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 our 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 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 after this period is included.

Reference Guidelines

Note on Forward-Looking Statements
Forecasts and 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.

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 nonprofit organization in the environmental field. Inclusion in this list is recognition that we are among the world’s pioneers in environmental transparency and climate change countermeasures.

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.
Corporate Philosophy

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

Management Vision

The Sekisui House Global Vision

Make home the happiest place in the world
Megatrends

Global Megatrends

- 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

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)

Opportunities and Risks

Opportunities

- Promotion of Net Zero Energy House (ZEH)
- Popularization of long-lasting houses
- Growing adoption of renewable energy
- Securing a high-quality workforce by improving the working environment
- Improvement in construction efficiency from technological innovation
- Growing need for regional revitalization

Risks

- Impact of intense heat on lifestyles
- Impact of intense heat on business (production, construction sites, etc.)
- Impact of increasingly severe natural disasters
- Job turnover and reduced productivity due to a deterioration in working conditions for foreign workers
- Decrease in the number of new housing starts, lower occupancy rates at managed properties and a worsening vacant house problem due to population decline
- Higher disposal costs for fossil fuel-derived plastic waste

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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.

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
1980 Tokyo Customer Service Center established as the Company’s first customer service center

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
2001 Announced Green no ki landscaping project
2002 Antimicrobial 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 Ministry of Environment as the housing industry’s first Eco First Company
2009 Launched the Green First Eco-friendly house
2011 Started the Trip Base Michi-no-Eki Stations Project, a regional revitalization business
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
2019 Exhibited at CES 2019 (Consumer Electronics Show) and announced the Platform House Concept

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.
Message from the Chairman

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 discontinue 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 safe, comfortable homes based on a broad-minded 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 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.

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.

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.

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For Sekisui House to remain essential to society, we will pass on the 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.
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 implementing 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 of the best-selling models in the world. By deepening and evolving lifestyle design proposals and our services, we will transform Sekisui House 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."

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.

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

Technical Capabilities
- Universal design for “comfortable living—now and always”
- SHEQAS, Airkis and other original technologies for proven safety and security
- Green First Zero and other environmental technologies
- Original DYNE CONCRETE and Bellburn original exterior wall panel manufacturing technologies
- Staff with diverse qualifications, including first-class and second-class architects
- Improved ability to make proposals through the introduction of an in-house system of qualifications (Chief Architect, etc.)

Construction Capabilities
- Wholly owned subsidiary Sekiwa Construction uses a design-build construction system without subcontractors
- Loyal cooperative system for construction through Sekisui House Association
- Acquisition of model approval for shortened construction timeframes
- Improved ability to make proposals through the introduction of an in-house system of qualifications (Chief Constructor, etc.)

Customer Base
- Owners of the 2.46 million dwellings we have built, the most in the Japanese construction industry
- An after-sales service system with customer service centers for customer peace of mind after taking possession of their houses
- Long-term relationships with rental housing owners through Sekisui House Real Estate companies
- Owner referrals and a high repeat rate

Maximizing Customer Value through Synergies from Cooperation within the Group

Advancing and Extending Our Core Competencies

New Technologies
- IoT
- AI
- Robot
- Blockchain

Open innovation
- Industry-academia collaboration
- Investment in startups
- Joint development
- M&A
Heart rate
Connectedness
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 for acute diseases that occur at home. We believe that the benefits of such a home will be substantial. 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 system.

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 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 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.

**Providing Services That Factor in 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.

**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 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.

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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.

The Sekisui House exhibit at CES 2019, an exhibition of digital technologies held in Las Vegas.
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: 36.1% ¥872.0 billion
  - Custom detached houses: 16.2% ¥390.9 billion
  - Houses for sale: 6.3% ¥151.2 billion
  - Condominiums: 4.3% ¥103.9 billion
  - Real estate management fees: 22.1% ¥2,415.1 billion

- Supplied housing business: 28.5% ¥687.6 billion
  - Rental housing: 16.1% ¥360.0 billion
  - Urban redevelopment: 5.5% ¥120.9 billion
  - Remodeling: 6.3% ¥152.7 billion
  - Architectural/Civil engineering: 3.3% ¥120.9 billion

- Development business: 16.0% ¥387.1 billion
  - Houses for sale: 6.3% ¥151.2 billion
  - Condominiums: 4.3% ¥103.9 billion
  - Remodeling: 6.3% ¥152.7 billion
  - Real estate management fees: 22.1% ¥2,415.1 billion
  - Urban redevelopment: 5.5% ¥120.9 billion

- Overseas business: 16.1% ¥389.8 billion
  - Houses for sale: 6.3% ¥151.2 billion
  - Condominiums: 4.3% ¥103.9 billion
  - Remodeling: 6.3% ¥152.7 billion
  - Real estate management fees: 22.1% ¥2,415.1 billion
  - Urban redevelopment: 5.5% ¥120.9 billion

- Other businesses: 3.3% ¥78.5 billion

Note: Percentages have been restated to reflect new segments.
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.

**Main Management Indicators (Plan) (Billions of yen)**

<table>
<thead>
<tr>
<th>Year</th>
<th>Net sales</th>
<th>Operating income</th>
<th>Ordinary income</th>
<th>Profit attributable to owners of parent</th>
<th>EPS</th>
<th>ROE</th>
</tr>
</thead>
<tbody>
<tr>
<td>2020</td>
<td>2,585.0</td>
<td>2,578.0</td>
<td>2,700.0</td>
<td>137.0</td>
<td>¥202.52</td>
<td>10.6%</td>
</tr>
<tr>
<td>2021</td>
<td>2,603.0</td>
<td>2,600.0</td>
<td>2,720.0</td>
<td>138.0</td>
<td>¥204.00</td>
<td>10.7%</td>
</tr>
<tr>
<td>2022</td>
<td>2,700.0</td>
<td>2,700.0</td>
<td>2,730.0</td>
<td>147.0</td>
<td>¥217.31</td>
<td>10.8%</td>
</tr>
</tbody>
</table>

**Key Measures for Built-to-Order Business**
- Lead the industry as the top brand and challenge a new built-to-order business
- Actively deploy proposal-based and environment-based remodeling
- Pursue ROA management
  - Generate stable profit by improving turnover and acquiring prime land

**Key Measures for Supplied Housing Business**
- Expand the business domain by creating new markets, taking advantage of existing houses
- Start the global rollout of Sekisui House technologies and advance to the next stage

**Key Measures for Development Business**
- Focus on balance between growth investments and the asset turnover ratio
- Generate a stable ROE of at least 10%
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.

Business Strategies of the Fifth Mid-Term Management Plan

- Custom detached houses
- Rental housing
- Architectural/Civil engineering
- Houses for sale
- Condominiums
- Urban redevelopment
- Real estate management fees
- Overseas business
- Overseas business

**Custom Detached Houses**

- Built-to-Order Business
- Supplied Housing Business
- Overseas Business

**Implement three brand strategies**

- 5 years ago
- Now
- In 3 years

- Sekisui House noie Limited
- Sekisui House Mainstream Products
- Sekisui House Highest-Spec Products

- Up to ¥20 million
- ¥30 million
- From ¥50 million

- 1st Range
- 2nd Range
- 3rd Range

- Sale of Sekisui House-quality wooden-frame houses by Sekisui House noie Limited
- Implement branding focused on first-time buyers
- Conduct business in two formats: 5 series steel-frame houses and SHAWOOD wooden-frame houses

- Lifestyle proposals (integrated with technologies)
- 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 marketing

- Strengthen corporate real estate (CRE) and public real estate (PRE) businesses
- Supply value-added proposals of rental housing to be supplied in S and A areas
- 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 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)

- Strengthen supply of mid- and high-rise buildings focusing on the Company’s Flexible II System construction method
- 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)

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.

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**

**Active deploy proposal-based and environment-based remodeling**

1. Sekisui House detached houses (Three Sekisui House remodeling companies)
   - Environment-based remodeling: Promote energy-conserving remodeling in line with advances in thermal insulation performance.
   - Arkson (Detached house (location-based heating), Green First) with a focus on making homes comfortable for families spending the day in the living room.
   - Sekisui House (Family Suite) renovation promoting a new style of home that reflects diversifying values and unique lifestyles.

2. Remodeling of installed homes (Six Sekisui House Real Estate companies)
   - Increase competitiveness in the rental market by raising asset value and tenant satisfaction and providing 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 modernizing the exterior and updating equipment.

3. 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”

1. 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 Sekiwa brand and strengthening 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 Suntrust and the purchase and resale of existing housing in order to build a Sekisui House Real Estate Group that is strong in residential land.

2. Improve the level of tenant services
   - Work toward utilizing blockchain and forming a consortium based on cross-sectional cooperation to realize a seamless rental 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**

Policies
- Strengthen strategic purchases and manage inventory.
- Focus on the development of beautiful communities.

Targeted regions
- Focus on purchases in priority regions (target areas) to be determined by each regional branch throughout Japan.
- Strengthen coordination over land purchases, especially between Sekisui House and Sekisui House Real Estate.
- Make Group-wide purchases to strengthen sales of Sekisui House real estate.

Consideration for the environment
- Achieve both beauty and functionality through cityscape evaluation system and building evaluation system, to be established in internal standards.

Social issues
- Buy up properties for resale in cooperation with the remodeling business, including regeneration of unoccupied housing in large housing complexes.

**Condominiums**

Policies
- Control balance of investment and promote development focusing on prime locations.

Targeted regions
- Continue development focused on Tokyo, Nagoya, Osaka and Fukuoka and purchase land in central Asia.
- 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.

Consideration for the environment
- Apply environmental strategies developed in the custom-detached houses business to condominium business. Expand ZEH condominiums.

Social issues
- Contribute to urban redevelopment by taking on the challenge of redeveloping aging condominiums in the market.

**Urban Redevelopment**

Policies
- Secure stable pipeline and strengthen exit strategies.

Consideration for the environment
- Actively participate in urban redevelopment projects in major cities and conduct development focusing on hotel projects and commercial facilities.
- Expand Prime Maison and other rental condominiums for single persons mainly in the Tokyo Metropolitan area, and focus on fast turnover type projects.

Social issues
- Provide support for urban development aimed at realizing compact cities by strengthening relations with regional administrations and local public bodies and by proposing solutions.

**Overseas Business**

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

Overseas Business

Working with partners in each country to:
- strengthen financial strategies;
- share area marketing strategies; and
- rise to the challenge of eco-friendly development.

Meeting specific country needs through:
- product development;
- the establishment of production and procurement systems; and
- the transfer of Sekisui House technologies.

**New Business Initiatives**

Expand supplied housing business by promoting new business domains

**Exterior business**

- 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.
- Review distribution channels, and delivery of exterior components to improve cost performance.

**Interior business**

- Sell products of affiliated furniture manufacturers and retail original Sekisui House furniture to improve overall coordination of furniture, curtains and interior accessories in properties.
- Provide information on interior coordination to rental housing residents and general users.

**Living services business**

- Review the after-sales customer support system to provide more comprehensive services.
- Provide living services to owners and residents and proactively develop these services with alliance partners.
- Introduce IoT to begin one-stop services for the processes of building and letting out houses.
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 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 prepar ing 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 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

<table>
<thead>
<tr>
<th>Year</th>
<th>Billions of yen</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>1,858.8</td>
<td>100</td>
</tr>
<tr>
<td>2016</td>
<td>2,026.9</td>
<td>106</td>
</tr>
<tr>
<td>2017</td>
<td>2,159.3</td>
<td>107</td>
</tr>
<tr>
<td>2018</td>
<td>2,160.3</td>
<td>107</td>
</tr>
<tr>
<td>2019</td>
<td>2,415.1</td>
<td>115</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th>Year</th>
<th>Billions of yen</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>148.6</td>
<td>50</td>
</tr>
<tr>
<td>2016</td>
<td>150.7</td>
<td>53</td>
</tr>
<tr>
<td>2017</td>
<td>153.5</td>
<td>54</td>
</tr>
<tr>
<td>2018</td>
<td>184.1</td>
<td>83</td>
</tr>
<tr>
<td>2019</td>
<td>195.5</td>
<td>81</td>
</tr>
</tbody>
</table>

#### Detached House CO\(_2\) Emission Reduction Rate

<table>
<thead>
<tr>
<th>Year</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>88.7</td>
</tr>
<tr>
<td>2016</td>
<td>87.0</td>
</tr>
<tr>
<td>2017</td>
<td>83.6</td>
</tr>
<tr>
<td>2018</td>
<td>83.6</td>
</tr>
<tr>
<td>2019</td>
<td>82.7</td>
</tr>
</tbody>
</table>

We have focused on increasing sales of Green First Zero houses with the aim of achieving zero CO\(_2\) emissions throughout the entire housing lifecycle by FY2025. As a result, FY2019 CO\(_2\) emissions were 82.7% below FY1990 levels.

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

<table>
<thead>
<tr>
<th>Year</th>
<th>Number of Female Employees</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>114</td>
</tr>
<tr>
<td>2016</td>
<td>141</td>
</tr>
<tr>
<td>2017</td>
<td>158</td>
</tr>
<tr>
<td>2018</td>
<td>176</td>
</tr>
<tr>
<td>2019</td>
<td>206</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th>Year</th>
<th>% of Total Employees</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>7.9</td>
</tr>
<tr>
<td>2016</td>
<td>11.3</td>
</tr>
<tr>
<td>2017</td>
<td>11.6</td>
</tr>
<tr>
<td>2018</td>
<td>10.0</td>
</tr>
<tr>
<td>2019</td>
<td>11.5</td>
</tr>
</tbody>
</table>

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 (Consolidated)

<table>
<thead>
<tr>
<th>Year</th>
<th>Number of Employees</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>24,000</td>
</tr>
<tr>
<td>2016</td>
<td>24,391</td>
</tr>
<tr>
<td>2017</td>
<td>24,775</td>
</tr>
<tr>
<td>2018</td>
<td>25,000</td>
</tr>
<tr>
<td>2019</td>
<td>24,905</td>
</tr>
</tbody>
</table>

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.
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.

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.

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

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.

Open plans that meet the needs of growing families
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. Successively 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.”

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)

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 S 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 3 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.

