ANNUAL REPORT 2017

For the year ended
January 31, 2017

SEKISUI HOUSE, LTD.

Our Corporate Profile

As Japan's leading home builder, Sekisui House, Ltd. boasts a track record of approximately 2.3 million homes built to date. Our base of business is the construction, sale, purchase and administration of residential properties; the design, execution, contracting and super-vision of construction projects; real estate brokerage and landscaping.

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

Contents

Forward-Looking Statements

The information in this annual report contains forward-looking statements regarding the Company's plan, outlook, strategies and results for the future. All the forward-looking statements are based on the Company's judgments derived from information available at the time of publication.

Therefore, certain risks and uncertainties could cause the Company's actual results to differ materially from any projections presented here.

Financial Highlights

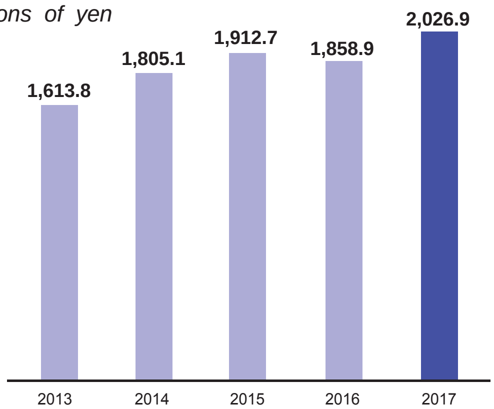
Sekisui House, Ltd. and Subsidiaries
For the year ended January 31

	Millions of yen					Thousands of U.S. dollars
	2017	2016	2015	2014	2013	**2017**
For the year:						
Net sales	¥ **2,026,932**	¥ 1,858,879	¥ 1,912,722	¥ 1,805,102	¥ 1,613,816	$ **17,809,788**
Operating income	**184,165**	149,645	146,596	131,930	86,197	**1,618,179**
Profit attributable to owners of parent	**121,853**	84,303	90,225	79,801	46,459	**1,070,670**
At year ended						
Total assets	**2,184,895**	2,029,794	1,929,410	1,769,005	1,539,273	**19,197,742**
Net assets	**1,118,264**	1,068,428	1,079,065	941,415	814,064	**9,825,710**

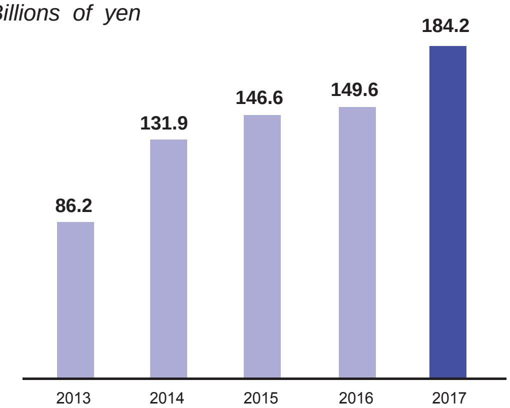
	Yen					U.S. dollars
	2017	2016	2015	2014	2013	**2017**
Per share:						
Profit attributable to owners of parent	¥ **175.48**	¥ 120.16	¥ 130.91	¥ 118.63	¥ 69.17	$ **1.54**
Net assets	**1,598.90**	1,508.81	1,527.52	1,358.60	1,200.63	**14.05**
Cash dividends applicable to the year	**64.00**	54.00	50.00	43.00	28.00	**0.56**

Note: U.S. dollar amounts above and elsewhere in this report represent translations of Japanese yen, for convenience only, at the approximate exchange rate of ¥113.81 = U.S. $1, effective at January 31, 2017.

