reducing risks and does not enter into derivative transactions for speculative or trading purposes.

Notes and accounts receivable, trade are exposed to credit risk in relation to customers. Short-term investments and investments in securities, which primarily consist of equity securities, held-to-maturity debt securities, certificates of deposits and investments in partnerships, are exposed to credit risk in relation to issuers and fluctuation risk of market price. Substantially all notes and accounts payable, trade have payment due dates within one year. Bank loans and bonds are utilized principally for working capital and capital investments. Bank loans are utilized with variable interest rates and are exposed to interest rate fluctuation risk.

Regarding derivative transactions, the Group enters into forward foreign exchange contracts and currency swap contracts to reduce the foreign currency exchange risk arising from trade receivables, payables, investments and loan receivables denominated in foreign currencies. The Group also enters into interest rate swap contracts to reduce the interest rate fluctuation risk. Further information regarding the method of hedge accounting, hedging instruments and hedged items, hedging policy, and the assessment of the effectiveness of hedging activities can be found in Note 2 (u). For managing credit risk arising from receivables, each related accounting and management division of the Group monitors the collection, due dates and outstanding balances by customer. In addition, the Group makes efforts to identify at earliest and mitigate risks of bad debts from customers experiencing financial difficulties.

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

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

Based on reports from each division of the Group, the

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

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

The carrying values of financial instruments on the accompanying consolidated balance sheets as of January 31, 2020 and 2019 and their estimated fair values are shown in the following table. The following table does not include financial instruments for which it is extremely difficult to determine the fair value.

	Millions of yen			Thousands of U.S. dollars		
	Carrying value	Estimated fair value	Difference	Carrying value	Estimated fair value	Difference
Cash and cash equivalents	¥ 583,298	¥ 583,298	¥ —	\$ 5,348,414	\$ 5,348,414	\$ —
Notes and accounts receivable - trade	133,978	—	—	1,228,480	—	—
Less allowance for doubtful accounts	(462)	—	—	(4,236)	—	—
Sub total	133,516	133,516	—	1,224,244	1,224,244	—
Short-term investments and investments in securities and affiliates:						
Investments in affiliates	2,869	1,800	(1,069)	26,306	16,504	(9,802)
Other securities	106,486	106,486	—	976,398	976,398	—
Total	826,169	825,100	(1,069)	7,575,362	7,565,560	(9,802)
Notes and accounts payable	219,550	219,550	—	2,013,112	2,013,112	—
Short-term loans	166,486	166,486	—	1,526,554	1,526,554	—
Bonds	215,000	216,328	1,328	1,971,392	1,983,569	12,177
Long-term loans including current portion	197,621	198,539	918	1,812,039	1,820,457	8,418
Total	¥ 798,657	¥ 800,903	¥ 2,246	\$ 7,323,097	\$ 7,343,692	\$ 20,595
Derivative transactions (*)	¥ 9	¥ 9	¥ —	\$ 83	\$ 83	\$ —

	Millions of yen		
	Carrying value	Estimated fair value	Difference
Cash and cash equivalents	¥ 342,899	¥ 342,899	¥ —
Notes and accounts receivable - trade	42,504	—	—
Less allowance for doubtful accounts	(403)	—	—
Sub total	42,101	42,101	—
Short-term investments and investments in securities and affiliates:			
Investments in affiliates	3,213	1,687	(1,526)
Other securities	81,283	81,283	—
Total	469,496	467,970	(1,526)
Notes and accounts payable	147,429	147,429	—
Short-term loans	239,472	239,472	—
Bonds	235,000	236,429	1,429
Long-term loans including current portion	158,311	157,844	(467)
Total	¥ 780,212	¥ 781,174	¥ 962
Derivative transactions (*)	¥ —	¥ —	¥ —

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

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

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

For further information of fair values of short-term investments and investments in securities by holding purposes, please refer to Note 5 “Short-Term Investments and Investments in Securities.”

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

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

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

Regarding derivative transactions, refer to Note 21 “Derivative Transactions and Hedging Activities.”

Financial instruments for which it is extremely difficult to determine the fair value as of January 31, 2020 and 2019 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Unlisted stocks	¥ 38,396	¥ 62,191	\$ 352,063
Investments in special purpose entities	8,652	7,710	79,332
Preferred stocks	999	999	9,160
Investments in silent partnership	785	1,472	7,198
Investments in investment limited liability partnerships	745	429	6,831
Unlisted bonds	120	120	1,100

Because no quoted market price is available and it is assumed that significant costs are involved in estimating the future cash flows, it is extremely difficult to determine the fair value. The redemption schedules for cash and cash equivalents, notes and accounts receivable and short-term investments and investments in securities with maturities at January 31, 2020 are as follows:

	2020				
	Millions of yen				
	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years	
Cash and cash equivalents	¥ 583,298	¥ —	¥ —	¥ —	¥ —
Notes and accounts receivable	127,984	3,765	351	1,878	
Held-to-maturity debt securities (Corporate bonds)	—	—	—	—	120
Other securities with maturities (Time deposit with a maturity in excess of three months)	1,338	—	—	—	—
Total	¥ 712,620	¥ 3,765	¥ 351	¥ 1,998	

	2020				
	Thousands of U.S. dollars				
	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years	
Cash and cash equivalents	\$ 5,348,414	\$ —	\$ —	\$ —	\$ —
Notes and accounts receivable	1,173,519	34,522	3,219	17,220	
Held-to-maturity debt securities (National government bonds)	—	—	—	—	1,100
Other securities with maturities (Time deposit with a maturity in excess of three months)	12,268	—	—	—	—
Total	\$ 6,534,201	\$ 34,522	\$ 3,219	\$ 18,320	

The redemption schedules for long-term debt are disclosed in Note 10 "Short-Term Loans, Short-Term Bonds and Long-Term Debt."