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.
Custom Detached Houses Business

Three-Brand Strategy

1st Range
Sale of Sekisui House quality wooden-frame houses by Sekisui House noie Limited

2nd Range
Strengthening of Sekisui House brand through integration of the Company’s technologies, such as DYNE CONCRETE and Bellburn

3rd Range
Sekisui House products with the highest specifications

Advanced Sekisui House Technologies

- **DYNE CONCRETE**: Highest Grade Exterior Wall Material for Steel Frames
- 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**
  - Sekisui House original earthquake-resistant structures are certified by Japan’s Ministry of Land, Infrastructure, Transport and Tourism.
  - 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.
- **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.
- **Auberge Lumière**
  - Interior (classroom)

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.
  - Sha Maison Gardens

- **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)

Use of Flexible System in Non-Residential Markets

- The heavy steel-frame Flexible 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)

<table>
<thead>
<tr>
<th>Flexible System</th>
<th>Application and Permits</th>
<th>Construction</th>
</tr>
</thead>
<tbody>
<tr>
<td>SHEQAS Seismic Control System</td>
<td>5 months</td>
<td>0.5 months</td>
</tr>
<tr>
<td>1 month</td>
<td>2 months</td>
<td></td>
</tr>
</tbody>
</table>

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 full 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/
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-netsu, 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 aesthetic 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 and buildings over the long term. In February 2020, we changed the names of Sekisui 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.

Supplied Housing 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 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.

FY2019 Achievements

<table>
<thead>
<tr>
<th>Units under Management</th>
<th>Occupancy Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>639,780 (+3.3% compared with January 31, 2019)</td>
<td>97.7% (-0.1 pt. compared with January 31, 2019)</td>
</tr>
</tbody>
</table>
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

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

Our remodeling business leverages a base of over 2.46 million dwellings built

Type of housing

Detached houses

Sekisui House Remodeling companies

Rental housing

Sekisui House Real Estate companies

Conventional housing

Sekisui Construction companies

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

Fifth Mid-Term Management Plan Priorities

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

Sales

<table>
<thead>
<tr>
<th>Year</th>
<th>(Billions of yen)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td>336.7</td>
</tr>
<tr>
<td>2017</td>
<td>387.1</td>
</tr>
<tr>
<td>2018</td>
<td>411.8</td>
</tr>
<tr>
<td>2019</td>
<td>390.4</td>
</tr>
</tbody>
</table>

Business Strategy: Development Business

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 Akasaka in Tokyo and Hommachi in Osaka. We will integrate facilities that not only provide safety but are also equipped with disaster-response capabilities, we will also work to expand the supply of comfortable and 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.

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Computational image of Uemachi 1-chome Tower Project (tentative name) upon completion.

Fifth Mid-Term Management Plan Initiatives

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

Property Sales in the Redevelopment Business

<table>
<thead>
<tr>
<th>Year</th>
<th>Total Sales Value (Billions of yen)</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY2017</td>
<td>742.3</td>
</tr>
<tr>
<td>FY2018</td>
<td>888.9</td>
</tr>
<tr>
<td>FY2019</td>
<td>1269.9</td>
</tr>
</tbody>
</table>

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 as well as 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.

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 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 region 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.

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Operating Income and Operating Margin

<table>
<thead>
<tr>
<th>Year</th>
<th>FY2017</th>
<th>FY2018</th>
<th>FY2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income</td>
<td>$336.7</td>
<td>$411.8</td>
<td>$390.4</td>
</tr>
<tr>
<td>Margin</td>
<td>57.9%</td>
<td>57.9%</td>
<td>57.9%</td>
</tr>
</tbody>
</table>
Compact Mixed-use Community Redevelopment

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.

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

En-e-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.

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.

W OSAKA
Chuo-ku, Osaka City, Osaka Prefecture
Opening scheduled for February 2021
In 2021, our partner Marriott International will open a hotel in Minamienshiiba, Osaka. Featuring a unique design characteristic of W Hotels, it has 337 guest rooms and suites, restaurants, spa facilities, and meeting rooms.

Houses for Sale Business

Compact Mixed-use Community Redevelopment

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.

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.

Condominiums Business

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

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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 as follows.

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 businesses 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 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 investors 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 Priorities

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

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

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 business 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.

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 external 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.

Sales (Billions of yen)

<table>
<thead>
<tr>
<th>Year (FY)</th>
<th>Sales</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td>182.1</td>
</tr>
<tr>
<td>2017</td>
<td>245.9</td>
</tr>
<tr>
<td>2018</td>
<td>301.9</td>
</tr>
<tr>
<td>2019</td>
<td>382.0</td>
</tr>
</tbody>
</table>

Operating Income and Operating Margin (Billions of yen)

<table>
<thead>
<tr>
<th>Year (FY)</th>
<th>Operating Income</th>
<th>Operating Margin %</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td>44.5</td>
<td>25.1</td>
</tr>
<tr>
<td>2017</td>
<td>44.5</td>
<td>11.3</td>
</tr>
<tr>
<td>2018</td>
<td>44.5</td>
<td>11.3</td>
</tr>
<tr>
<td>2019</td>
<td>44.5</td>
<td>11.3</td>
</tr>
</tbody>
</table>

See pages 50-51 for details.

Business Strategy: Overseas Business
Business Strategy: Overseas Business

**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**

- **Issues**
  - Brisk housing demand due to population growth
  - Risk of large-scale earthquakes on the West Coast
  - Greater motivation to combat global warming due to changes in hurricane tracks and other factors
  - The need for exterior maintenance

- **Responses**
  - Acquisition of Woodside Homes and strengthening of collaboration
  - Transfer of Sekisui House technologies
  - Construction of SHAWOOD homes featuring high-earthquake resistance and ZEH specifications
  - Introduction of Bellburn earthenware exterior wall panels

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 rents 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.

### 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.

### United Kingdom

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

- **Issues**
  - Shortage of 4 million houses
  - Need for quality housing to replace stone and brick houses
  - ZEH (zero carbon) scheduled to be mandatory by 2025

- **Responses**
  - Establishment of joint venture with government agency Homes England and real estate company Urban Splash
  - In-house production of high-quality pre-engineered homes
  - Building environmentally friendly zero-carbon houses that use energy-saving technology

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.

### China

**Developing healthy and safe housing**

Mainly in the cities of Shenyang, Suzhou, Wuxi and Taicang, we conduct businesses including a township 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.

### Australia

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

- **Issues**
  - Brisk housing demand due to population growth
  - Substantial room for improvement in housing quality
  - Rising electricity bills due to deregulation and other factors

- **Responses**
  - Construction of a factory in suburban Sydney for the Australian version of SHAWOOD home
  - Establishment of a system for repetitive production of high-quality components
  - Construction of pilot ZEH SHINKA House

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%.
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.

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.
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.

The tenacity to test until we are satisfied makes us strong

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.

We value relationships with our customers

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 Arikis 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 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.

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 led 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 Belbium, which offer superior performance including durability and maintenance, in addition to the decisive factor of design; and SHEQAS, Arikis 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.
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 on-site visits or surveys. In 2019, they also began on-site 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.

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.

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.

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 it 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.

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

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 Bellform 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 production 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.

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 hoist 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.

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.

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.
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.

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.

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. If 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

**E Environmental**
- Decarbonized society
- Society in which humans and nature coexist
- Circular economy

**S Social**
- Pursuing customer satisfaction through our value chain
- Promoting diversity
- Workstyle innovations
- Human-resource development
- Respect for human rights
- Contributing to society

**G Governance**
- Strengthening our corporate governance system
- Compliance and risk management
- Occupational health and safety management

### Risks and Opportunities in the Context of ESG Management

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<td>Resource recycling</td>
<td>Demand for better quality recycling</td>
<td>Promotion of recycling business through the use of high-level, thorough sorting and “wide-area certification”</td>
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<td>Economic and policy changes</td>
<td>Reduced workforce due to declining employee satisfaction, turnover, and working-hour regulations should reforms not go ahead</td>
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<td>Globalization</td>
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<td>Development of overseas business</td>
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<td>Changes in population movement</td>
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<td>Total population reduction</td>
<td>Decline in the number of new housing starts, decline in the occupancy rate of properties under management, worsening problem of unoccupied houses</td>
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<td>Concentration of population in urban areas</td>
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<td>Elevation of the issue of nursery school waiting lists</td>
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<td>Health consciousness</td>
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<td>Technological innovation</td>
<td>Loss of business opportunities, rising necessity for security measures</td>
<td>Providing highly convenient housing</td>
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### Material Topics (Critical Issues) for ESG Management

- Supplier Environmental Assessment
- Employment
- Socioeconomic Compliance
- Human Rights Assessment
- Supplier social assessments
- Freedom of association and collective bargaining
- Indirect economic impacts
- Materials anti-competitive behavior
- Local communities
- Non-discrimination
- Customer Health and Safety
- Biodiversity
- Atmospheric Emissions
- Customer Privacy
- Diversity and Equal Opportunity
- Economic Performance
- Effluent and Solid Waste
- Environmental Compliance
- Anticorruption
- Occupational and Health and Safety

### Changes in the Business Environment

<table>
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<td>Ecosystem changes</td>
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<td>Resource recycling</td>
<td>Changes in growing areas and areas suitable for plants used for afforestation</td>
<td>Effective landscaping proposals for shrubs and trees</td>
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<td>Economic and policy changes</td>
<td>Increased processing costs for plastic waste materials derived from fossil fuels</td>
<td>Promotion of recycling business through the use of high-level, thorough sorting and “wide-area certification”</td>
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<td>Globalization</td>
<td>Downturn in demand after the last-minute purchasing ahead of tax rate increase, and move away from home-office</td>
<td>Various government support measures for home purchasing</td>
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### Fifth Mid-Term Management Plan Measures and Initiatives

#### Environmental
- **Environmental**
  - Strengthen and expand net zero energy housing (ZEH)
  - Promote RE100 through Sekisui House Owner Denki™
  - Be a global ESG leader

#### Social
- **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
  - Tackle social issues
    - Help create a society that delivers maximum value to customers and achieve the SDGs

#### Governance
- **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
  - 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
Sekisui House is promoting the integration of its environmental strategies and business strategies to fulfill its mission of making life happy for customers. 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 CO₂ 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.¹

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 Goohon 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

#### Green First Zero Energy Houses (ZEH): Targets and Progress²

- **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 12 units)

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

- **ZEB commercial buildings (net zero energy buildings)**
  - We are deploying our pre-engineered housing construction capabilities and 2011 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 Sekisui Construction Tohoku—we have constructed ZEB office buildings, nursing care facilities, and childcare facilities in other parts of the country.

- **Japanese government targets for achievement in FY2022**
  - 2040: 50% renewable energy ratio for electricity used in operations
  - 2050: 100% carbon neutrality for all scopes

### Shifted management focus to decarbonization ahead of other companies

- **2005** Launched the PSH-21 passive solar house utilizing natural energy
- **2008** Issued the Declaration of Sustainability
- **2009** Launched the Green First model of eco-friendly homes
- **2011** Launched the Green First HYBRID model, a disaster-ready smart house
- **2013** Launched the Environmental Future Plan

**Social Trends**

- **1980–** Earth Summit held in Brazil
- **1983** Kyoto Protocol签署
- **1990** Basic Environmental Law comes into force in Japan

**Progress to Date**

- **1982** Launched the PSH-21 passive solar house utilizing natural energy
- **1999** Announced the Environmental Future Plan
- **2001** Launched the Goohon no ki native tree landscaping project
- **2005** Issued the Declaration of Sustainability
- **2008** Launched the Green First model of eco-friendly homes
- **2011** Launched the Green First HYBRID model, a disaster-ready smart house
- **2013** Launched the Goohon no ki native tree landscaping project
- **2015** Issued the Goohon no ki native tree landscaping project

**First company in Japan’s construction industry to join**

- **2018** Issued the Goohon no ki native tree landscaping project
- **2019** Issued the Goohon no ki native tree landscaping project

**2020** Launched the Fifth Mid-Term Management Plan

**2022** Fifth Mid-Term Management Plan

**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 CO2 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 ambient 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.

Risks and Opportunities Potential Financial Impact

**Risks in Transitioning**

| Policy and regulations | Rising cost of greenhouse gas emissions | A carbon tax of ¥15,000 per ton CO2 would increase our tax liability by ¥19.5 billion/year. For FY2020 emissions, ¥29.1 billion of net sales, calculated using 12% tax rate. In addition to other initiatives (e.g., RE100 and other initiatives), we will reduce CO2 emissions, which would mitigate the impact of such a carbon tax if introduced. | ¥19.5 billion/year |
| 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. | Not material |
| 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. | Not material |

**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 do not include it in our calculations. | Not quantified |
| 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 sales including hazardous map confirmation when purchasing land. | ¥28.5 billion |

**Opportunities**

| Energy sources | Use of lower-emission energy sources | Addressing this issue by purchasing non-fuel energy certificates would cost ¥10 million/year. But we plan to achieve RE100 at an additional cost through the Sekisui House Owner Denki program. | ¥10 million/year |
| Products and services | Development and 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. | ¥35.76 billion/year |

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**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.

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**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 which includes an introduction of the features of the Gohon no ki project as well as a QR code that provides access to information including birdwatch 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.

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

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**TCFD Report.**

[Click here to view the Sekisui House TCFD Report.](https://www.sekisuihouse.co.jp/english/tcfd/2019/TCFD_2019e.pdf)

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**Sekisui House Owner Denki**

- Total electricity generated annually by photovoltaic power generation systems installed by Sekisui House owner
- About 700 GWh
- About 120 GWh
- About 300 GWh

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**A tree nametag**

[Readers can scan the QR code to access the website (Japanese only).](https://www.sekisuihouse.co.jp/english/tcfd/2019/TCFD_2019e.pdf)
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 these 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.

Human Resources Sustainability

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.

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 female专场 internships for women. In 2014, we opened Sekisui House Women’s College to train and appoint female managers. Each year we select six graduating class of Sekisui House Women’s College

Progress to Date

Sekisui House’s Initiatives

Social Progress

<table>
<thead>
<tr>
<th>2000s</th>
<th>2010s</th>
<th>2015s</th>
<th>2020s</th>
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<tr>
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<tr>
<td>2007</td>
<td>2010</td>
<td></td>
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</tr>
</tbody>
</table>

- 2004: Started a leave program for volunteer work
- 2006: Announced Human Resources Sustainability policy Enhancing childcare support programs
- 2007: First annual nationwide meet-and-greet event for female sales staff
- 2007: Established the Female Sales Staff Promotion Committee
- 2014: Established work-life balance consultation service Enhanced work-life reconciliation support for female employees
- 2016: Support for employees with disabilities Diversity meet-and-greet events
- 2017: Support for Sunday work Fulltime (childcare expenses)
- 2019: Launched new personnel registration system covering both opposite-sex marriages and same-sex partnerships

- 2005: Expanded hiring of female sales staff
- 2006: Shared the Career Challenge System
- 2007: Shared annual nationwide meet-and-greet event for female sales staff
- 2008: Established the Female Sales Staff Promotion Committee
- 2009: Introduced a childcare leave program for male employees
- 2015: Introduced Smart Holidays (paid leave system) Shared Female-Care Support System
- 2016: Formulated the Action Plan for the Promotion of Active Participation of Women based on the Act on Promotion of Women’s Participation and Advancement in the Workplace Launched telecommuting system
- 2018: Started support system for male employees
- 2019: Introducing support system for employee work-life balance during career transitions

* An acronym for Volatility, Uncertainty, Complexity and Ambiguity

Promoting the Next Generation of Constructors and Developers

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approximately 20 students as promising management candidates for training under a systematic and effective curriculum lasting about two years. As of FY2019, 116 female employees have already been appointed to managerial positions. In making promotions and appointments, we select candidates appropriately according to their abilities so they are not placed at a disadvantage due to life events or other factors. We have also reevaluated the sex structure for wages and personnel evaluation to emphasize performance. Candidates with corporate management experience and specialists are appointed in accordance with their contributions.