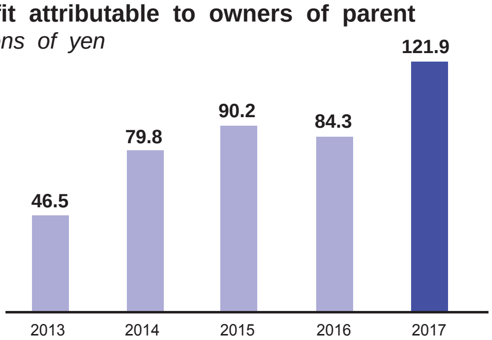
Net Sales
Billions of yen



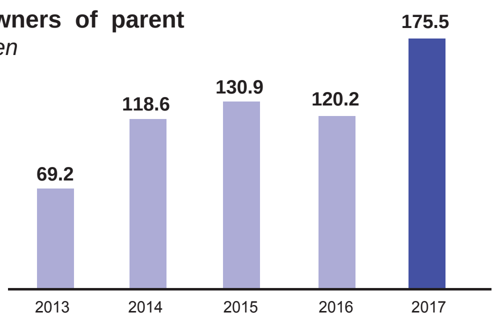
Operating Income
Billions of yen



Profit attributable to owners of parent
Billions of yen



Per Share : Profit attributable to owners of parent
Yen

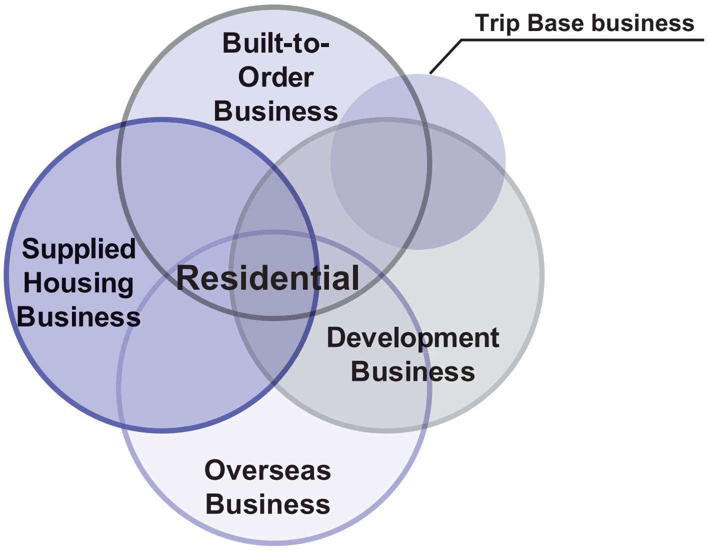


The Fourth Medium-term Management Plan (FY2017 through FY2019)

Basic Policy for the Fourth Mid-Term Management Plan

Expanding management and financial foundations to further enhance corporate value

We have launched our fourth Mid-Term Management Plan for Sekisui House, running through to fiscal 2019. With our sights set on the business environment in 2020 and beyond, when we expect to see some major changes, our basic policy entails "building the foundation for the 'residential' -related business toward BEYOND 2020." We intend to strengthen our operations and expand areas of business, and to achieve sustainable growth by focusing on creating value for residential and living environments.
As part of this plan, we have positioned "overseas business," which we have been working on since 2009, as a new core business alongside our built-to-order, supplied housing and development businesses. We will be implementing our growth strategy based on these four business models.



[**Built-to-Order Business**]
Promote stable growth and work to create quality housing stock by supplying high-value-added houses.

[**Supplied Housing Business**]
Develop business for the purpose of increasing the asset value of quality housing stock created by the Built-to-Order Business.

[**Development Business**]
Promote the creation of quality towns through the environment creation-oriented development and promote stable growth by increasing the asset turnover ratio.

[**Overseas Business**]
Provide *Sekisuihouse Quality* globally based on the environmental technologies cultivated in Japan.

Key initiatives for each business model

Built-to-Order Business
- Sales of high-value-added houses and the further enhancement of break-even point management through production and logistics reforms
- Increase in orders through the multifaceted development of β system construction method (3-and 4-story houses) and the SW construction method for hotels, nursery homes and hospitals, etc.
- Enhancement of the exterior business