## 21. Derivative Transactions and Hedging Activities

The contract value (notional principal amount) and the estimated fair value of the derivative instruments outstanding which did not qualify for deferral hedge accounting at January 31, 2020 are as follows:

### Currency-related transactions

Classification	Description of transaction	2020			
		Millions of yen			
		Contract value (notional principal amount)	Contract value (notional principal amount) (over 1 year)	Estimated fair value	Unrealized gain (loss)
Over-the-counter transactions	Forward foreign currency exchange contracts				
	Buy (U.S. dollar)	¥ 958	¥ —	¥ 13	¥ 13
	Buy (Euro)	229	27	(4)	(4)
	Total	¥ 1,187	¥ 27	¥ 9	¥ 9

Classification	Description of transaction	2020			
		Thousands of U.S. dollars			
		Contract value (notional principal amount)	Contract value (notional principal amount) (over 1 year)	Estimated fair value	Unrealized gain (loss)
Over-the-counter transactions	Forward foreign currency exchange contracts				
	Buy (U.S. dollar)	\$ 8,784	\$ —	\$ 119	\$ 119
	Buy (Euro)	2,100	248	(36)	(36)
	Total	\$ 10,884	\$ 248	\$ 83	\$ 83

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

There were no derivative instruments outstanding which did not qualify for deferral hedge accounting at January 31, 2019.

## 22. Segment Information

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

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

Details of the reportable segments are as follows:

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

Condominiums:	Sale of condominiums
Urban redevelopment:	Development of office buildings and commercial facilities, and management and operation of owned properties
Overseas:	Contracting of built-to-order detached houses, sale of houses and real estate, and development and sale of facilities, including condominiums and commercial facilities, in overseas markets

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

Information on net sales, income or loss, assets and other items by each reportable segment for the years ended January 31, 2020 and 2019 is outlined as follows:

	Millions of yen					
	2020					
	Reportable segments					
	Custom detached houses	Rental housing	Remodeling	Real estate management fees	Houses for sale	Condominiums
Sales to third parties	¥ 390,996	¥ 410,622	¥ 152,729	¥ 534,876	¥ 151,269	¥ 103,985
Intersegment sales and transfers	—	3,885	307	3,059	—	—
Net sales	390,996	414,507	153,036	537,935	151,269	103,985
Segment income	¥ 45,943	¥ 48,939	¥ 23,535	¥ 41,054	¥ 12,259	¥ 10,135
Segment assets	¥ 58,049	¥ 41,174	¥ 17,948	¥ 125,342	¥ 133,647	¥ 143,006
Other items:						
Depreciation and amortization	3,727	2,131	142	705	980	11
Increase in property, plant and equipment and intangible assets	3,210	615	41	1,398	725	23

	Millions of yen					
	2020					
	Reportable segments					
	Urban redevelopment	Overseas	Sub Total	Other	Total	Adjustments Consolidated
Sales to third parties	¥ 131,920	¥ 389,867	¥ 2,266,264	¥ 148,923	¥ 2,415,187	¥ —
Intersegment sales and transfers	141	—	7,392	6,535	13,927	(13,927)
Net sales	132,061	389,867	2,273,656	155,458	2,429,114	(13,927)
Segment income	¥ 17,045	¥ 44,551	¥ 243,461	¥ 4,230	¥ 247,691	¥ (42,434)
Segment assets	¥ 518,532	¥ 990,248	¥ 2,027,946	¥ 232,492	¥ 2,260,438	¥ 374,310
Other items:						
Depreciation and amortization	7,645	2,243	17,584	1,077	18,661	2,858
Increase in property, plant and equipment and intangible assets	60,155	1,975	68,142	351	68,493	4,762

	Millions of yen					
	2019					
	Reportable segments					
	Custom detached houses	Rental housing	Remodeling	Real estate management fees	Houses for sale	Condominiums
Sales to third parties	¥ 357,945	¥ 416,062	¥ 141,417	¥ 514,036	¥ 148,880	¥ 89,581
Intersegment sales and transfers	—	3,217	178	3,208	—	—
Net sales	357,945	419,279	141,595	517,244	148,880	89,581
Segment income(loss)	¥ 42,255	¥ 50,377	¥ 21,109	¥ 39,408	¥ 11,088	¥ 6,478
Segment assets	¥ 57,414	¥ 47,310	¥ 16,847	¥ 138,016	¥ 141,446	¥ 173,103
Other items:						
Depreciation and amortization	3,900	2,463	117	757	1,109	14
Increase in property, plant and equipment and intangible assets	3,734	1,194	22	1,395	789	25