• Creating Workplaces Where Diverse Human Resources Play Active Roles

We are increasing opportunities for each of our many employees to participate energetically in his or her own unique way, regardless of factors such as disability, age, gender, sexual orientation, gender identity, educational background or nationality. Employees who are raising children participate in training together with their supervisors, and we celebrate Diversity Month every year. These measures result in job assignments and appropriate evaluations according to each employee’s attributes.

We continue to exceed the legally mandated 2.3% employment rate for people with disabilities set for 2021. Our aim is to employ and retain at least one person with a disability at every workplace. We are continuing our efforts in this regard through the establishment of a specialized Promotion of Employment of Persons with Disabilities Office in February 2020. In addition, we are working to improve the workplace environment with diversity meet-and-greet events attended by employees with disabilities and their superiors.

Our main activities related to LGBT understanding have included providing information through training since 2014, and establishing a personnel registration system covering both opposite-sex marriages and same-sex partnerships in November 2019, which applies the same company rules and welfare benefits in both cases. We also established an LGBT-specific consultation service. In recognition of these ongoing efforts, we have received the highest-level Gold Award from the PRIDE Index, an evaluation index formulated by the private organization work with Pride, for two consecutive years in 2018 and 2019.

For career development support, we have introduced the Career Challenge System for transition from region-defined duties and other jobs to administrative work. We also support the employment and active participation of senior citizens in the workplace. In addition to raising the retirement age to 65 in April 2015, we have introduced a post-retirement re-employment system for employees over the age of 65 (up to the month of their 70th birthday) as of April 2020.

Workstyle Innovations

By establishing a working environment where each employee can continue to work with peace of mind and display his or her skills to the fullest, as well as support programs for balancing work with childcare, nursing care and medical treatment, we promote flexible working styles that generate greater innovation.

• Workstyle Innovations Using IoT

We are promoting telework that makes full use of smartphones, tablets and other small devices. Dedicated apps developed in-house are tailored to work duties, enabling employees to perform their primary duties on smart devices. In this way, we are broadening the scope of work that can be completed anywhere, and improving work efficiency.

• Support for Balancing Work with Childcare/Nursing Care/Medical Treatment

We provide support so that employees can work with peace of mind and move forward in their careers while balancing work with childcare, nursing care, infertility treatment or cancer treatment, among other issues. Examples include forums on successfully balancing work and childcare, the Nursery School Hunting Concierge system for supporting an early return to work, a subsidy for babysitter payments, and a Retiree Reintegration Program. We have also established various consultation channels, including a consultation service for work-life balance and nursing care, and the Human Frontier Consultation Office that allows callers to speak anonymously with external experts. In September 2018, we also launched Ikumen Leave, a special childcare leave program that encourages male employees with children under the age of three to take at least one month off work to focus on childcare. Leave is paid for the first month, and can be divided into as many as four separate portions as necessary. All eligible employees have consistently taken all their available leave by the end of their period of eligibility.

• Promoting Health and Productivity Management for Sekisui House to become the world’s happiest company, it is essential that each of our employees is healthy and leads a lively and fulfilling life both at work and at home. Recognizing that health and productivity management contributes to corporate growth and sustainability, we have established a health and productivity management policy and are working to reduce overtime, improve the rate of paid leave taken and promote employee health. It is important that employees maintain good mental as well as physical health in order to work energetically. We conduct training for all managers and for employees in their second or third year of employment to deepen their understanding of mental health.

We also hold regular meetings of the CSR Committee, which includes the four representative directors, other internal members and two experts from outside the Company. One of its subcommittees, the Social Improvement Committee, focuses on health and productivity management as one of its themes—taking measures to promote health, such as encouraging exercise, utilizing the results of health checkups, combating lifestyle diseases, establishing separate smoking areas and discouraging people from smoking.

The Sekisui House Group’s “Happiness” Health and Productivity Management

Health and Productivity Management Policy

The fundamental philosophy of the heart of the Sekisui House Group is “love of humanity.” In addition to establishing systems and workplace climates that help employees find greater happiness through physical and mental health, we encourage them to develop their personal skills by promoting workstyle reforms and strive to be a company where employees take the initiative in forming healthy lifestyles.

The pamphlet titled Diversity & Inclusion 2019-2020 is available on our website. (Japanese only)

External Evaluation

We are conducting forward-thinking initiatives for ESG management, diversity promotion and other matters. These proactive activities and their positive results have received a high evaluation from outside the Company.

Key Performance Indicators (KPIs)

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Unit</th>
<th>FY2015</th>
<th>FY2016</th>
<th>FY2017</th>
<th>FY2018</th>
<th>FY2019</th>
<th>FY2022 (Target)</th>
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</thead>
<tbody>
<tr>
<td>Number and ratio of female employees in managerial positions (Group-wide)</td>
<td>People</td>
<td>114</td>
<td>141</td>
<td>156</td>
<td>176</td>
<td>206</td>
<td>280</td>
</tr>
<tr>
<td>%</td>
<td>2.43</td>
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<td>3.10</td>
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<tr>
<td>Number and ratio of full-time female employees</td>
<td>People</td>
<td>4,954</td>
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<td>5,431</td>
<td>5,657</td>
<td>5,930</td>
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<tr>
<td>%</td>
<td>23.6</td>
<td>24.2</td>
<td>25.0</td>
<td>25.7</td>
<td>26.4</td>
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<tr>
<td>Number and ratio of new female university graduate hires</td>
<td>People</td>
<td>427</td>
<td>377</td>
<td>250</td>
<td>280</td>
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<tr>
<td>%</td>
<td>40.6</td>
<td>41.6</td>
<td>40.3</td>
<td>37.7</td>
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<tr>
<td>Number of female officers</td>
<td>People</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>3</td>
<td>3</td>
<td>1 or more</td>
</tr>
<tr>
<td>Percentage of male employees taking childcare leave</td>
<td>%</td>
<td>23.0</td>
<td>50.0</td>
<td>—</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
</tr>
<tr>
<td>Percentage of employees taking annual paid leave and average number of days of leave taken per person</td>
<td>Days</td>
<td>23.0</td>
<td>35.0</td>
<td>36.0</td>
<td>40.0</td>
<td>36.0</td>
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<tr>
<td>Average monthly work hours per person</td>
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<td>171.37</td>
<td>170.02</td>
<td>168.32</td>
<td>170.26</td>
<td>168.17</td>
<td>164</td>
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<tr>
<td>Average monthly overtime hours per person</td>
<td>Hours</td>
<td>28.03</td>
<td>28.15</td>
<td>25.91</td>
<td>24.63</td>
<td>23.33</td>
<td>22</td>
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<td>Employment rate of employees with disabilities</td>
<td>%</td>
<td>2.21</td>
<td>2.20</td>
<td>2.18</td>
<td>2.53</td>
<td>2.61</td>
<td>2.61</td>
</tr>
</tbody>
</table>

1. Non-consolidated (As of FY2019: 1 of 11 directors, 1 of 6 Audit & Supervisory Board members, and 1 of 22 executive officers)
2. Non-consolidated
3. Sekisui House, Ltd., Sekisui House Real Estate companies and Sekisui House Remodeling companies

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 proposals-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.

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

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.

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.
Corporate Governance

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.

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

1. Introduction of a mandatory retirement age of 70 for representative directors
2. Appointment of women as outside officers
3. Transparency and inauguration 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

2018-2019

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 envision 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

Revised term of office for directors
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.

Abolished the executive advisor/advisor system
We abolished the executive advisor/advisor system to add transparency to our management organization and clarify accountability to further strengthen corporate governance.

Fundamentally revised the remuneration system for officers
• The General Meeting of Shareholders held in April 2019 introduced restricted stock remuneration and abolished the bonus system for outside directors.
• 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.
• 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 (KPIs) for performance-related remuneration and the calculation method.

Introduced shareholding guidelines
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.

Established provisions for recovering stock remuneration (malus and clawback)
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.

Formulated criteria and procedures for appointing and dismissing senior management
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.

Improved independence of the Board of Directors
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.

Note: Details regarding the Basic Policy on Corporate Governance are available on our website. https://www.sekisuihouse.co.jp/en/innovation/governance/Guideline.pdf
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.

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, and establish lines of reporting, strengthen development of and appropriately assign governance-related human resources, and coordinate auditing at the parent company and subsidiaries.

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**Response to FY2020 Questionnaire**

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.**

**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.

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

**FY2018 Evaluation and FY2019 Initiatives**

**FY2018 Evaluation**

- 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 integrate meetings. (Key findings from the questionnaire)
  - Discussions were more meaningful than in the previous year.
  - The atmosphere of the meetings facilitated discussion.

**FY2019 Initiatives**

- We further enhanced the system for providing explanation and information to outside directors and outside Audit & Supervisory Board members in advance of Board of Directors meetings.
- We further enhanced and systematized training for directors and Audit & Supervisory Board members.

**FY2019 Evaluation**

- 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)
  - The board’s structure was well-balanced, with a core of four representative directors and a system that emphasized effectiveness.
  - Measures including the use of tablet devices to provide advance information supported lively discussions.
  - Deliberation of investment projects was supported by ample reference materials and sufficient time for discussion.

**FY2020 Initiatives**

- Strengthen the effectiveness of the Personnel Affairs and Remuneration Committee.
- Create succession plans.
- Establish a system for auditing subsidiaries.
Governance System

Corporate Governance System (As of April 24, 2020)

Board of Directors (12 members, of whom 4 are outside directors)
11 men, 1 woman

Audit & Supervisory Board (6 members, of whom 4 are outside members)
5 men, 1 woman

OCR Conversion Results:

- Governance System
- Corporate Governance System (As of April 24, 2020)
- Board of Directors (12 members, of whom 4 are outside directors)
  11 men, 1 woman
- Audit & Supervisory Board (6 members, of whom 4 are outside members)
  5 men, 1 woman

General Meeting of Shareholders

Management Meeting
Internal directors, full-time Audit & Supervisory Board members
(Outside directors and Audit & Supervisory Board members attend voluntarily)

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.

- 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.

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

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

<table>
<thead>
<tr>
<th>Audit &amp; Supervisory Board Members (Including Outside Members)</th>
<th>Outside Audit &amp; Supervisory Board Members</th>
<th>Age</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inside Directors</td>
<td></td>
<td>Under 50</td>
</tr>
<tr>
<td>(5 men, 1 woman)</td>
<td></td>
<td>6</td>
</tr>
<tr>
<td>Executive Officers</td>
<td></td>
<td>0</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th>Directors (Including Outside Directors)</th>
<th>Outside Directors</th>
<th>Age</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Under 50</td>
</tr>
<tr>
<td>12 (11 men, 1 woman)</td>
<td>4 (3 men, 1 woman)</td>
<td>8</td>
</tr>
</tbody>
</table>
**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.

**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.

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**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. 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 sufficient incentive 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.

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

<table>
<thead>
<tr>
<th>Types of Remuneration</th>
<th>KPI</th>
<th>Outline of the Calculation Method</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fixed Basic remuneration</td>
<td>—</td>
<td>The amount shall be determined according to the position and paid on a monthly basis. (943 million yen or less per month (excluding outside directors, as before))</td>
</tr>
<tr>
<td>Performance-related bonus (Short-term)</td>
<td>Consolidated ordinary income</td>
<td>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.</td>
</tr>
<tr>
<td>Performance-related stock remuneration (Medium-term)</td>
<td>ROE and ESG management indicators*</td>
<td>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.</td>
</tr>
<tr>
<td>Restricted stock remuneration (Long-term)</td>
<td>—</td>
<td>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.</td>
</tr>
</tbody>
</table>

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* 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 80:20 weighting are the KPIs for the three-year evaluation period ending January 31, 2023.

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**Composition of Remuneration**

<table>
<thead>
<tr>
<th>Payment Forms</th>
<th>Fixed Remuneration</th>
<th>Variable Remuneration</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Basic Remuneration</td>
<td>Cash</td>
</tr>
<tr>
<td>Ratio</td>
<td>Approx. 30%</td>
<td>Bonuses: Approx. 53%</td>
</tr>
<tr>
<td></td>
<td>Restricted stock remuneration</td>
<td>Stock</td>
</tr>
<tr>
<td>Ratio</td>
<td>Approx. 3%</td>
<td>Stock</td>
</tr>
</tbody>
</table>

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.

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**Officer Remuneration for FY2019**

<table>
<thead>
<tr>
<th>Officer Category</th>
<th>Total Remuneration</th>
<th>Number of Eligible Directors</th>
</tr>
</thead>
<tbody>
<tr>
<td>Directors (excluding outside directors)</td>
<td>¥394,000,000</td>
<td>11</td>
</tr>
<tr>
<td>Audit &amp; Supervisory Board members (excluding outside Audit &amp; Supervisory Board members)</td>
<td>¥57,000,000</td>
<td>6</td>
</tr>
<tr>
<td>Outside directors</td>
<td>¥157,000,000</td>
<td>7</td>
</tr>
</tbody>
</table>

---

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

<table>
<thead>
<tr>
<th>Name</th>
<th>Officer Category</th>
<th>Company Category</th>
<th>Total Remuneration</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tsunemi Aide</td>
<td>Director</td>
<td>Sekisui House</td>
<td>¥2,050,000</td>
</tr>
<tr>
<td>Shinji Uchida</td>
<td>Director</td>
<td>Sekisui House</td>
<td>¥1,158,000</td>
</tr>
<tr>
<td>Takeo Usuki</td>
<td>Director</td>
<td>Sekisui House</td>
<td>¥1,114,000</td>
</tr>
</tbody>
</table>

* 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 80:20 weighting are the KPIs for the three-year evaluation period ending January 31, 2023.
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 Keikaku, which has already produced many regional branch and office managers, I will support the establishment and monitor the effectiveness of mechanisms for developing 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 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.