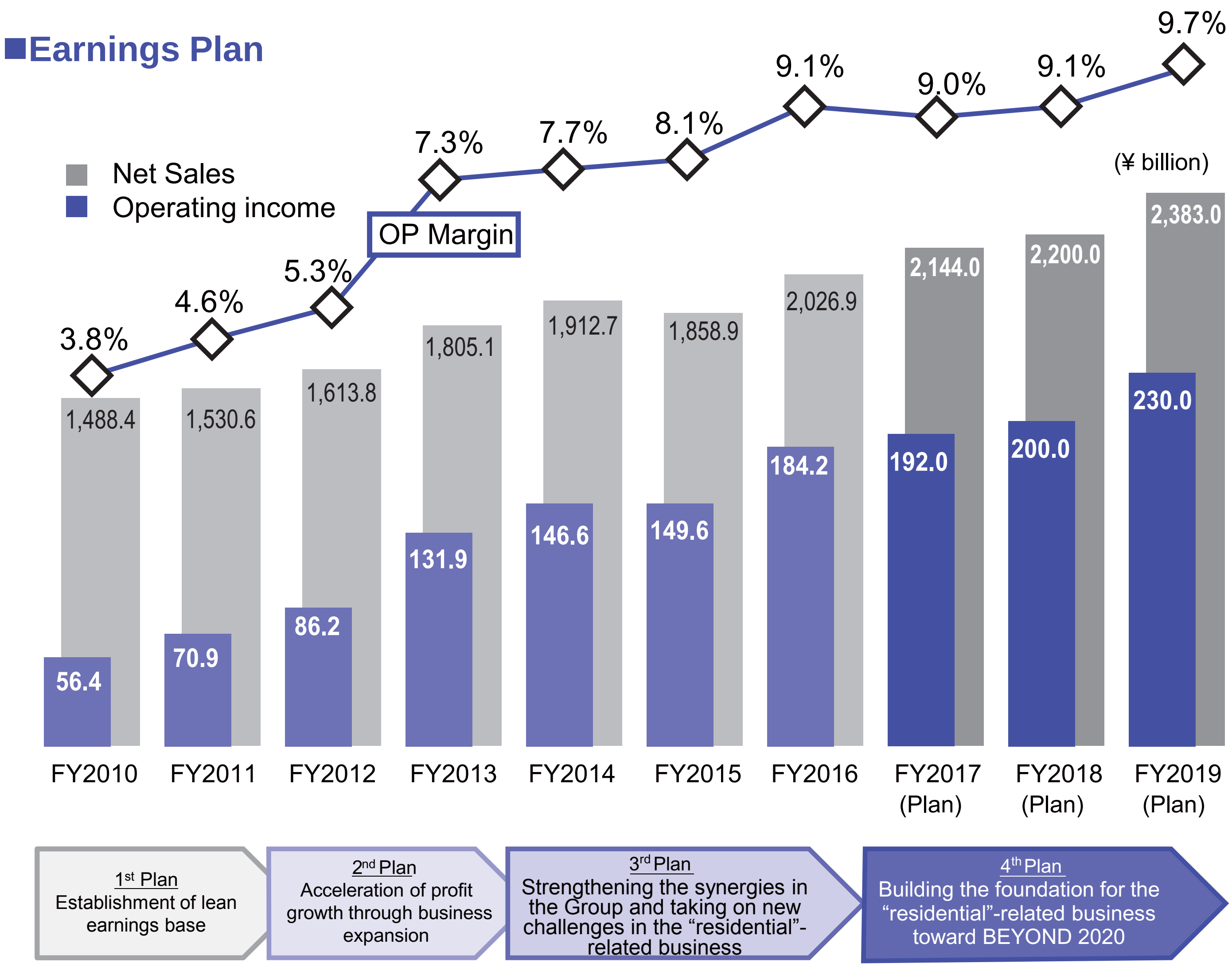
Development Business
- Focusing on development that will increase the asset turnover ratio by carefully selecting valuable land.
- Developing "Communities" that will increase in asset value in the future
- Leading the industry by actively adopting environmental technologies in the development business

Supplied Housing Business
- Increase in the asset value of quality housing stock
- Active proposal of large-scale renovation and comfortable and energy-saving remodeling
- Creation of the distribution market for existing houses (promotion of SumStockand the use of big data)

Overseas Business
- Increase business opportunities by providing high value-added houses and housing environment internationally
- Participating in earnest in the custom detached houses business in the United States

Sekisui House will work to further enhance its corporate value by strengthening its technical capabilities, construction capabilities and customer base, which are the business bases of us, as well as its financial base, mainly through the increased efficiency of the production sector and management resources.