	Millions of yen					
	2019					
	Reportable segments					
	Urban redevelopment	Overseas	Sub Total	Other	Total	Adjustments Consolidated
Sales to third parties	¥ 173,392	¥ 245,953	¥ 2,087,266	¥ 73,051	¥ 2,160,317	¥ —
Intersegment sales and transfers	106	—	6,709	5,799	12,508	(12,508)
Net sales	173,498	245,953	2,093,975	78,850	2,172,825	(12,508)
Segment income(loss)	¥ 40,404	¥ 16,340	¥ 227,459	¥ (44)	¥ 227,415	¥ (38,192)
Segment assets	¥ 539,328	¥ 943,696	¥ 2,057,160	¥ 15,172	¥ 2,072,332	¥ 340,704
Other items:						
Depreciation and amortization	8,420	1,848	18,628	769	19,397	2,758
Increase in property, plant and equipment and intangible assets	45,603	922	53,684	175	53,859	4,821

	Thousands of U.S. dollars					
	2020					
	Reportable segments					
	Custom detached houses	Rental housing	Remodeling	Real estate management fees	Houses for sale	Condominiums
Sales to third parties	\$ 3,585,146	\$ 3,765,102	\$ 1,400,412	\$ 4,904,419	\$ 1,387,026	\$ 953,466
Intersegment sales and transfers	—	35,622	2,815	28,049	—	—
Net sales	3,585,146	3,800,724	1,403,227	4,932,468	1,387,026	953,466
Segment income	\$ 421,263	\$ 448,735	\$ 215,799	\$ 376,435	\$ 112,406	\$ 92,930
Segment assets	\$ 532,267	\$ 377,535	\$ 164,570	\$ 1,149,294	\$ 1,255,445	\$ 1,311,260
Other items:						
Depreciation and amortization	34,174	19,540	1,302	6,464	8,986	101
Increase in property, plant and equipment and intangible assets	29,433	5,639	376	12,819	6,648	211

	Thousands of U.S. dollars					
	2020					
	Reportable segments					
	Urban redevelopment	Overseas	Sub Total	Other	Total	Adjustments Consolidated
Sales to third parties	\$ 1,209,609	\$ 3,574,794	\$ 20,779,974	\$ 1,365,515	\$ 22,145,489	\$ —
Intersegment sales and transfers	1,293	—	67,779	59,921	127,700	(127,700)
Net sales	1,210,902	3,574,794	20,847,753	1,425,436	22,273,189	(127,700)
Segment income	\$ 156,290	\$ 408,500	\$ 2,232,358	\$ 38,786	\$ 2,271,144	\$ (389,088)
Segment assets	\$ 4,754,557	\$ 9,079,846	\$ 18,594,774	\$ 2,131,780	\$ 20,726,554	\$ 3,432,148
Other items:						
Depreciation and amortization	70,099	20,566	161,232	9,876	171,108	26,205
Increase in property, plant and equipment and intangible assets	551,577	18,109	624,812	3,218	628,030	43,664

"Other" in the above tables represents a segment other than the reportable segments, which includes business of Otori Holdings, Co., Ltd. and exterior business.

Adjustments in the above tables:

The adjustments of segment income in the amounts of ¥42,434 million (\$389,088 thousand) and ¥38,192 million for the years ended January 31, 2020 and 2019 include eliminations of intersegment transactions of ¥2,962 million (\$27,159 thousand) and ¥3,114 million and corporate expenses of ¥39,472 million (\$361,929 thousand) and ¥35,078 million, respectively. The corporate expenses were mainly related to administration expenses and research and development costs.

The adjustments of segment assets in the amounts of ¥374,310 million (\$3,432,148 thousand) and ¥340,704 million at January 31, 2020 and 2019, respectively, include corporate assets consisting of surplus funds held by the Company (cash and short-term investments), long-term

investments (investments in securities) and assets of administration departments.

The adjustments of depreciation and amortization in the amounts of ¥2,858 million (\$26,205 thousand) and ¥2,758 million for the years ended January 31, 2020 and 2019, respectively, consist of depreciation and amortization arising from corporate assets.

The adjustments of increase in property, plant and equipment and intangible assets in the amounts of ¥4,762 million (\$43,664 thousand) and ¥4,821 million for the years ended January 31, 2020 and 2019, respectively, consist of the purchases of equipment by the Company.

The total amount of segment income in the above tables is adjusted to operating income of the accompanying consolidated statements of income for the years ended January 31, 2020 and 2019.

#### Related Information

Information on each product and service for the years ended January 31, 2020 and 2019 was omitted because it was identical to that of the reportable segment information.

Geographical information on net sales for the years ended January 31, 2020 and 2019 was as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Japan	¥ 2,022,711	¥ 1,914,363	\$ 18,546,772
USA	309,136	166,671	2,834,550
Others	83,340	79,283	764,167
Total	¥ 2,415,187	¥ 2,160,317	\$ 22,145,489

Geographical information on property, plant and equipment for the years ended January 31, 2020 and 2019 was omitted because there were no items that meet the disclosure criteria. Sales information by major customer for the years ended January 31, 2020 and 2019 was omitted because there were no items that meet the disclosure criteria.