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 better 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 the health and care sector 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.

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Directors and Audit & Supervisory Board Members

(As of April 24, 2020)

Toshinori Abe
Chairman & Representative Director
Apr. 1975: Joined the Company
Apr. 2019: Director, Senior Managing Officer
Jun. 2020: President & Representative Director
Jun. 2021: President & Representative Director
Golf Club Player

Yoshihiro Nakai
President & Representative Director
Apr. 1996: Joined the Company
Apr. 2012: Executive Officer, assigned to the post of Chief Officer of Corporate Management Planning and Accounting & Finance
Jan. 2013: In charge of Corporate Management Planning and Accounting & Finance
Feb. 2013: President & Representative Director (current position)

Takashi Uchida
Executive Vice President & Representative Director
Apr. 1976: Joined the Company
Apr. 2013: Executive Officer, assigned to the post of Chief Officer of Corporate Management Planning and Accounting & Finance
Apr. 2016: Executive Officer, assigned to the post of Chief Officer of Technology Division (current position)

Yukiko Yoshimaru
Director
Apr. 1973: Joined the Company
Apr. 1998: Executive Officer
Apr. 2002: Director
Apr. 2006: Senior Vice President & Representative Director
Apr. 2012: Director (current position)

Toshihumi Kitazawa
Director
Apr. 1977: Joined Tohmatsu Awoki & Co. (currently Deloitte Group of Panasonic Corporation)
Jul. 2003: Director of Tokio Marine Medical Service Co., Ltd.
Apr. 2012: Director of the Company (current position)

Satoshi Tanaka
Director
Apr. 1986: Joined NTT Data Corporation
Apr. 1992: Senior Manager of NTT Data Corporation
Apr. 2006: Manager of NTT Data Corporation
Apr. 2008: General Manager of NTT Data Corporation
May 2010: General Manager of NTT Data Corporation
Jan. 2019: Special Instructor of The Graduate School of Project Design (current position)

Kunpei Nishida
Director, Senior Managing Officer; General Manager of Boring and Wiring Business Headquarters
Apr. 1976: Joined the Company
Apr. 1999: Senior Managing Officer, assigned to the post of General Manager of West Japan Sha Maison Sales Administration Headquarters (West Japan)
Aug. 2012: Senior Managing Officer, assigned to the post of General Manager of East Japan Building Sales Administration Headquarters (East Japan)
Apr. 2014: Senior Managing Officer, assigned to the post of General Manager of West Open Building Sales Administration Headquarters (West Open Building)
Jun. 2015: Senior Managing Officer, assigned to the post of General Manager of East Open Building Sales Administration Headquarters (East Open Building)
Aug. 2015: General Manager of Accounting & Finance Business Headquarters (current position)

Yosuke Horiiuchi
Director, Senior Managing Officer
In charge of Investor Relations Division and Transaction Promotion Division
Apr. 1990: Joined the Company
Apr. 1992: Executive Officer
Apr. 1995: Senior Manager of the Investment Promotion Division of the Corporate Planning Division
Apr. 2000: Manager of the Investment Promotion Division of the Corporate Planning Division
Jun. 2005: Senior Managing Officer, assigned to the post of General Manager of the Investment Promotion Division of the Corporate Planning Division
Apr. 2017: Director (current position)

Toshifumi Kitazawa
Director, Senior Managing Officer; General Manager of Building and Wiring Business Headquarters
Apr. 1976: Joined the Company
Apr. 2012: Senior Managing Officer, assigned to the post of General Manager of Tokyo Sha Maison Sales Administration Headquarters (Tokyo)
Aug. 2012: Senior Managing Officer, assigned to the post of General Manager of Osaka Sha Maison Sales Administration Headquarters (Osaka)
Apr. 2014: Senior Managing Officer, assigned to the post of General Manager of Osaka Open Building Sales Administration Headquarters (Osaka Open Building)
Jun. 2015: Senior Managing Officer, assigned to the post of General Manager of Osaka Open Building Sales Administration Headquarters (Osaka Open Building)
Aug. 2015: General Manager of Accounting & Finance Business Headquarters (current position)

Shiro Inagaki
Vice Chairman & Representative Director
Management of Investor Relations Division
Apr. 1971: Joined the Company
Apr. 2002: Executive Officer
Apr. 2006: Senior Vice President & Representative Director
May 2017: Senior Managing Officer, assigned to the post of General Manager of Technology Division and International Business Division
Apr. 2018: Director (current position)

Toshiharu Murao
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 Officer of Technology Division and Production & Procurement Division
Apr. 2016: Managing Officer
Apr. 2018: Director (current position)

Toru Ishii
Director; Senior Managing Officer
In charge of Development Business, Condominiums Business and International Business
Apr. 2002: Joined the Company
Mar. 2010: Senior Managing Officer
May 2010: Senior Managing Officer, assigned to the post of Chief Officer of International Business Department & Executive Officer of International Business Department
Apr. 2012: Senior Managing Officer, assigned to the post of Chief Officer of International Business Department & Executive Officer of International Business Department
Apr. 2020: Director (current position)

Hisao Yamada
Standing Audit & Supervisory Board Member
Apr. 1975: Joined the Company
Apr. 2010: Executive Officer, assigned to the post of Chief Officer of Accounting & Finance Department
May 2011: Executive Vice President & Director
Apr. 2012: CFO
Apr. 2018: In charge of Technology Division
Feb. 2020: In charge of Technology Division and assigned to Chief Manager of International Business Department
Apr. 2020: Director (current position)

Hisako Makimura
Audit & Supervisory Board Member
Apr. 1976: Appointed as a public prosecutor
Dec. 2004: Assumed the office of the public prosecutor of the District Public Prosecutor’s Office of Kyoto Women’s University (current position)
Jun. 2007: Assumed the office of deputy chief public prosecutor, the Supreme Public Prosecutor’s Office
Apr. 2008: Joined Nifco Inc.
Jun. 2011: Executive Officer of Nifco Inc.
Apr. 2018: Director (current position)

Yorimoto Woda
Audit & Supervisory Board Member
Apr. 1978: Joined Oki Electric Industry Co., Ltd.
Apr. 1998: President of Oki Electric Industry Co., Ltd.
Apr. 2009: President & Representative Director of Oki Electric Industry Co., Ltd.
Apr. 2013: President & Representative Director of Oki Electric Industry Co., Ltd.
Apr. 2016: President & Representative Director of Oki Electric Industry Co., Ltd.
Apr. 2018: President & Representative Director of Oki Electric Industry Co., Ltd.
Apr. 2019: President & Representative Director of Oki Electric Industry Co., Ltd.
Apr. 2020: President & Representative Director of Oki Electric Industry Co., Ltd.

Takashi Kobayashi
Audit & Supervisory Board Member
Apr. 1976: Appointed as a public prosecutor
Apr. 1982: Joined Oki Electric Industry Co., Ltd.
Apr. 1998: Director of Oki America Inc.
Jan. 2010: Assumed the office of chief public prosecutor, the National Public Prosecutors Office
Apr. 2017: Audit & Supervisory Board Member of the Company (current position)
Apr. 2018: Visiting Scholar of the Research Center for Societal Innovation Studies, National University of Singapore

Ryuchi Tsutsumi
Audit & Supervisory Board Member
GS. 2008: Manager of Group Marketing & Sales G & SB Group of EPSON Corporation
Apr. 2010: Director of EPSON Corporation
G. 2011: Manager of Office of Audit & Supervisory Board of EPSON Corporation
Apr. 2012: Vice President of EPSON Corporation
May 2016: Director of EPSON Corporation
Apr. 2018: Audit & Supervisory Board Member of the Company (current position)
Apr. 2019: Representative of CTI Consulting (current position)

Yoshito Asano
Director
Feb. 2009: Assumed the office of chief public prosecutor, the National Public Prosecutors Office
Apr. 2010: Director
Feb. 2012: Managing Director of EPSON Corporation
Apr. 2017: Director of EPSON Corporation
Apr. 2018: Audit & Supervisory Board Member (current position)

Yukiko Yoshimaru
Director
Apr. 1973: Joined the Company
Apr. 1998: Director of the Head Office of the Mail Order Business of the Company
Oct. 2009: Director of the Head Office of the Mail Order Business of the Company
Apr. 2013: Executive Officer of the Mail Order Business of the Company
Apr. 2015: Director, General Manager of the Mail Order Business of the Company (current position)

Kunpei Nishida
Director, Senior Managing Officer; General Manager of Boring and Wiring Business Headquarters
Apr. 1976: Joined the Company
Apr. 2012: Senior Managing Officer, assigned to the post of General Manager of Oita Sha Maison Sales Administration Headquarters (Oita)
Apr. 2013: Senior Managing Officer, assigned to the post of General Manager of Oita Open Building Sales Administration Headquarters (Oita)
Apr. 2017: Senior Managing Officer, assigned to the post of General Manager of Oita Open Building Sales Administration Headquarters (Oita)
Feb. 2020: In charge of Investor Relations Division and Transaction Promotion Division (current position)

Hisako Makimura
Audit & Supervisory Board Member
Apr. 1976: Appointed as a public prosecutor
Dec. 2004: Assumed the office of the public prosecutor of the District Public Prosecutor’s Office of Kyoto Women’s University (current position)
Jan. 2010: Assumed the office of chief public prosecutor, the National Public Prosecutors Office
Apr. 2017: Audit & Supervisory Board Member of the Company (current position)
Apr. 2018: Visiting Scholar of the Research Center for Societal Innovation Studies, National University of Singapore

Kunpei Nishida
Director
Apr. 1976: Joined the Company
Apr. 2012: Senior Managing Officer, assigned to the post of General Manager of Oita Sha Maison Sales Administration Headquarters (Oita)
Apr. 2013: Senior Managing Officer, assigned to the post of General Manager of Oita Open Building Sales Administration Headquarters (Oita)
Apr. 2017: Senior Managing Officer, assigned to the post of General Manager of Oita Open Building Sales Administration Headquarters (Oita)
Feb. 2020: In charge of Investor Relations Division and Transaction Promotion Division (current position)
### Financial Data

#### Key Performance Indicators

#### Business performance

- **Net sales**: 1,613,816, 1,805,183, 1,912,712, 1,858,879, 2,026,057, 2,159,963, 2,182,316 ($2,415,186)
- **Gross profit margin (%)**: 18.6, 19.9, 19.3, 20.1, 20.6, 20.6, 20.8
- **Profit attributable to owners of parent**: 48,408, 79,801, 80,234, 84,302, 121,953, 150,224, 128,182 ($141,256)
- **Return on investment**: 6.0, 9.2, 9.0, 7.9, 11.3, 11.6, 10.8 ($11.5)
- **Assets and interest-bearing debt**: 5.6, 5.2, 5.1, 5.7, 5.2, 5.1, 4.6

#### Operations

- **New Housing Starts in Japan**: 2,415,186, 288,738
- **Owner-occupied houses**: 311,589, 354,772, 285,469, 287,266, 287,266, 287,266
- **Condominiums**: 246,810, 265,831, 237,428, 241,201, 253,552, 255,191, 275,285, 283,096
- **Detached houses**: 120,323, 127,589, 115,672, 114,570, 114,920, 110,510, 117,803
- **Rental houses**: 122,180, 134,888, 121,851, 124,222, 123,313, 124,393, 122,590, 134,888
- **Built for sale houses**: 342,289, 1,038, 1,038, 1,038, 1,038, 1,038, 1,038, 1,038
- **Sekisui House’s market share in Japan (%)**: 2,468,686

#### Non-Financial Data

- **Customer satisfaction level (%)**: 87
- **PER: Stock price at end of period ÷ (Group-wide) (%)**: 583
- **Occupancy rate (%)**: 87
- **Sales per detached house (Thousands of yen)**: 36,412, 37,002, 37,792
- **Floor area per detached house (Square meters)**: 13,933, 14,299, 14,403
- **Sales of low-rise apartments (Thousands of yen)**: 5,196, 61,284, 68,549
- **Floor area per apartment (Square meter)**: 506,353, 526,736, 545,875

#### Key Financial Ratios

- **Debt/Equity ratio (%)**: 27.39, 52.6, 33.1, 43.3, 43.3, 43.3, 43.3
- **Cash flows provided by (used in) operating activities**: 82,562, 76,673, 81,508, 87,384, 89,321, 90,226, 89,321, 90,226
- **Net cash provided by (used in) investing activities**: (56,124), (80,637), (128,328), (76,166), (107,197), (76,166), (107,197), (76,166)
- **Net cash provided by (used in) financing activities**: (17,289), (782), (32,041), (51,507), (31,054), (31,054), (31,054), (31,054)
- **Investments**: 60,915, 180,241, 121,550, 81,258, 98,277, 88,789, 58,680, 73,255
- **Depreciation**: 19,015, 22,181, 25,802, 24,438, 21,125, 21,125, 21,125, 21,125
- **Corporate value**: 880,946, 985,027, 1,027,964, 1,123,988, 1,279,610, 1,370,945, 1,321,051, 1,350,703
- **Stock price at end of period (Yen)**: 1,006, 1,434, 1,526, 1,874, 1,825, 1,988, 1,825, 2,361
- **Value market capitalization at end of period**: 89,755, 101,505, 105,953, 110,781, 117,269, 126,150, 137,382, 154,130
- **Dividend per share (Yen)**: 40,363, 45,382, 47,723, 4,991, 5,381, 6,041, 7,313
- **Dividend payout ratio (%)**: 41.5, 38.2, 44.9, 46.9, 39.9, 39.9, 39.9, 39.9

#### Trends in Housing Built by Sekisui House

- **Built-to-order detached houses**: 33,442, 34,925, 35,659
- **Built-to-order low-rise apartments**: 139,933, 141,297, 140,433
- **Built-to-order high-rise apartments**: 55,196, 61,284, 68,549
- **Floor area per apartment (Square meter)**: 506,353, 526,736, 545,875

#### Other Financial Ratios


#### Other Notes

1. Excluding hybrid bonds
2. Calendar year basis
3. Presentation changed to monthly data as of FY2018.

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### Non-Financial Data

- **Customer satisfaction level (%)**: 95.0, 95.1, 95.3, 95.4, 95.6, 95.8, 95.5
- **Green First Zero (Net zero energy house) contracts (%)**: 95.7, 61.5, 73.4, 75.5
- **Number of employees**: 24,716, 24,739, 24,923, 24,599, 24,599, 24,599
- **Number of university graduate students**: 184,660
- **Number of new university graduate hires (in above)**: 583
- **Ratio of women to new university graduate hires (%)**: 42.2
- **Average age (Years)**: 27,397
- **Average years of service**: 16.5
- **Number of female employees in managerial positions (Group-wide)**: 5,196, 61,284, 68,549
- **Ratio of female employees in managerial positions (Group-wide)**: 506,353, 526,736, 545,875
- **Number of units under management (Units)**: 87
- **Shareholders’ equity per share (Times)**: 0.84, 1.06, 1.06, 1.06, 1.06, 1.06, 1.06, 1.06

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### 8-Year Highlights (Consolidated)

#### New Housing Starts in Japan (Units)

- **Built for sale houses**: 246,810, 265,831, 237,428, 241,201, 253,552, 255,191, 275,285, 283,096
- **Detached houses**: 120,323, 127,589, 115,672, 114,570, 114,920, 110,510, 117,803
- **Rental houses**: 122,180, 134,888, 121,851, 124,222, 123,313, 124,393, 122,590, 134,888
- **Built for sale houses**: 342,289, 1,038, 1,038, 1,038, 1,038, 1,038, 1,038, 1,038
- **Floor area per apartment (Square meter)**: 506,353, 526,736, 545,875, 583

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### SEKISUI HOUSE Integrated Report 2020

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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.