■Earnings Plan



■Shareholder Return

	FY2014	FY2015	FY2016	FY2017 (Plan)	FY2018 (Plan)	FY2019 (Plan)
EPS (yen)	130.91	120.16	175.48	185.49	191.28	215.92
Dividends per share (yen)	50.00	54.00	64.00	75.00	Payout ratio of average 40%	
Payout ratio	38.2%	44.9%	36.5%	40.4%		
ROE	9.0%	7.9%	11.3%	11.3%	Stably generate the 10% level	

To Our Shareholders and Investors

Having achieved record operating income four years in a row, we have launched our Fourth Mid-Term Management Plan with an eye to growing even further

Toshinori Abe
President & COO

Isami Wada
Chairman & CEO

■Strengthening systems for stable growth, underpinned by three basic policies

Laying foundations for the future, with an emphasis on the "next"

We are strengthening synergies in the group and taking on new challenges in the "residential"-related business. Having achieved our initial targets of ¥2 trillion in consolidated sales and ¥100 billion in profit under our 3rd Mid-Term Management Plan, we are pleased to report that, following an upward adjustment in our operating income target, we have achieved record totals for four years in a row. We have also made good on our pledge to shareholders to secure ROE of 10%.

This is down to the fact that we have produced balanced results from the basic policies underpinning each of our business models, namely "establishing our position as the top brand in the Built-to-Order Business," "taking on challenges in new residential-related business fields in the Supplied Housing Business," and "increasing the asset turnover ratio and profitability in the Development Business." We have also been working to consistently strengthen systems in order to maintain steady growth.

From a financial perspective, we have continued to dynamically implement ongoing structural reforms since the global economic crisis in 2008. That includes our area market strategy, strengthening expertise in each sector, and stepping up cooperation within the group. As well as digging even deeper into Sekisui House's strengths as a company, and continuing to reinforce our policy of "break-even point management," we have been working to create a lean, robust corporate structure capable of maintaining sustainable growth in income.

We have now launched our Fourth Mid-Term Management Plan, and are determined to push ahead towards new targets, while maintaining a firm focus on "residential"-related businesses with potential for further market expansion in the future

■Launching our Fourth Mid-Term Management Plan

Building the foundation for the "residential"-related business toward BEYOND 2020

For our Fourth Mid-Term Management Plan, we have added a fourth core business to our existing three business models, in the form of "overseas business," and have set out a basic policy of "building the foundation for the 'residential'-related business toward BEYOND 2020." As part of our built-to-order business, we are focusing on achieving stable growth and creating quality housing stock, by supplying high added value housing. In the supplied housing sector, we are aiming to develop our business in order to increase the asset value of quality stock from our built-to-order business. In the development business, we are working to develop quality towns through environmentally oriented development, and to achieve stable growth by boosting our asset turnover ratio. As part of our overseas business, we intend to develop our business globally, based on the environmental technologies we have built up domestically.

As a new initiative, we are also working on concrete measures designed to tap into inbound demand. One of the key areas for the future is likely to be the sustained economic effect of the “extended stay” business, including experience-based tourism outside urban areas. With that in mind, we will need to have accommodation facilities to meet a wide range of needs, as part of a welcoming environment that offers both quality and individuality.

As a prime example of business aimed at tapping into inbound demand, we are working to expand our operations in areas such as hotel development and building contracting, including our new high-end serviced apartment business in conjunction with Frasers Centerpoint Group in Akasaka (Tokyo). We also have a line in developing temple lodgings, designed to make the most of Japan’s spiritual culture. We are finding more and more business opportunities such as this, as we focus on high quality living environments, whilst also capitalizing on our proven track record and strengths in terms of environmental technology and industrialized housing.

These are all socially significant ventures that tie in with the drive to regenerate regional communities. If we want to expand our operations and create new markets in the future, we will need to be sensitive to a wide range of needs and flexible enough to cater to those needs.

The fact that we are able to develop our business in such a multilayered, multifaceted manner is down to Sekisui House’s adaptability and all-round capabilities, having continued to take on advanced challenges every step of the way. We will continue to think outside the box and employ creative techniques to provide a wide array of services focused on residential needs.