Information on loss on impairment of fixed assets by reportable segment for the years ended January 31, 2020 and 2019 was as follows:

	Millions of yen					
	Year ended January 31, 2020					
	Custom detached houses	Rental housing	Remodeling	Real estate management fees	Houses for sale	Condominiums
Loss on impairment of fixed assets	¥ 605	¥ -	¥ -	¥ -	¥ 158	¥ -

	Millions of yen					
	Year ended January 31, 2020					
	Urban redevelopment	Overseas	Other	Total	Eliminations and other	Consolidated
Loss on impairment of fixed assets	¥ 1,519	¥ 11,226	¥ 45	¥ 13,553	¥ -	¥ 13,553

	Millions of yen					
	As of and for the year ended January 31, 2019					
	Custom detached houses	Rental housing	Remodeling	Real estate management fees	Houses for sale	Condominiums
Loss on impairment of fixed assets	¥ -	¥ -	¥ -	¥ -	¥ -	¥ -

	Millions of yen					
	Year ended January 31, 2019					
	Urban redevelopment	Overseas	Other	Total	Eliminations and other	Consolidated
Loss on impairment of fixed assets	¥ 8,970	¥ 318	¥ 105	¥ 9,393	¥ -	¥ 9,393

	Thousands of U.S. dollars					
	Year ended January 31, 2020					
	Custom detached houses	Rental housing	Remodeling	Real estate management fees	Houses for sale	Condominiums
Loss on impairment of fixed assets	\$ 5,547	\$ -	\$ -	\$ -	\$ 1,449	\$ -

	Thousands of U.S. dollars					
	Year ended January 31, 2020					
	Urban redevelopment	Overseas	Other	Total	Eliminations and other	Consolidated
Loss on impairment of fixed assets	\$ 13,928	\$ 102,934	\$ 413	\$ 124,271	\$ -	\$ 124,271

Information on amortization of goodwill and the remaining balance by reportable segment as of and for the years ended January 31, 2020 and 2019 was as follows:

	Millions of yen					
	As of and for the year ended January 31, 2020					
	Custom detached houses	Rental housing	Remodeling	Real estate management fees	Houses for sale	Condominiums
Amortization of goodwill	¥ -	¥ -	¥ -	¥ -	¥ -	¥ -
Remaining balance	-	-	-	-	-	-

	Millions of yen					
	As of and for the year ended January 31, 2020					
	Urban redevelopment	Overseas	Other	Total	Eliminations and other	Consolidated
Amortization of goodwill	¥ -	¥ 1,427	¥ -	¥ 1,427	¥ -	¥ 1,427
Remaining balance	-	3,097	-	3,097	-	3,097

	Millions of yen					
	As of and for the year ended January 31, 2019					
	Custom detached houses	Rental housing	Remodeling	Real estate management fees	Houses for sale	Condominiums
Amortization of goodwill	¥ -	¥ -	¥ -	¥ -	¥ -	¥ -
Remaining balance	-	-	-	-	-	-

	Millions of yen					
	As of and for the year ended January 31, 2019					
	Urban redevelopment	Overseas	Other	Total	Eliminations and other	Consolidated
Amortization of goodwill	¥ -	¥ 1,467	¥ -	¥ 1,467	¥ -	¥ 1,467
Remaining balance	-	4,586	-	4,586	-	4,586

	Thousands of U.S. dollars					
	As of and for the year ended January 31, 2020					
	Custom detached houses	Rental housing	Remodeling	Real estate management fees	Houses for sale	Condominiums
Amortization of goodwill	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Remaining balance	-	-	-	-	-	-

	Thousands of U.S. dollars					
	As of and for the year ended January 31, 2020					
	Urban redevelopment	Overseas	Other	Total	Eliminations and other	Consolidated
Amortization of goodwill	\$ -	\$ 13,085	\$ -	\$ 13,085	\$ -	\$ 13,085
Remaining balance	-	28,397	-	28,397	-	28,397

There was no information on gain on bargain purchase for the years ended January 31, 2020 and 2019.

#### 23. Related Party Transactions

Principal transactions and balances between the Company and its related parties as of and for during the year ended January 31, 2020 and 2019 are summarized as follows:

Names of related parties	Description	Transaction amount		Balances	
		2020		2020	
		Millions of yen	Thousands of U.S. dollars	Millions of yen	Thousands of U.S. dollars
Toshinori Abe Chairman & Representative Director	Sales of condominium	¥ 58	\$ 532	¥ -	\$ -
Relative of Toshinori Abe	Sales of condominium	¥ 73	\$ 669	¥ -	\$ -
Relative of Toshinori Abe	Sales of condominium	¥ 72	\$ 660	¥ -	\$ -
Company in which a relative of Kunpei Nishida own a majority of the voting rights	Construction of house	¥ 136	\$ 1,247	¥ -	\$ -
Isami Wada former Advisor and Director	Construction of house	¥ 150		Advances received	¥ -

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

Isami Wada resigned from the position of advisor and director on April 26, 2018. The above transaction relates to his tenure period during the fiscal year.