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.

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

Non-operating income increased ¥5.5 billion year on year to ¥149.6 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 acquisition of jointly controlled subsidiary Otori Holdings, 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.

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.

Cash Flows

Cash and cash equivalents (cash) as of January 31, 2020 increased ¥240.3 billion from a year earlier to ¥583.2 billion. Cash provided by operating activities increased by ¥238.6 billion due to factors including profit before income taxes of ¥211.3 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 from Operating Activities

Net cash provided by operating activities increased by ¥16.0 billion year on year to ¥205.2 billion. Purchases of property, plant and equipment, including real estate for lease, decreased ¥12.7 billion to ¥66.6 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.

Free cash flow

Net cash used in financing activities increased ¥157.1 billion year on year to ¥148.1 billion. Cash dividends paid decreased ¥0.5 billion to ¥55.0 billion.
Financial Analysis

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 ¥467.6 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

<table>
<thead>
<tr>
<th>Segment</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Built-to-Order Business</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Custom detached houses</td>
<td>455,239</td>
<td>475,330</td>
<td>465,149</td>
<td>517,691</td>
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<tr>
<td>Rental housing</td>
<td>277,659</td>
<td>289,027</td>
<td>303,712</td>
<td>356,232</td>
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<td>Subtotal</td>
<td>732,999</td>
<td>764,358</td>
<td>768,862</td>
<td>873,923</td>
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<tr>
<td>Supplied Housing Business</td>
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<td></td>
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<tr>
<td>Remodeling</td>
<td>91,443</td>
<td>102,180</td>
<td>111,548</td>
<td>125,046</td>
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<td>Real estate management fees</td>
<td>361,988</td>
<td>378,247</td>
<td>393,978</td>
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<td>Subtotal</td>
<td>453,432</td>
<td>480,427</td>
<td>505,527</td>
<td>533,450</td>
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<tr>
<td>Development Business</td>
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<tr>
<td>Houses for sale</td>
<td>146,470</td>
<td>127,123</td>
<td>127,810</td>
<td>133,405</td>
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<td>Condominiums</td>
<td>77,185</td>
<td>39,681</td>
<td>52,538</td>
<td>63,083</td>
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<td>Subtotal</td>
<td>225,655</td>
<td>166,804</td>
<td>180,348</td>
<td>196,488</td>
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<tr>
<td>Overseas Business</td>
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<tr>
<td>Subtotal</td>
<td>6,825</td>
<td>24,264</td>
<td>54,844</td>
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<td>Other Businesses</td>
<td>49,348</td>
<td>57,002</td>
<td>58,794</td>
<td>74,647</td>
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<td>Total</td>
<td>1,488,369</td>
<td>1,530,577</td>
<td>1,613,816</td>
<td>1,805,102</td>
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<table>
<thead>
<tr>
<th>Segment</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Built-to-Order Business</td>
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<tr>
<td>Custom detached houses</td>
<td>45,772</td>
<td>52,476</td>
<td>48,800</td>
<td>65,813</td>
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<td>Rental housing</td>
<td>26,195</td>
<td>26,595</td>
<td>27,547</td>
<td>36,492</td>
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<td>Subtotal</td>
<td>71,967</td>
<td>79,072</td>
<td>76,347</td>
<td>102,306</td>
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<tr>
<td>Supplied Housing Business</td>
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</tr>
<tr>
<td>Remodeling</td>
<td>8,530</td>
<td>9,624</td>
<td>11,542</td>
<td>14,037</td>
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<td>Real estate management fees</td>
<td>12,429</td>
<td>14,260</td>
<td>17,039</td>
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<td>Subtotal</td>
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<td>23,885</td>
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<tr>
<td>Development Business</td>
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</tr>
<tr>
<td>Houses for sale</td>
<td>5,16</td>
<td>3,685</td>
<td>1,580</td>
<td>8,143</td>
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<tr>
<td>Condominiums</td>
<td>(1,009)</td>
<td>(9,947)</td>
<td>1,004</td>
<td>5,978</td>
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<td>Subtotal</td>
<td>4,157</td>
<td>(6,262)</td>
<td>2,584</td>
<td>14,116</td>
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<td>Overseas Business</td>
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<td>Subtotal</td>
<td>4,419</td>
<td>(5,673)</td>
<td>25,172</td>
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<td>Other Businesses</td>
<td>(3,950)</td>
<td>(3,35)</td>
<td>(440)</td>
<td>1,630</td>
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<td>Eliminations and adjustments</td>
<td>(34,876)</td>
<td>(32,580)</td>
<td>(34,907)</td>
<td>(35,443)</td>
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<tr>
<td>Total</td>
<td>56,354</td>
<td>70,897</td>
<td>86,196</td>
<td>131,930</td>
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</tbody>
</table>

Sales and Operating Income by Segment

<table>
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<tr>
<th></th>
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</thead>
<tbody>
<tr>
<td>Built-to-Order Business</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Custom detached houses</td>
<td>477,044</td>
<td>493,786</td>
<td>383,129</td>
<td>371,171</td>
<td>357,944</td>
<td>390,950</td>
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<tr>
<td>Rental housing</td>
<td>398,483</td>
<td>400,601</td>
<td>440,312</td>
<td>442,845</td>
<td>416,062</td>
<td>410,622</td>
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<td>Subtotal</td>
<td>875,527</td>
<td>894,388</td>
<td>823,442</td>
<td>814,017</td>
<td>774,006</td>
<td>801,616</td>
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<td>Supplied Housing Business</td>
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<td></td>
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<tr>
<td>Remodeling</td>
<td>134,166</td>
<td>134,458</td>
<td>133,498</td>
<td>136,843</td>
<td>141,416</td>
<td>152,720</td>
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<td>Real estate management fees</td>
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<td>469,132</td>
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<td>514,035</td>
<td>534,876</td>
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<td>583,210</td>
<td>602,631</td>
<td>626,735</td>
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<td>687,606</td>
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<td>Development Business</td>
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<tr>
<td>Houses for sale</td>
<td>118,710</td>
<td>137,464</td>
<td>142,014</td>
<td>155,481</td>
<td>148,880</td>
<td>151,268</td>
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<td>Condominiums</td>
<td>56,699</td>
<td>81,470</td>
<td>66,125</td>
<td>77,497</td>
<td>89,581</td>
<td>103,394</td>
</tr>
<tr>
<td>Subtotal</td>
<td>175,409</td>
<td>218,934</td>
<td>208,611</td>
<td>232,978</td>
<td>238,461</td>
<td>254,662</td>
</tr>
<tr>
<td>Overseas Business</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Subtotal</td>
<td>79,855</td>
<td>89,522</td>
<td>182,127</td>
<td>306,716</td>
<td>245,953</td>
<td>389,866</td>
</tr>
<tr>
<td>Other Businesses</td>
<td>31,180</td>
<td>76,784</td>
<td>80,099</td>
<td>75,137</td>
<td>73,050</td>
<td>146,322</td>
</tr>
<tr>
<td>Total</td>
<td>1,192,721</td>
<td>1,858,879</td>
<td>2,026,931</td>
<td>2,115,363</td>
<td>2,160,316</td>
<td>2,415,186</td>
</tr>
</tbody>
</table>

SEKISUI HOUSE Integrated Report 2020

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SEKISUI HOUSE Integrated Report 2020

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Independent Auditor’s Report

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 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.

April 23, 2020
Osaka, Japan

Ernst & Young ShinNihon LLC
**Consolidated Balance Sheet**

Sekisui House, Ltd. and Subsidiaries  
January 31, 2020

### Balance Sheet Details

#### Assets

<table>
<thead>
<tr>
<th>Category</th>
<th>2020</th>
<th>2019</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current assets:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents (Note 20)</td>
<td>¥ 583,298</td>
<td>¥ 342,899</td>
<td>¥ 5,348,414</td>
</tr>
<tr>
<td>Short-term investments (Notes 5, 11 and 20)</td>
<td>1,338</td>
<td>460</td>
<td>12,268</td>
</tr>
<tr>
<td>Notes and accounts receivable:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Affiliates</td>
<td>1,535</td>
<td>744</td>
<td>14,075</td>
</tr>
<tr>
<td>Trade (Note 20)</td>
<td>133,978</td>
<td>42,504</td>
<td>1,228,480</td>
</tr>
<tr>
<td>Other</td>
<td>34,980</td>
<td>35,679</td>
<td>320,741</td>
</tr>
<tr>
<td>Less allowance for doubtful accounts</td>
<td>(1,187)</td>
<td>(1,480)</td>
<td>(10,884)</td>
</tr>
<tr>
<td>Inventories (Notes 6 and 11)</td>
<td>1,005,204</td>
<td>1,100,188</td>
<td>9,216,982</td>
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<tr>
<td>Other current assets</td>
<td>56,859</td>
<td>48,284</td>
<td>521,155</td>
</tr>
<tr>
<td>Total current assets</td>
<td>1,816,005</td>
<td>1,969,318</td>
<td>16,651,431</td>
</tr>
<tr>
<td>Property, plant, and equipment, at cost:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Land (Notes 6, 7, 9 and 11)</td>
<td>284,769</td>
<td>304,071</td>
<td>2,611,132</td>
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<tr>
<td>Buildings and structures (Notes 6, 7, 9 and 11)</td>
<td>355,788</td>
<td>346,776</td>
<td>3,262,314</td>
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<tr>
<td>Machinery, equipment and other (Note 7)</td>
<td>109,815</td>
<td>99,077</td>
<td>1,006,923</td>
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<tr>
<td>Construction in progress</td>
<td>28,208</td>
<td>21,889</td>
<td>259,197</td>
</tr>
<tr>
<td>Less accumulated depreciation</td>
<td>(248,064)</td>
<td>(241,718)</td>
<td>(2,458,133)</td>
</tr>
<tr>
<td>Property, plant and equipment, net</td>
<td>510,556</td>
<td>510,395</td>
<td>4,681,423</td>
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<td>Investments and other assets:</td>
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<td></td>
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<tr>
<td>Long-term loans receivable</td>
<td>36,568</td>
<td>24,157</td>
<td>335,102</td>
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<tr>
<td>Less allowance for doubtful accounts</td>
<td>(467)</td>
<td>(218)</td>
<td>(4,466)</td>
</tr>
<tr>
<td>Investments in securities (Notes 5, 11 and 20)</td>
<td>36,097</td>
<td>23,939</td>
<td>330,636</td>
</tr>
<tr>
<td>Investments in affiliates (Notes 8 and 20)</td>
<td>41,906</td>
<td>66,317</td>
<td>384,247</td>
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<tr>
<td>Goodwill (Note 22)</td>
<td>3,097</td>
<td>4,586</td>
<td>28,397</td>
</tr>
<tr>
<td>Intangible assets</td>
<td>15,564</td>
<td>15,981</td>
<td>142,711</td>
</tr>
<tr>
<td>Deferred income taxes (Note 12)</td>
<td>31,008</td>
<td>37,728</td>
<td>284,321</td>
</tr>
<tr>
<td>Asset for retirement benefits (Note 13)</td>
<td>1,503</td>
<td>383</td>
<td>13,781</td>
</tr>
<tr>
<td>Other assets (Note 15)</td>
<td>62,219</td>
<td>73,747</td>
<td>579,672</td>
</tr>
<tr>
<td>Total investments and other assets</td>
<td>308,187</td>
<td>313,523</td>
<td>2,823,848</td>
</tr>
</tbody>
</table>

**Note:** ¥ 2,034,748 = ¥ 23,018,836 = $24,158,702

#### Liabilities and Net Assets

<table>
<thead>
<tr>
<th>Category</th>
<th>2020</th>
<th>2019</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current liabilities:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Short-term loans (Notes 10, 11 and 20)</td>
<td>¥ 166,486</td>
<td>¥ 239,472</td>
<td>¥ 1,524,554</td>
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<tr>
<td>Short-term bonds (Notes 10 and 20)</td>
<td>15,000</td>
<td>20,000</td>
<td>137,539</td>
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<tr>
<td>Current portion of long-term debt and lease obligation (Notes 10, 11 and 20)</td>
<td>19,527</td>
<td>64,781</td>
<td>179,048</td>
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<tr>
<td>Notes and accounts payable (Note 20)</td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Affiliates</td>
<td>3,206</td>
<td>5,060</td>
<td>29,397</td>
</tr>
<tr>
<td>Trade</td>
<td>216,344</td>
<td>142,367</td>
<td>1,983,716</td>
</tr>
<tr>
<td>Accrued income taxes (Note 12)</td>
<td>30,981</td>
<td>33,009</td>
<td>284,073</td>
</tr>
<tr>
<td>Advances received on construction projects (Note 23)</td>
<td>241,806</td>
<td>156,606</td>
<td>2,217,183</td>
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<tr>
<td>Accrued employees’ bonuses</td>
<td>27,939</td>
<td>25,527</td>
<td>256,180</td>
</tr>
<tr>
<td>Accrued directors’ and corporate auditors’ bonuses</td>
<td>1,524</td>
<td>1,477</td>
<td>13,974</td>
</tr>
<tr>
<td>Provision for warranties for completed construction</td>
<td>3,352</td>
<td>2,788</td>
<td>30,735</td>
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<tr>
<td>Other current liabilities</td>
<td>95,702</td>
<td>90,229</td>
<td>877,517</td>
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<td>Total current liabilities</td>
<td>821,867</td>
<td>781,318</td>
<td>7,155,916</td>
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<tr>
<td>Non-current liabilities:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Long-term liabilities:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Long-term debt and lease obligation (Notes 10, 11 and 20)</td>
<td>385,878</td>
<td>315,257</td>
<td>3,538,217</td>
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<tr>
<td>Guarantee deposits received (Note 11)</td>
<td>59,165</td>
<td>60,701</td>
<td>542,499</td>
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<tr>
<td>Accrued retirement benefits for directors and corporate auditors</td>
<td>1,108</td>
<td>1,061</td>
<td>10,160</td>
</tr>
<tr>
<td>Liability for retirement benefits (Note 13)</td>
<td>49,414</td>
<td>49,989</td>
<td>453,090</td>
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<tr>
<td>Deferred income taxes (Note 12)</td>
<td>1,279</td>
<td>1,090</td>
<td>9,980</td>
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<tr>
<td>Other liabilities (Note 14)</td>
<td>8,287</td>
<td>6,696</td>
<td>75,986</td>
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<tr>
<td>Total long-term liabilities</td>
<td>506,031</td>
<td>434,794</td>
<td>4,639,932</td>
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<tr>
<td>Contingent liabilities (Notes 11 and 15)</td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Net assets:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sekisui House, Ltd. and Subsidiaries</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Authorized: 1,978,281,000 shares</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Issued: 690,683,466 shares in 2020 and 2019</td>
<td>202,591</td>
<td>202,591</td>
<td>1,857,611</td>
</tr>
<tr>
<td>Capital surplus</td>
<td>258,994</td>
<td>251,563</td>
<td>2,374,785</td>
</tr>
<tr>
<td>Retained earnings</td>
<td>786,592</td>
<td>700,951</td>
<td>7,212,470</td>
</tr>
<tr>
<td>Less treasury stock, at cost</td>
<td>(13,668)</td>
<td>(4,216)</td>
<td>(125,326)</td>
</tr>
<tr>
<td>Total shareholders’ equity</td>
<td>1,234,509</td>
<td>1,150,899</td>
<td>11,319,540</td>
</tr>
<tr>
<td>Accumulated other comprehensive income:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net unrealized holding gain on securities</td>
<td>39,894</td>
<td>33,147</td>
<td>365,799</td>
</tr>
<tr>
<td>Deferred loss on hedges</td>
<td>(1,214)</td>
<td>(68)</td>
<td>(1,270)</td>
</tr>
<tr>
<td>Translation adjustments</td>
<td>11,174</td>
<td>21,270</td>
<td>102,458</td>
</tr>
<tr>
<td>Retirement benefits liability adjustments</td>
<td>(19,322)</td>
<td>(22,441)</td>
<td>(177,169)</td>
</tr>
<tr>
<td>Total accumulated other comprehensive income</td>
<td>31,686</td>
<td>31,920</td>
<td>290,538</td>
</tr>
<tr>
<td>Stock subscription rights (Note 16)</td>
<td>610</td>
<td>803</td>
<td>5,593</td>
</tr>
<tr>
<td>Non-controlling interests</td>
<td>40,045</td>
<td>13,312</td>
<td>367,183</td>
</tr>
<tr>
<td>Total net assets</td>
<td>1,306,850</td>
<td>1,196,924</td>
<td>11,982,854</td>
</tr>
</tbody>
</table>

**Note:** ¥ 2,034,748 = ¥ 23,018,836 = $24,158,702

*See notes to consolidated financial statements.*
**Consolidated Statement of Income**

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

<table>
<thead>
<tr>
<th></th>
<th>Millions of yen</th>
<th>Thousands of U.S. dollars (Note 1)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net sales (Notes 9, 22 and 23)</td>
<td>¥ 2,415,187</td>
<td>$22,145,489</td>
</tr>
<tr>
<td>Cost of sales (Notes 6, 9 and 16)</td>
<td>1,937,150</td>
<td>17,762,241</td>
</tr>
<tr>
<td>Gross profit</td>
<td>478,037</td>
<td>4,383,248</td>
</tr>
<tr>
<td>Selling, general and administrative expenses (Notes 16 and 17)</td>
<td>272,780</td>
<td>2,501,192</td>
</tr>
<tr>
<td>Operating income</td>
<td>205,257</td>
<td>1,882,056</td>
</tr>
<tr>
<td>Other income (expenses):</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest and dividend income</td>
<td>5,788</td>
<td>53,072</td>
</tr>
<tr>
<td>Interest expense</td>
<td>(4,161)</td>
<td>(45,076)</td>
</tr>
<tr>
<td>Loss on disposal or sales of fixed assets</td>
<td>(1,492)</td>
<td>(13,681)</td>
</tr>
<tr>
<td>Equity in earnings of affiliates</td>
<td>10,484</td>
<td>96,131</td>
</tr>
<tr>
<td>Gain on step acquisitions (Note 26)</td>
<td>8,598</td>
<td>78,837</td>
</tr>
<tr>
<td>Gain on sales of shares of subsidiaries and affiliates</td>
<td>3,640</td>
<td>33,376</td>
</tr>
<tr>
<td>Gain on sales of investments in securities (Note 5)</td>
<td>718</td>
<td>6,584</td>
</tr>
<tr>
<td>Loss on sales of investments in securities (Note 5)</td>
<td>(434)</td>
<td>(3,993)</td>
</tr>
<tr>
<td>Foreign exchange gain (loss), net</td>
<td>717</td>
<td>6,574</td>
</tr>
<tr>
<td>Loss on impairment of fixed assets (Notes 7 and 22)</td>
<td>(13,553)</td>
<td>(124,271)</td>
</tr>
<tr>
<td>Loss on revaluation of investments in securities (Note 5)</td>
<td>(2)</td>
<td>(2)</td>
</tr>
<tr>
<td>Other, net</td>
<td>(3,424)</td>
<td>(31,396)</td>
</tr>
<tr>
<td>Profit before income taxes</td>
<td>211,383</td>
<td>1,938,227</td>
</tr>
</tbody>
</table>

**Income taxes (Note 12):**

| Current | 60,197 | 51,301 | 551,962 |
| Deferred | 2,656 | 6,473 | 24,354 |
| Total   | 62,853 | 57,774 | 576,316 |

**Profit**

<table>
<thead>
<tr>
<th>2020</th>
<th>2019</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>¥ 148,530</td>
<td>¥ 129,618</td>
<td>$1,361,111</td>
</tr>
</tbody>
</table>

**Other comprehensive loss (Note 24):**

| Net unrealized holding gain (loss) on securities | 7,382 | (15,001) | 67,687 |
| Translation adjustments | (10,152) | (28,303) | (93,086) |
| Retirement benefits liability adjustments | 3,279 | (36,656) | 30,066 |
| Share of other comprehensive loss of affiliates accounted for by the equity method | (450) | (966) | (4,126) |
| Total other comprehensive income (loss) | 59 | (82,526) | 541 |

**Comprehensive income**

<table>
<thead>
<tr>
<th>2020</th>
<th>2019</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>¥ 148,589</td>
<td>¥ 46,692</td>
<td>$1,362,452</td>
</tr>
</tbody>
</table>

**Total comprehensive income attributable to:**

| Owners of parent | ¥ 141,257 | ¥ 128,589 | $1,295,223 |

**Non-controlling interests:**

| ¥ 7,382 | 998 | 69,366 |

**Owners of parent**

| ¥ 141,257 | ¥ 128,589 | $1,295,223 |

*See notes to consolidated financial statements.

**Consolidated Statement of Comprehensive Income**

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

<table>
<thead>
<tr>
<th></th>
<th>Millions of yen</th>
<th>Thousands of U.S. dollars (Note 1)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Profit</td>
<td>¥ 148,530</td>
<td>$1,361,111</td>
</tr>
<tr>
<td>Other comprehensive loss (Note 24)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net unrealized holding gain (loss) on securities</td>
<td>7,382</td>
<td>(15,001)</td>
</tr>
<tr>
<td>Translation adjustments</td>
<td>(10,152)</td>
<td>(28,303)</td>
</tr>
<tr>
<td>Retirement benefits liability adjustments</td>
<td>3,279</td>
<td>(36,656)</td>
</tr>
<tr>
<td>Share of other comprehensive loss of affiliates accounted for by the equity method</td>
<td>(450)</td>
<td>(966)</td>
</tr>
<tr>
<td>Total other comprehensive income (loss)</td>
<td>59</td>
<td>(82,526)</td>
</tr>
</tbody>
</table>

**Comprehensive income**

<table>
<thead>
<tr>
<th>2020</th>
<th>2019</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>¥ 148,589</td>
<td>¥ 46,692</td>
<td>$1,362,452</td>
</tr>
</tbody>
</table>

**Total comprehensive income attributable to:**

| Owners of parent | ¥ 141,024 | ¥ 45,694 | $1,293,086 |
| Non-controlling interests | 7,565 | 998 | 69,366 |

*See notes to consolidated financial statements.*
### Consolidated Statement of Changes in Net Assets

**Sekisui House, Ltd. and Subsidiaries**

**Year ended January 31, 2020**

<table>
<thead>
<tr>
<th>Thousands of yen (Note 1)</th>
<th>Accumulated other comprehensive income</th>
<th>Millions of yen</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Common share</td>
</tr>
<tr>
<td>Balance at January 1, 2019</td>
<td></td>
<td>$1,857,611</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Common share</td>
</tr>
<tr>
<td>Cash dividends.............</td>
<td></td>
<td>$1,857,611</td>
</tr>
<tr>
<td></td>
<td>Profit attributable to owners of parent for the year</td>
<td>--</td>
</tr>
<tr>
<td></td>
<td>Purchases of treasury stock...............</td>
<td>--</td>
</tr>
<tr>
<td></td>
<td>Sales of treasury stock...................</td>
<td>--</td>
</tr>
<tr>
<td></td>
<td>Other changes..................................</td>
<td>--</td>
</tr>
<tr>
<td></td>
<td>Change in equity of parent arising from transaction with non-controlling shareholders</td>
<td>--</td>
</tr>
<tr>
<td></td>
<td>Other changes..................................</td>
<td>--</td>
</tr>
<tr>
<td>Balance at January 1, 2020</td>
<td></td>
<td>$1,857,611</td>
</tr>
</tbody>
</table>

### Consolidated Statement of Cash Flows

**Sekisui House, Ltd. and Subsidiaries**

**Year ended January 31, 2020**

<table>
<thead>
<tr>
<th>Thousands of U.S. dollars (Note 1)</th>
<th>Millions of yen</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash flows from operating activities</td>
<td>Profit before income taxes</td>
</tr>
<tr>
<td>Adjustments for:</td>
<td>Depreciation and amortization</td>
</tr>
<tr>
<td></td>
<td>Loss on impairment of fixed assets</td>
</tr>
<tr>
<td></td>
<td>Increase (decrease) in liability for retirement benefits</td>
</tr>
<tr>
<td></td>
<td>Increase (decrease) in long-term debt</td>
</tr>
<tr>
<td></td>
<td>Increase (decrease) in dividend income</td>
</tr>
<tr>
<td></td>
<td>Increase in interest income</td>
</tr>
<tr>
<td></td>
<td>Gain in equity of affiliates</td>
</tr>
<tr>
<td></td>
<td>Gain on step acquisitions</td>
</tr>
<tr>
<td></td>
<td>Gain on sales of investments in securities, net</td>
</tr>
<tr>
<td></td>
<td>Loss on realization of investments in securities</td>
</tr>
<tr>
<td></td>
<td>Gain on sales of shares of subsidiaries, and affiliates</td>
</tr>
<tr>
<td></td>
<td>Increase (decrease) in notes and accounts receivable</td>
</tr>
<tr>
<td></td>
<td>Decrease in inventories</td>
</tr>
<tr>
<td></td>
<td>Decrease in cash and accounts payable</td>
</tr>
<tr>
<td></td>
<td>Increase in advances received on construction projects in progress</td>
</tr>
<tr>
<td></td>
<td>Other</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$265,951</td>
</tr>
<tr>
<td>Interest and dividends received</td>
<td>8,794</td>
</tr>
<tr>
<td>Interest paid</td>
<td>(6,441)</td>
</tr>
<tr>
<td>Income taxes paid</td>
<td>(98,180)</td>
</tr>
<tr>
<td><strong>Net cash provided by operating activities</strong></td>
<td>$363,766</td>
</tr>
<tr>
<td>Cash flows from investing activities</td>
<td>Proceeds from redemption of short-term investments</td>
</tr>
<tr>
<td></td>
<td>Proceeds from property, plant and equipment</td>
</tr>
<tr>
<td></td>
<td>Proceeds from sales of property, plant and equipment</td>
</tr>
<tr>
<td></td>
<td>Purchases of investments in securities</td>
</tr>
<tr>
<td></td>
<td>Proceeds from sales and redemption of investments in securities</td>
</tr>
<tr>
<td></td>
<td>Increase in loans receivable</td>
</tr>
<tr>
<td></td>
<td>Collection of loans receivable</td>
</tr>
<tr>
<td></td>
<td>Other</td>
</tr>
<tr>
<td><strong>Net cash used by investing activities</strong></td>
<td>$65,230</td>
</tr>
<tr>
<td>Cash flows from financing activities</td>
<td>(Decrease) increase in long-term loans, net</td>
</tr>
<tr>
<td></td>
<td>Proceeds from long-term debt</td>
</tr>
<tr>
<td></td>
<td>Repayment of long-term debt</td>
</tr>
<tr>
<td></td>
<td>Redemption of bonds</td>
</tr>
<tr>
<td></td>
<td>Cash dividends paid</td>
</tr>
<tr>
<td></td>
<td>Purchases of treasury stock</td>
</tr>
<tr>
<td></td>
<td>Payment for acquisition of treasury stock by a consolidated subsidiary</td>
</tr>
<tr>
<td></td>
<td>Purchases of shares of subsidiary that do not result in change in scope of consolidation</td>
</tr>
<tr>
<td></td>
<td>Other</td>
</tr>
<tr>
<td><strong>Net cash used in financing activities</strong></td>
<td>(148,160)</td>
</tr>
<tr>
<td>Effect of exchange rate changes on cash and cash equivalents</td>
<td>(3,859)</td>
</tr>
<tr>
<td><strong>Net increase in cash and cash equivalents</strong></td>
<td>$148,417</td>
</tr>
<tr>
<td>Cash and cash equivalents at beginning of period</td>
<td>$342,899</td>
</tr>
<tr>
<td><strong>Net increase in cash and cash equivalents resulting from change in scope of consolidation (Note 29)</strong></td>
<td>93,962</td>
</tr>
<tr>
<td><strong>Cash and cash equivalents at end of period</strong></td>
<td>$586,278</td>
</tr>
</tbody>
</table>

*See notes to consolidated financial statements.*

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*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 “Groups”) have been compiled from the consolidated financial statements prepared by the Company as required by the Financial Instruments and Exchange Act of Japan, which is 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 considered 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.