#### 24. Other Comprehensive Income

The following table presents an analysis of other comprehensive income (loss) for the years ended January 31, 2020 and 2019.

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Net unrealized holding gain (loss) on securities:			
Amount arising during the year	¥ 10,951	¥ (18,295)	\$ 100,412
Reclassification adjustments for loss included in profit	(284)	(3,022)	(2,604)
Before tax effect	10,667	(21,317)	97,800
Tax effect	(3,285)	6,316	(30,121)
Net unrealized holding gain (loss) on securities	7,382	(15,001)	67,687
Translation adjustments:			
Amount arising during the year	(9,598)	(28,169)	(88,006)
Reclassification adjustments for loss included in profit	(967)	(134)	(8,867)
Before tax effect	(10,565)	(28,303)	(96,873)
Tax effect	413	-	3,787
Translation adjustment	(10,152)	(28,303)	(93,086)
Retirement benefits liability adjustments:			
Amount arising during the year	4,530	(43,873)	41,537
Reclassification adjustments for gain (loss) included in profit	163	(11,747)	1,494
Before tax effect	4,693	(55,620)	43,031
Tax effect	(1,414)	16,964	(12,965)
Retirement benefits liability adjustments	3,279	(38,656)	30,066
Share of other comprehensive loss of affiliates accounted for by the equity method:			
Amount arising during the year	(324)	(986)	(2,971)
Reclassification adjustments for (loss) gain included in profit	(126)	20	(1,155)
Share of other comprehensive loss of affiliates accounted for by the equity method	(450)	(966)	(4,126)
Total other comprehensive income (loss)	¥ 59	¥ (82,926)	\$ 541

#### 25. Supplemental Information to Consolidated Statements of Cash Flows

Otori Holdings, Co., Ltd., an affiliate accounted for by the equity method, has been included in consolidation following the Company exercise of an option to convert all its preferred shares and acquire the majority of the voting rights. The major components of assets and liabilities of Otori Holdings, Co., Ltd. at the start of consolidation are as follows:

	Millions of yen	Thousands of U.S. dollars
Current assets (*)	¥ 187,268	\$ 1,717,110
Non-current assets	42,154	386,521
Total assets	¥ 229,422	\$ 2,103,631
Current liabilities	¥ 117,828	\$ 1,080,396
Non-current liabilities	19,876	182,248
Total liabilities	¥ 137,704	\$ 1,262,644

(\*) "Current assets" above includes ¥ 93,982 million (\$ 861,746 thousand) of cash and cash equivalents and it is presented as "Net increase in cash and cash equivalents resulting from change in scope of consolidation" in the consolidated statement of cash flows.

## 26. Business Combination and Business Divestiture

### (Business combination through acquisition)

#### 1. Outline of the business combination

##### (1) Name and business description of the acquired company

Name of the company: Otori Holdings, Co., Ltd.

Business description : Holding company owning all of the issued shares of Konoike Construction Co., Ltd  
Konoike Construction Co., Ltd is involved in planning, surveying, designing, supervising, contracting and consulting relating to building construction

##### (2) Major reason for the business combination

After the commencement of a business alliance with Konoike Construction announced on November 2015, the Company has succeeded in producing synergies in a number of collaborative areas, leveraging the combination of the Company's operating resources related to the residential-related business and that of Konoike Construction related to construction and civil engineering business. Given this situation, the Company has decided to consolidate Otori Holdings (and its subsidiary Konoike Construction), believing that it will be necessary for the Company to strengthen the existing business partnership in order to develop and expand the collaborative relationship between the two companies.

##### (3) Date of the business combination

October 1, 2019 (Deemed acquisition date: September 30, 2019)

##### (4) Legal form of the business combination

Additional acquisition of the Company's voting rights by converting the preferred shares of an equity method affiliate into common shares.

##### (5) Company name after the business combination

There is no change.

##### (6) Percentage of voting rights acquired

Percentage of voting rights held prior to the combination: 40.82%

Additional percentage of voting rights acquired on date of the combination: 11.02%

Percentage of voting rights after the acquisition: 51.84%

##### (7) Major reason for determining the acquiring company

The Company had made Otori Holdings a consolidated subsidiary by acquiring the majority of voting rights, converting the preferred shares of an equity method affiliate into common shares.

#### 2. Period for which the financial results of the acquired company included in the consolidated financial statements

October 1, 2019 to December 31, 2019

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

	Millions of yen	Thousands of U.S. dollars
Fair value of common stock owned just before the business combination, on the date of the business combination	¥ 30,450	\$ 279,204
Fair value of preferred shares owned just before the business combination, on the date of the business combination	17,068	156,501
Acquisition cost	¥ 47,518	\$ 435,705

#### 4. The differences between acquisition cost of the acquired company and total amount by transaction until acquisition

	Millions of yen	Thousands of U.S. dollars
Gain on step acquisitions	¥ 8,598	\$ 78,837

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

	Millions of yen	Thousands of U.S. dollars
Current assets	¥ 187,268	\$ 1,717,110
Non-current assets	42,154	386,521
Total assets	¥ 229,422	\$ 2,103,631
Current liabilities	¥ 117,828	\$ 1,080,396
Non-current liabilities	19,876	182,248
Total liabilities	¥ 137,704	\$ 1,262,644

#### 6. Approximate amount of impact on the consolidated statement of income for the year ended January 31, 2020 assuming that the business combination was completed at the beginning of the fiscal year ended January 31, 2020, and the calculation method

	Millions of yen	Thousands of U.S. dollars
Net sales	¥ 189,675	\$ 1,739,180
Operating income	13,577	124,491

##### (Method of calculating the proforma information)

Impact amount is calculated at the difference between the amounts of net sales and profit and loss assuming that the business combination was completed at the beginning of the fiscal year ended January 31, 2020 and the amount of net sales and profits and loss on the consolidated statement of income.