(k) 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.

(l) 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.

(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 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.

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.

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.

(g) Goodwill

(g) 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 tax

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 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.

Actual 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 benefit for these offices has 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.
(i) 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.

(c) Research and development costs
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 ¥77,485 million ($68,363 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 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

(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.

Hedging instruments and hedged items 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

(Accounting standards issued but not yet effective)

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” (ASBI 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 ($227,453 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:

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

<table>
<thead>
<tr>
<th>Year</th>
<th>Millions of yen</th>
<th>Thousands of U.S. dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td>2020</td>
<td>13,910</td>
<td>155,220</td>
</tr>
<tr>
<td>2019</td>
<td>9,713</td>
<td>109,217</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Year</th>
<th>Millions of yen</th>
<th>Thousands of U.S. dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td>2020</td>
<td>13,910</td>
<td>155,220</td>
</tr>
<tr>
<td>2019</td>
<td>9,713</td>
<td>109,217</td>
</tr>
</tbody>
</table>

The Group has recognized loss on realisation of investments in securities classified as other securities of ¥2 million for the year ended January 31, 2019. There was no loss on realisation 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:

<table>
<thead>
<tr>
<th>Year</th>
<th>Millions of yen</th>
<th>Thousands of U.S. dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td>2020</td>
<td>13,910</td>
<td>155,220</td>
</tr>
<tr>
<td>2019</td>
<td>9,713</td>
<td>109,217</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Year</th>
<th>Millions of yen</th>
<th>Thousands of U.S. dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td>2020</td>
<td>13,910</td>
<td>155,220</td>
</tr>
<tr>
<td>2019</td>
<td>9,713</td>
<td>109,217</td>
</tr>
</tbody>
</table>

Loss on realisation 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...
8. Investments in Affiliates

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

<table>
<thead>
<tr>
<th></th>
<th>Millions of yen</th>
<th>Thousands of U.S. dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td>2020</td>
<td>736,108</td>
<td>$8,995</td>
</tr>
<tr>
<td>2019</td>
<td>107,143</td>
<td>1,071,151</td>
</tr>
</tbody>
</table>

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:

<table>
<thead>
<tr>
<th>Location</th>
<th>Millsions of yen</th>
<th>Fair value</th>
<th>Millsions of yen</th>
<th>Fair value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Shenyang City</td>
<td>468,213</td>
<td>443,737</td>
<td>107,476</td>
<td>91,885</td>
</tr>
<tr>
<td>China etc.</td>
<td>9,842</td>
<td>9,024</td>
<td>47</td>
<td>47</td>
</tr>
<tr>
<td>Nakamura-ku, Nagoya City etc.</td>
<td>1,072</td>
<td>1,072</td>
<td>147</td>
<td>147</td>
</tr>
<tr>
<td>Other</td>
<td>1,451</td>
<td>1,525</td>
<td>822</td>
<td>822</td>
</tr>
</tbody>
</table>

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

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:

<table>
<thead>
<tr>
<th></th>
<th>Millions of yen</th>
<th>Thousands of U.S. dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td>2020</td>
<td>384,247</td>
<td>$3,854,804</td>
</tr>
<tr>
<td>2019</td>
<td>141,210</td>
<td>1,442,224</td>
</tr>
</tbody>
</table>

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.

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

Notes to Consolidated Financial Statements
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:

<table>
<thead>
<tr>
<th>Date</th>
<th>Millions of yen</th>
<th>Thousands of U.S. dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td>2020</td>
<td>2019</td>
<td></td>
</tr>
<tr>
<td>Expected return on plan assets</td>
<td>6,300</td>
<td>5,529</td>
</tr>
<tr>
<td>Actuarial gains (loss)</td>
<td>8,893</td>
<td>(12,782)</td>
</tr>
<tr>
<td>Contributions paid by the Company</td>
<td>10,181</td>
<td>7,855</td>
</tr>
<tr>
<td>Retirement benefit paid</td>
<td>(7,340)</td>
<td>(6,907)</td>
</tr>
<tr>
<td>Amount of increase resulting from change in scope of consolidation</td>
<td>-1,222</td>
<td>15,728</td>
</tr>
<tr>
<td>Net increase in fair value of plan assets</td>
<td>2,976,841</td>
<td>2,537,181</td>
</tr>
</tbody>
</table>

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.

<table>
<thead>
<tr>
<th>Date</th>
<th>Millions of yen</th>
<th>Thousands of U.S. dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td>2020</td>
<td>2019</td>
<td></td>
</tr>
<tr>
<td>Defined benefit obligations</td>
<td>2,977,120</td>
<td>3,655,120</td>
</tr>
<tr>
<td>Plan assets at fair value</td>
<td>2,780,572</td>
<td>2,930,517</td>
</tr>
<tr>
<td>Unfunded benefit obligations</td>
<td>19,548</td>
<td>24,004</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th>Date</th>
<th>Millions of yen</th>
<th>Thousands of U.S. dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td>2020</td>
<td>2019</td>
<td></td>
</tr>
<tr>
<td>Service cost</td>
<td>12,222</td>
<td>10,407</td>
</tr>
<tr>
<td>Interest cost</td>
<td>2,453</td>
<td>2,375</td>
</tr>
<tr>
<td>Actuarial loss</td>
<td>4,513</td>
<td>29,093</td>
</tr>
<tr>
<td>Retirement benefit paid</td>
<td>-1,222</td>
<td>15,728</td>
</tr>
<tr>
<td>Total service cost</td>
<td>10,851</td>
<td>10,920</td>
</tr>
</tbody>
</table>

(notes) 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 benefit liability adjustments included in other comprehensive income (before tax effect) for the years ended January 31, 2020 and 2019 are as follows:

<table>
<thead>
<tr>
<th>Date</th>
<th>Millions of yen</th>
<th>Thousands of U.S. dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td>2020</td>
<td>2019</td>
<td></td>
</tr>
<tr>
<td>Unrealized gain (loss)</td>
<td>2,780,572</td>
<td>2,930,517</td>
</tr>
<tr>
<td>Plan assets at fair value</td>
<td>2,780,572</td>
<td>2,930,517</td>
</tr>
<tr>
<td>Unrealized loss</td>
<td>(12,505)</td>
<td>(10,904)</td>
</tr>
<tr>
<td>Total</td>
<td>2,768,067</td>
<td>2,920,613</td>
</tr>
</tbody>
</table>

10. Shareholders’ Equity

4. Long-term Share Options

Other comprehensive income (before tax effect) for the years ended January 31, 2020 and 2019 are as follows:

<table>
<thead>
<tr>
<th>Date</th>
<th>Millions of yen</th>
<th>Thousands of U.S. dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td>2020</td>
<td>2019</td>
<td></td>
</tr>
<tr>
<td>Service cost</td>
<td>1,425</td>
<td>1,375</td>
</tr>
<tr>
<td>Interest cost</td>
<td>4,543</td>
<td>(6,868)</td>
</tr>
<tr>
<td>Actuarial gain (loss)</td>
<td>4,473</td>
<td>(3,006)</td>
</tr>
<tr>
<td>Accumulation of deferred plan cost</td>
<td>6,786</td>
<td>(1,486)</td>
</tr>
<tr>
<td>Other</td>
<td>112</td>
<td>184</td>
</tr>
<tr>
<td>Total</td>
<td>2,320</td>
<td>(3,179)</td>
</tr>
</tbody>
</table>

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:

<table>
<thead>
<tr>
<th>Date</th>
<th>Millions of yen</th>
<th>Thousands of U.S. dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td>2020</td>
<td>2019</td>
<td></td>
</tr>
<tr>
<td>Risk-free interest rate</td>
<td>1.7%</td>
<td>(1.7)%</td>
</tr>
<tr>
<td>Corporate bonds</td>
<td>2.3%</td>
<td>(2.3)%</td>
</tr>
<tr>
<td>Taxable bonds</td>
<td>2.7%</td>
<td>(3.5)%</td>
</tr>
<tr>
<td>Plan assets at the end of the year</td>
<td>66,587</td>
<td>66,587</td>
</tr>
</tbody>
</table>

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:

<table>
<thead>
<tr>
<th>Date</th>
<th>% of total plan assets</th>
</tr>
</thead>
<tbody>
<tr>
<td>2020</td>
<td>1 year</td>
</tr>
<tr>
<td>Corporate bonds</td>
<td>15.4%</td>
</tr>
<tr>
<td>Taxable bonds</td>
<td>84.6%</td>
</tr>
</tbody>
</table>

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.

15. Contingent Liabilities

Guarantees of bank loan of a third party with mortgaged assets

Guarantees of bank loans of a third party

Guarantees of housing loans to 3,639 customers

Guarantees of bank loan of affiliated companies

Guarantees of bank loans of a third party

Guarantees of impairment of sales contract of a third party

Guarantees of bank loans of a third party with mortgaged assets

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:

<table>
<thead>
<tr>
<th>Date</th>
<th>Millions of yen</th>
<th>Thousands of U.S. dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td>2020</td>
<td>2019</td>
<td></td>
</tr>
<tr>
<td>Net income from operations</td>
<td>1,121</td>
<td>1,121</td>
</tr>
<tr>
<td>Selling, general and administrative expenses</td>
<td>18</td>
<td>85</td>
</tr>
</tbody>
</table>
Information regarding the Company’s stock option plans is summarized as follows:

![Table]

| description | number of shares | strike price | number of shares remaining | exercise period | vesting period | exercise price
|-------------|-----------------|-------------|---------------------------|-----------------|---------------|-----------------|
| 2008 plan   | 55,000          | ¥11,491     | 26,000                     | From June 7, 2008 to June 6, 2028 | No applicable period of service is specified | ¥1
| 2009 plan   | 69,000          | ¥8,695      | 33,000                     | From April 28, 2006 to June 16, 2010 | No applicable period of service is specified | ¥1
| 2010 plan   | 48,000          | ¥3,975      | 26,000                     | From June 17, 2010 to June 14, 2014 | No applicable period of service is specified | ¥1
| 2011 plan   | 25,000          | ¥17,000     | 24,000                     | From June 17, 2010 to June 14, 2014 | -              | ¥1
| 2012 plan   | 26,000          | ¥17,000     | 24,000                     | From June 17, 2010 to June 14, 2014 | -              | ¥1
| 2013 plan   | 17,000          | ¥17,000     | 12,000                     | From June 17, 2010 to June 14, 2014 | -              | ¥1
| 2014 plan   | 17,000          | ¥17,000     | 12,000                     | From June 17, 2010 to June 14, 2014 | -              | ¥1
| 2015 plan   | 13,000          | ¥17,000     | 12,000                     | From June 17, 2010 to June 14, 2014 | -              | ¥1
| 2016 plan   | 17,000          | ¥17,000     | 12,000                     | From June 17, 2010 to June 14, 2014 | -              | ¥1
| 2017 plan   | 12,000          | ¥17,000     | 12,000                     | From June 17, 2010 to June 14, 2014 | -              | ¥1
| 2018 plan   | 17,000          | ¥17,000     | 12,000                     | From June 17, 2010 to June 14, 2014 | -              | ¥1
| 2019 plan   | 12,000          | ¥17,000     | 12,000                     | From June 17, 2010 to June 14, 2014 | -              | ¥1

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 grants acquisition of the restricted shares due to retirement of directors and executive officers, 8,222 shares resulting from the purchase of shares

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, 2020.

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

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 leases 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:

![Table]

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 are summarized as follows:

![Table]

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:

![Table]
Basic profit per share has been computed based on the profit attributable to common stockholders and the weighted-average number of shares of common stock outstanding during the year. Diluted profit per share is computed based on the net 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 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:

<table>
<thead>
<tr>
<th></th>
<th>2020</th>
<th>2019</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Basic (¥)</td>
<td>199.77</td>
<td>189.53</td>
<td>1.088</td>
</tr>
<tr>
<td>Diluted (¥)</td>
<td>195.47</td>
<td>186.29</td>
<td>1.068</td>
</tr>
<tr>
<td>Net assets</td>
<td>1,652.62</td>
<td>1,718.82</td>
<td>16.99</td>
</tr>
<tr>
<td>Cash dividends</td>
<td>81.00</td>
<td>79.50</td>
<td>0.69</td>
</tr>
</tbody>
</table>

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 effectiveness of hedging activities can be found in Note 2 (j). 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 dispensed 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 Group 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 revolving credit facility 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.

Financial instruments for which it is extremely difficult to determine the fair value as of January 31, 2020 and 2019 are as follows:

<table>
<thead>
<tr>
<th></th>
<th>2020</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Profit attributable to shareholders of parent:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Basic (¥)</td>
<td>199.77</td>
<td>189.53</td>
</tr>
<tr>
<td>Diluted (¥)</td>
<td>195.47</td>
<td>186.29</td>
</tr>
<tr>
<td>Notes and accounts receivable – trade approximate their carrying values</td>
<td>1,652.62</td>
<td>1,718.82</td>
</tr>
<tr>
<td>Total dividends attributable to common shareholders</td>
<td>81.00</td>
<td>79.50</td>
</tr>
</tbody>
</table>

In the calculation of net assets per share 483,461 680,152

Notes to Consolidated Financial Statements

SEIKES HOUSE Integrated Report 2020

SEIKES HOUSE Integrated Report 2020
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:

<table>
<thead>
<tr>
<th>Classification</th>
<th>2020</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Millions of yen</td>
<td>Description of transaction</td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>$ 503,390</td>
<td>Due one year through year-end</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Year-end</td>
</tr>
<tr>
<td>Notes and accounts receivable</td>
<td>2,172,825</td>
<td>Due one year through year-end</td>
</tr>
<tr>
<td>Corporate bonds</td>
<td></td>
<td>Year-end</td>
</tr>
<tr>
<td>Other securities with maturities</td>
<td></td>
<td>Due one year through year-end</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Year-end</td>
</tr>
<tr>
<td>Total</td>
<td>2,172,825</td>
<td>Due one year through year-end</td>
</tr>
</tbody>
</table>

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 derecognition 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:

<table>
<thead>
<tr>
<th>Classification</th>
<th>2020</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Millions of yen</td>
<td>Description of transaction</td>
</tr>
<tr>
<td>Custom detached houses</td>
<td></td>
<td>Design, construction and contracting of buildings</td>
</tr>
<tr>
<td>Rental housing</td>
<td></td>
<td>Design, construction and contracting of buildings</td>
</tr>
<tr>
<td>remodeling</td>
<td></td>
<td>Remodeling</td>
</tr>
<tr>
<td>Real estate</td>
<td></td>
<td>Sub-lease, management, operation and management fees</td>
</tr>
<tr>
<td>Houses for sale</td>
<td></td>
<td>Sale of houses and lands and designing, construction, and contracting of houses on lands for sale</td>
</tr>
</tbody>
</table>

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 hedge accounting at January 31, 2020 are as follows:

<table>
<thead>
<tr>
<th>Classification</th>
<th>2020</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Millions of yen</td>
<td>Description of transaction</td>
</tr>
<tr>
<td>Custom detached houses</td>
<td></td>
<td>Design, construction and contracting of buildings</td>
</tr>
<tr>
<td>Rental housing</td>
<td></td>
<td>Design, construction and contracting of buildings</td>
</tr>
<tr>
<td>remodeling</td>
<td></td>
<td>Remodeling</td>
</tr>
<tr>
<td>Real estate</td>
<td></td>
<td>Sub-lease, management, operation and management fees</td>
</tr>
<tr>
<td>Houses for sale</td>
<td></td>
<td>Sale of houses and lands and designing, construction, and contracting of houses on lands for sale</td>
</tr>
</tbody>
</table>
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:

<table>
<thead>
<tr>
<th>Year ended January 31, 2020</th>
<th>Millions of yen</th>
<th>Thousands of U.S. dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td>Japan</td>
<td>¥ 2,340,891</td>
<td>$1,640,522</td>
</tr>
<tr>
<td>Others</td>
<td>¥ 39,619</td>
<td>$3,617</td>
</tr>
<tr>
<td>Total</td>
<td>¥ 2,480,510</td>
<td>$1,674,139</td>
</tr>
</tbody>
</table>

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:

<table>
<thead>
<tr>
<th>Year ended January 31, 2020</th>
<th>Millions of yen</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales of detached houses</td>
<td>¥12,226</td>
</tr>
<tr>
<td>Remodeling fees</td>
<td>¥10,500</td>
</tr>
<tr>
<td>Rental detached houses</td>
<td>¥7,000</td>
</tr>
<tr>
<td>Remaining balance</td>
<td>¥9,393</td>
</tr>
</tbody>
</table>

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.

<table>
<thead>
<tr>
<th>Year ended January 31, 2020</th>
<th>Millions of yen</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net unrealized holding gain (loss) on securities:</td>
<td></td>
</tr>
<tr>
<td>Amount arising during the year</td>
<td>¥10,951</td>
</tr>
<tr>
<td>Reclassification adjustments for loss included in profit</td>
<td>¥ (43,873)</td>
</tr>
<tr>
<td>Tax effect</td>
<td>¥ (4,653)</td>
</tr>
<tr>
<td>Translation adjustment</td>
<td>¥ (2,971)</td>
</tr>
<tr>
<td>Total</td>
<td>¥ (43,873)</td>
</tr>
</tbody>
</table>

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:

<table>
<thead>
<tr>
<th>Description</th>
<th>Millions of yen</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and cash equivalents</td>
<td>¥113,705</td>
</tr>
</tbody>
</table>

(*) "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: Konoike Construction Co., Ltd.
Business description: Construction 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 2019, 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: 11.14%
Percentage of voting rights after the acquisition: 51.94%

(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

<table>
<thead>
<tr>
<th>Millions of yen</th>
<th>Thousands of U.S. dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fair value of common stock owned just before the business combination, on the date of the business combination</td>
<td>¥ 30,450</td>
</tr>
<tr>
<td>Fair value of common stock owned just before the business combination, on the date of the business combination</td>
<td>17,068</td>
</tr>
<tr>
<td>Acquisition cost</td>
<td>¥ 47,518</td>
</tr>
</tbody>
</table>

4. The differences between acquisition cost of the acquired company and total amount by transaction until acquisition

<table>
<thead>
<tr>
<th>Millions of yen</th>
<th>Thousands of U.S. dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gain on step-acquisitions</td>
<td>¥ 6,058</td>
</tr>
</tbody>
</table>

5. The amounts and major breakdown of assets acquired and liabilities assumed on the acquisition date

<table>
<thead>
<tr>
<th>Millions of yen</th>
<th>Thousands of U.S. dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current assets</td>
<td>¥ 177,248</td>
</tr>
<tr>
<td>Non-current assets</td>
<td>42,154</td>
</tr>
<tr>
<td>Total assets</td>
<td>¥ 219,402</td>
</tr>
<tr>
<td>Current liabilities</td>
<td>119,876</td>
</tr>
<tr>
<td>Non-current liabilities</td>
<td>38,876</td>
</tr>
<tr>
<td>Total liabilities</td>
<td>¥ 158,752</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th>Millions of yen</th>
<th>Thousands of U.S. dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net sales</td>
<td>¥ 169,065</td>
</tr>
<tr>
<td>Operating income</td>
<td>13,527</td>
</tr>
</tbody>
</table>

7. Major causes of changes in capital surplus
Cash dividends
(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.

8. The amounts and major breakdown of assets acquired and liabilities assumed on the acquisition date

<table>
<thead>
<tr>
<th>Millions of yen</th>
<th>Thousands of U.S. dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td>Acquisition consideration, Cash</td>
<td>¥ 41,000</td>
</tr>
</tbody>
</table>

9. 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

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:

<table>
<thead>
<tr>
<th>Millions of yen</th>
<th>Thousands of U.S. dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash dividends (41 ¥ = U.S.$ 0.38 per share)</td>
<td>¥ 189,675</td>
</tr>
</tbody>
</table>

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 earning
- 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: 684,683,468 shares

Notes to Consolidated Financial Statements
3. Acquisition of treasury stock

The Company determined to acquire treasury stock in accordance with Article 156 and Article 165 (3) of the Law at a meeting of the Board of Directors held on March 5, 2020. Details of the acquisition of treasury stock are as follows:

Objective  
In order to improve shareholder returns through flexible financing corresponding to the changes in the business environment and the improvement of return on equity

Class of treasury stock  
Common stock

Total treasury stock  
7,000,000 shares, at maximum

The Company may acquire  
Total acquisition amount ¥15,000 million (137,539 thousand), at maximum

Acquisition period  
From March 6, 2020 to January 31, 2021

Acquisition method  
Tender offer (including Nagoya Stock Exchange Trading Network Off-Auction Own Share Repurchase Trading System (N-NET3))

Under the above determination, the Company acquired treasury stocks as follows:

Class of treasury stock  
Common stock

Total treasury stock  
794,200 shares

The Company acquired  
Total acquisition amount ¥1,382 million ($12,672 thousand)

Acquisition period  
From March 6 to 31, 2020

Acquisition method  
Tender offer at Tokyo Stock Exchange

### Corporate Profile (As of January 31, 2020)

- **Corporation Name**: Sekisui House, Ltd.
- **Head Office**: 1-1-88, Oyodonaka, Kita-ku, Osaka, 531-0076, Japan
- **Date of Establishment**: August 1, 1960
- **Capital Stock**: ¥202,591.2 million
- **Personnel**: 14,801 employees (Consolidated: 27,397 employees)  
  - Authorised 1st Class Architects: 2,764
  - Authorised 2nd Class Architects: 2,021

### Research Institutes

- **Comprehensive Housing R&D Institute and Human Life R&D Institute**

### Factories

- **Tohoku Factory (Miyagi)**
- **Shizuoka Factory**
- **Hyogo Factory**
- **Kanto Factory (Ibaraki)**
- **Factories**

### Group Companies

- **Sekisui House Remodeling: 3 companies**
- **Sekisui Construction: 17 companies**
- **Other domestic subsidiaries: 20, Overseas subsidiaries: 221**

As of February 1, 2020, Sekisui Real Estate was renamed Sekisui House Real Estate.
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

<table>
<thead>
<tr>
<th>Name</th>
<th>Number of Shares Held (Thousands)</th>
<th>Shareholding Ratio (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>The Master Trust Bank of Japan, Ltd. (Trust account)</td>
<td>63,568</td>
<td>9.30%</td>
</tr>
<tr>
<td>Japan Trustee Services Bank, Ltd. (Trust account)</td>
<td>37,394</td>
<td>5.47%</td>
</tr>
<tr>
<td>Sekisui Chemical Co., Ltd.</td>
<td>37,168</td>
<td>5.44%</td>
</tr>
<tr>
<td>SMBC Nikko Securities Inc.</td>
<td>16,806</td>
<td>2.46%</td>
</tr>
<tr>
<td>Employees’ Stockholding</td>
<td>16,347</td>
<td>2.39%</td>
</tr>
<tr>
<td>Japan Trustee Services Bank, Ltd. (Trust account 5)</td>
<td>13,913</td>
<td>2.04%</td>
</tr>
<tr>
<td>MUFG Bank, Ltd.</td>
<td>13,624</td>
<td>1.99%</td>
</tr>
<tr>
<td>Japan Trustee Services Bank, Ltd. (Trust account 7)</td>
<td>12,929</td>
<td>1.89%</td>
</tr>
<tr>
<td>NORTHERN TRUST CO. (AVFC) SUB A/C NON TREATY</td>
<td>12,310</td>
<td>1.80%</td>
</tr>
<tr>
<td>The Dai-ichi Life Insurance Company, Limited</td>
<td>12,158</td>
<td>1.78%</td>
</tr>
</tbody>
</table>

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.

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

<table>
<thead>
<tr>
<th>Year</th>
<th>Share price (left scale)</th>
<th>Trading volume (right scale)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>700</td>
<td>1,000</td>
</tr>
<tr>
<td>2011</td>
<td>800</td>
<td>1,200</td>
</tr>
<tr>
<td>2012</td>
<td>900</td>
<td>1,400</td>
</tr>
<tr>
<td>2013</td>
<td>1,000</td>
<td>1,600</td>
</tr>
<tr>
<td>2014</td>
<td>1,100</td>
<td>1,800</td>
</tr>
<tr>
<td>2015</td>
<td>1,200</td>
<td>2,000</td>
</tr>
<tr>
<td>2016</td>
<td>1,300</td>
<td>2,200</td>
</tr>
<tr>
<td>2017</td>
<td>1,400</td>
<td>2,400</td>
</tr>
<tr>
<td>2018</td>
<td>1,500</td>
<td>2,600</td>
</tr>
<tr>
<td>2019</td>
<td>1,600</td>
<td>2,800</td>
</tr>
<tr>
<td>2020</td>
<td>1,700</td>
<td>3,000</td>
</tr>
</tbody>
</table>

Trading unit 100 shares
Total number of shareholders 84,580

Composition of Shares

<table>
<thead>
<tr>
<th>Shareholding Type</th>
<th>Number of Shares Held (Thousands)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Securities Companies</td>
<td>42,735</td>
</tr>
<tr>
<td>Financial Institutions</td>
<td>276,329</td>
</tr>
<tr>
<td>Other Companies</td>
<td>63,753</td>
</tr>
<tr>
<td>Individuals and others</td>
<td>98,118</td>
</tr>
<tr>
<td>Foreigners</td>
<td>209,746</td>
</tr>
<tr>
<td>Fewer than 100</td>
<td>0.01%</td>
</tr>
<tr>
<td>100 or more 1.64%</td>
<td>1,000 or more 6.82%</td>
</tr>
<tr>
<td>10,000 or more 4.82%</td>
<td>100,000 or more 13.55%</td>
</tr>
<tr>
<td>100,000,000 or more 20.43%</td>
<td></td>
</tr>
</tbody>
</table>

Note: 7,037 thousand treasury shares are included in “Individuals and others”.

Distribution by Number of Shares Held

- 5,000,000 or more 52.71%
- 1,000,000 or more 24.43%
- 100,000 or more 20.43%
- 10,000 or more 4.82%
- 100 or more 1.64%
- Fewer than 100 0.01%

Glossary

B  
BCP  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.

CRE  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.

CS Meister  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.

C  
Chief Architect  An in-house certification based on Sekisui House’s original multi-learned evaluation for employees with extensive, high-quality design skills and qualities that make them a role model for other design employees.

Chief Constructor  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.

Construction Meister  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.

Credit rating  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).

Cross-shareholding  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.

D  
Debt/Equity ratio  An indicator of the soundness of a company’s finances. Shows a company’s interest-bearing debt as a multiple of equity. The lower the ratio, the sounder a company’s finances. Debt to equity ratio = Interest-bearing debt ÷ Equity (Shareholders’ equity)

E  
EPS  Earnings per share. Indicates net income per share of a company’s stock. Net income ÷ Number of shares issued

ESG  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.

F  
FairWood  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.

Financial leverage  An indicator of the amount of debt such as bank borrowing and bond issuance utilized (leverage) in equity capital. The reciprocal of the equity ratio. Financial leverage (times) = Total capital ÷ Equity (Shareholders’ equity)

Fintech  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.

Free cash flow  Earnings before income taxes plus depreciation and amortization less capital expenditures and change in working capital.

H  
Hurdle rate  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. If the discount rate at which the present value of future cash flows provided by an investment is equal to the present value of the amount of the investment, the hurdle rate is considered to be met.)

I  
ISO 26000  Guidance on social responsibility published in November 2010. Provides guidance rather than requirements, so it is not certifiable, unlike other ISO standards.

Industrie 4.0  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.

IoT  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.

K  
Knowledge system  A database created from answers to customer inquiries during after-sales service.
Metric specifications
A design standard based on dimensions in meters. Because a meter is approximately 9 cm longer than a shaku, 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.

Open innovation
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.

PDCA
A technique for encouraging continuous work improvement by repeating the cycle of Plan → Do → Check → Act.

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.

PRIDE Index
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.

Payout ratio
The percentage of net income that is paid to shareholders as dividends.

Return on assets. The ratio of net income to total assets:

\[
ROA = \frac{\text{Operating + Interest and dividend income + Equity in earnings of affiliated}}{\text{Total assets}}
\]

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

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.

A corporate plan for the early acquisition and training of human resources expected to assume key positions.

Task Force on Climate-related Financial Disclosures. Seeks to understand the financial impact of climate change-related risks on corporate management.

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.

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.

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.

A framework for classifying businesses into main and support activities and analyzing which processes add value.

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.