This information is unaudited.

### (Transactions under common control)

#### 1. Outline of the transactions

##### (1) Name and business description of the company involved in the combination

Name of the company: Otori Holdings, Co., Ltd.

Business description : Holding company owning all of the issued shares of Konoike Construction Co., Ltd  
Konoike Construction Co., Ltd is involved in planning, surveying, designing, supervising, contracting and consulting relating to building construction

##### (2) Date of the business combination

November 29, 2019 December 4, 2019 December 27, 2019

##### (3) Legal form of the business combination

Acquisition of additional shares from non-controlling interests and acquisition of treasury stock by consolidated subsidiaries

##### (4) Company name after the business combination

There is no change.

##### (5) Other matters concerning the outline of the transaction

The purpose of the additional acquisition from non-controlling interests is to strengthen the capital relationship between the two companies.

#### 2. Outline of the accounting treatment

The business combination is accounted for as a transaction with non-controlling interests, which is included in the transactions under common control, etc., pursuant to the "Accounting Standard for Business Combinations" and the "Implementation Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures."

#### 3. Matters concerning the additional acquisition of shares of subsidiaries

Acquisition cost and type of consideration paid for the acquired company

	Millions of yen	Thousands of U.S. dollars
Acquisition consideration Cash	¥ 9,031	\$ 82,808
Acquisition cost	¥ 9,031	\$ 82,808

#### 4. Matters concerning changes in equity of the Company pertaining to transactions with non-controlling interests

##### (1) Major causes of changes in capital surplus

Acquisition of additional shares from non-controlling interests and acquisition of treasury stock by consolidated subsidiaries

##### (2) The amount of an increase in capital surplus due to transactions with non-controlling interests

Millions of yen	Thousands of U.S. dollars
¥ 7,527	\$ 69,017

## 27. Subsequent Events

### 1. Cash dividends

The following distribution of retained earnings of the Company, which has not been reflected in the accompanying consolidated financial statements for the year ended January 31, 2020, was approved at a shareholders' meeting held on April 23, 2020:

	Millions of yen	Thousands of U.S. dollars
Cash dividends (¥ 41 = U.S. \$ 0.38 per share)	¥ 28,029	\$ 257,005

### 2. Cancellation of treasury stock

The Company determined to cancel treasury stock in accordance with Article 178 of the Law at a meeting of the Board of Directors held on March 5, 2020. Details of the cancellation of treasury stock are as follows:

Objective	In order to improve shareholder returns by reducing the number of outstanding shares
Cancellation method	Reduction from retained earnings
Class of shares to be cancelled	Common stock
Number of shares to be cancelled	6,000,000 shares (0.87% of total outstanding shares before cancellation)
Scheduled cancellation date	April 24, 2020
Total number of outstanding shares after cancellation	684,683,466 shares



# Share Information (As of January 31, 2020)

**Total number of shares authorized** 1,978,281,000  
**Total number of shares issued** 690,683,466 shares  
 (including 7,037,973 treasury shares)

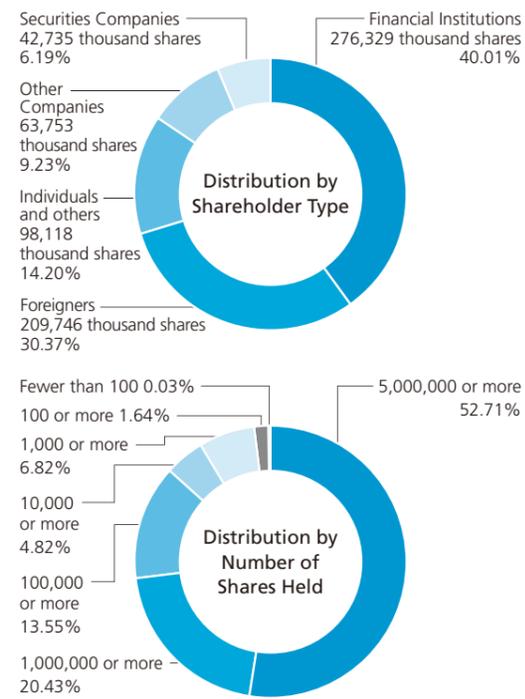
**Trading unit** 100 shares  
**Total number of shareholders** 84,580

## Major Shareholders

Name	Number of Shares Held (Thousands)	Shareholding Ratio (%)
The Master Trust Bank of Japan, Ltd. (Trust account)	63,568	9.30%
Japan Trustee Services Bank, Ltd. (Trust account)	37,394	5.47%
Sekisui Chemical Co., Ltd.	37,168	5.44%
SMBC Nikko Securities Inc.	16,806	2.46%
Employees' Stockholding	16,347	2.39%
Japan Trustee Services Bank, Ltd. (Trust account 5)	13,913	2.04%
MUFG Bank, Ltd.	13,624	1.99%
Japan Trustee Services Bank, Ltd. (Trust account 7)	12,929	1.89%
NORTHERN TRUST CO. (AVFC) SUB A/C NON TREATY	12,310	1.80%
The Dai-ichi Life Insurance Company, Limited	12,158	1.78%

Notes:  
 1. Employees' Stockholding is the Company employee stockholders association.  
 2. Shareholding ratios are calculated after deducting treasury shares from the total number of shares issued.

## Composition of Shares

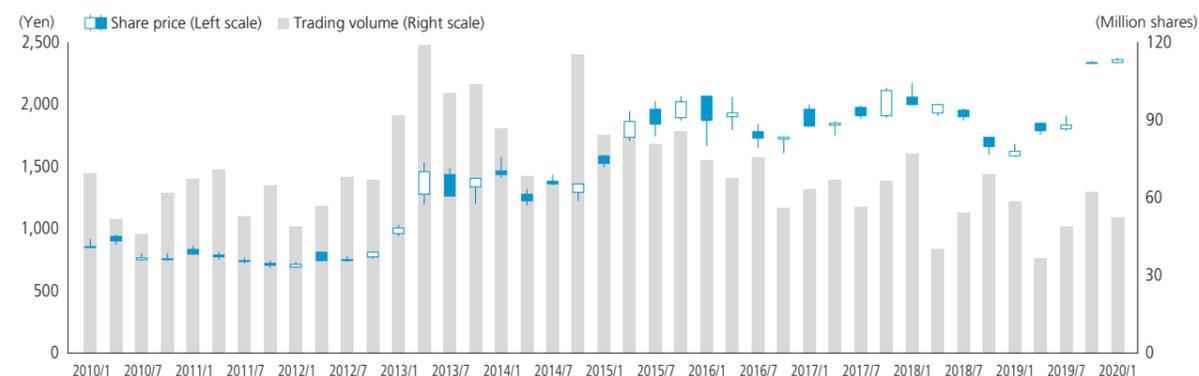


Note: 7,037 thousand treasury shares are included in "Individuals and others"

## Other Significant Matters Regarding Shareholdings

The Company purchased 5 million shares of its own stock pursuant to a resolution of the Board of Directors at its meeting on September 5, 2019.

## Share Price and Trading Volume



# Glossary

<b>B</b>	<b>BCP</b>	Business continuity planning. A plan for emergency situations that entails strategic preparations to prevent interruption of essential operations in the event of a disaster or similar event.
	<b>CRE</b>	Corporate real estate. All types of real estate held by corporations for their businesses, including offices, stores, factories and facilities for the benefit of employees.
	<b>CS Meister</b>	Customer Support Meister, a designation created in 2017 with the aim of further improving customer satisfaction and increasing the number of loyal Sekisui House customers. Certification under Sekisui House's unique in-house CS Meister system recognizes employees with a high level of skill and knowledge who take the initiative and excel in customer support.
<b>C</b>	<b>Chief Architect</b>	An in-house certification based on Sekisui House's original multifaceted evaluation for employees with extensive, high-quality design skills and qualities that make them a role model for other design employees.
	<b>Chief Constructor</b>	An in-house certification for outstanding onsite supervisors. Sekisui House provides training for onsite supervisors to raise the excellence of their daily work with the aim of increasing the number of Chief Constructors, which, leads to improvements in brand power and productivity.
	<b>Construction Meister</b>	Sekisui House's unique in-house system for recognizing outstanding technicians at its construction sites in order to improve construction quality and strengthen the mindset of a "community with a common destiny" shared with partner building contractors. Certification criteria include an extensive track record and experience in construction, superior techniques and skills, and excellence in leading and developing junior employees.
	<b>Credit rating</b>	A ranking of the creditworthiness of bonds issued by countries and companies and their ability to pay principal and interest based on a comprehensive analysis. Alphabetical or other basic symbols are used to indicate ratings. The rating agencies of Sekisui House are Japan Credit Rating Agency (JCR) and Rating Investment Information Center (R&I).
<b>D</b>	<b>Cross-shareholding</b>	Stocks held by publicly traded corporations for the purpose of business strategies such as maintaining relationships with business partners and anti-takeover defense rather than purely for investment.
	<b>Debt/Equity ratio</b>	An indicator of the soundness of a company's finances. Shows a company's interest-bearing debt as a multiple of its equity. The lower the ratio, the sounder a company's finances. Debt to equity ratio = Interest-bearing debt ÷ Equity (Shareholders' equity)
<b>E</b>	<b>EPS</b>	Earnings per share. Indicates net income per share of a company's stock. Net income ÷ Number of shares issued
	<b>ESG</b>	An acronym for environment, social and governance perspectives. Currently, the belief is that these three perspectives are necessary for the long-term growth of a company.
<b>F</b>	<b>FairWood</b>	Lumber and wood products that are sourced in a manner that takes into account the conditions of the forest environment and/or the local communities where logging is taking place.
	<b>Financial leverage</b>	An indicator of the amount of debt such as bank borrowing and bond issuance utilized (leveraged) in equity capital. The reciprocal of the equity ratio. Financial leverage (times) = Total capital ÷ Equity
	<b>Fintech</b>	Financial technology. Refers to new financial services that use information technology. Fintech is expected to gain popularity among individuals in the future for applications such as asset management using smartphones and other devices and online payment services.
	<b>Free cash flow</b>	Earnings before income taxes plus depreciation and amortization less capital expenditures and change in working capital.
<b>H</b>	<b>Hurdle rate</b>	The minimum acceptable rate of return, used as a standard for evaluating investments. (Internal rate of return (IRR) is an indicator for evaluating investment projects. It is the discount rate at which the present value of future cash flow provided by an investment is equal to the present value of the amount of the investment.
<b>I</b>	<b>ISO 26000</b>	Guidance on social responsibility published in November 2010. Provides guidance rather than requirements, so it is not certifiable, unlike other ISO standards.
	<b>Industrie 4.0</b>	A national joint project among industry, government and academia launched in 2011 by the German government; called Industry 4.0 in English, and sometimes referred to as the "Fourth Industrial Revolution." Industrie 4.0 aims to significantly improve work operations and minimize costs by digitizing the production process.
	<b>IoT</b>	Internet of Things. The connection of all manner of everyday objects to the Internet in order to obtain information from each individual object and control it in an optimal manner based on that information.
<b>K</b>	<b>Knowledge system</b>	A database created from answers to customer inquiries during after-sales service.

<b>M</b>	<b>Metric specifications</b>	A design standard based on dimensions in meters. Because a meter is approximately 9 cm longer than a <i>shaku</i> , the traditional Japanese unit of measurement for housing, spaces for corridors, stairs, bathrooms, washrooms, toilets and other areas are wider than in traditional Japanese housing designs.
<b>O</b>	<b>Open innovation</b>	An approach to innovation in which companies incorporate technologies, ideas, services, expertise, data, knowledge and other input from different industries and other sources, including other companies, universities, local governments and social entrepreneurs, rather than relying solely on their own resources to generate innovation in business models, research results, product development and other areas.
<b>P</b>	<b>PDCA</b>	A technique for encouraging continuous work improvement by repeating the cycle of Plan → Do → Check → Act.
	<b>PRE</b>	Public real estate. Business that focuses on lawful management and use of various types of real estate owned by local governments and other public bodies.
	<b>PRIDE Index</b>	Established in 2016 by the private organization work with Pride, the PRIDE Index is Japan's first index for evaluating initiatives for LGBT employees and other sexual minorities in the workplace.
	<b>Payout ratio</b>	The percentage of net income that is paid to shareholders as dividends.
<b>R</b>	<b>RE100</b>	An international initiative of corporations that aim to use 100% renewable energy in their business activities.
	<b>ROA</b>	Return on assets. The ratio of net income to total assets. ROA = (Operating + Interest and dividend income + Equity in earnings of affiliates) ÷ Total assets
	<b>ROE</b>	Return on equity. The ratio of net income to total equity (shareholders' equity). ROE = Net income ÷ Equity, or ROE = Earnings per share ÷ Net assets per share
<b>S</b>	<b>Society 5.0</b>	A society that connects all people and objects through IoT, sharing various types of knowledge and information and creating entirely new value through a system that highly integrates cyberspace and physical space.
	<b>Succession plan</b>	A corporate plan for the early acquisition and training of human resources expected to assume key positions.
<b>T</b>	<b>TCFD</b>	Task Force on Climate-related Financial Disclosures. Seeks to understand the financial impact of climate change-related risks on corporate management.
	<b>Thin client</b>	A lightweight computer with minimal functions used as a virtual desktop with a remote connection to a server that centrally manages software, business data and other resources.
	<b>Type-approval</b>	A system in which multiple houses and other buildings constructed to the same standard specifications, such as pre-engineered houses, are given advance examination of their structure, fire protection, equipment and other items for conformance with the Building Standard Law by a specialized committee member and approved by the Minister of Land, Infrastructure, Transport and Tourism, or an approval organization designated by Minister of Land, Infrastructure, Transport and Tourism.
<b>U</b>	<b>United Nations' Global Compact (UNGC)</b>	An initiative in which companies and other organizations participate on a voluntary basis to build a framework for sustainable growth by exhibiting responsible and positive leadership in their actions as members of the global community.
<b>V</b>	<b>Value chain</b>	A framework for classifying businesses into main and support activities and analyzing which processes add value.
<b>Z</b>	<b>ZEH</b>	Net zero energy house. A house designed for net zero annual primary energy consumption (air conditioning, ventilation, hot water supply and lighting) through improved thermal insulation and energy-saving performance and use of solar power.

Please refer to *Sustainability Report 2020* for details on Sekisui House's initiatives for society and the environment. This report is scheduled to be issued in mid-July 2020.

<https://www.sekisuihouse.co.jp/english/sr/2020.html>