We also continue to boldly take on new challenges based on business ideas that overturn conventional wisdom, driven by our sense of ambition and duty to “change society through our homes.” More and more, the housing industry has the drive and the potential to become an IoT platform, as it continues to overlap with technologies such as AI and robots. We intend to lay the foundations to expand our area of business even further in the future.

■Working more efficiently and transforming how we work

Continuing to boldly take on new challenges based on our sense of ambition and duty

In order to maintain a robust structure and strengthen the company, fulfill our social duties, and continue to increase income, one of our top priorities is to improve efficiency and productivity. Sekisui House is a house manufacturer unlike any other, with a team of around 4,300 working for group construction company Sekiwa Construction. Our construction capabilities are one of the key strengths underpinning the steady expansion of our core business. We also have affiliated contractors with whom we have built up strong trusting relationships ever since the company was founded, based on our shared goals. They are another crucial asset in terms of enhancing the brand value of Sekisui House. We are always looking to develop talent for future generations too, as we continue to carry out efficient reforms to improve our construction capabilities even further.

Providing key roles for a diverse range of human resources is another key priority that will affect the future of the company. We want to bring out our employees' passion and drive, creating workplaces in which they can compete with and help one another, and strive to grow and improve as they go about their work. When they are not at work, we encourage our employees to spend time with their families and friends, or just to themselves, so that they feel more energized and comfortable interacting with people. We continue to expand our pool of human resources, so that we can continue to grow and improve our management foundations. That is what we aspire to achieve here at Sekisui House.

Amidst continuing upheaval in socioeconomic conditions around the world, innovation is constantly gaining pace too. It is at times like these that we need to think carefully about changes, take them on board, and adhere to our philosophy as we continue along the path to growth over the medium to long term. The future is bright for Sekisui House.

■Financial analysis

In the fiscal year under review, the Japanese economy remained firm, reflecting the modest improvement of corporate earnings and strong consumer spending, although corporate capital spending remained sluggish. The outlook for the overseas economy remained unpredictable due to uncertainty over the impact of movements in association with Brexit, slowing economic growth in emerging Asian economies, and financial policies in various countries, among other factors.

In the housing market, meanwhile, people's interest in the acquisition of their own homes remained strong, reflecting declines in mortgage rates primarily as a result of the negative interest measures taken by the Bank of Japan and additional government measures to stimulate purchases of homes, as well as the continuing trend of improvements in the employment and income environments. Demand remained strong in the rental housing market, mainly in urban areas.

Under these circumstances, the Company continued to develop its business in the final year of the medium-term management plan formulated in 2014, while expanding the housing and residential-related businesses as a whole group and seeking to develop new markets, according to the brand vision "SLOW & SMART" and the Group's basic direction of "Strengthening synergies in the Group and taking on new challenges in the 'residential'-related business." In the Custom Detached Houses and Rental Housing Businesses, the Company launched new products and worked to strengthen its proposal-making capability and construction capability, while holding sales promotion events nationwide, including *Sumai no sankan-bi* (visits to model houses) and Sha Maison Festa, to win orders leveraging the establishment of a solid position as a top-ranking brand.

Net sales in FY2016 amounted to ¥2,026,932 million, up 9.0% from the previous fiscal year, reflecting the sales increase in the Rental Housing Business, Urban Redevelopment Business and Overseas Business. Operating income amounted to ¥184,165 million (up 23.1%), and profit attributable to owners of parent amounted to ¥121,853 million (up 44.5%).

Total assets increased by ¥155,101 million to ¥2,184,895 million at the end of the fiscal year under review, primarily owing to the increases in real estate for sale. Liabilities increased by ¥105,264 million to ¥1,066,631 million, mainly due to the issue of bonds payable. Net assets increased by ¥49,836 million to ¥1,118,264 million chiefly due to the posting of profit, despite the payment of dividends, the acquisition of treasury stock and a decrease in foreign currency translation adjustment.

The Japanese economy is expected to recover moderately amid continued improvements in corporate earnings and the employment and income environments, despite concerns over the impact of the uncertain global economic climate.
In the housing market, demand will remain strong due mainly to low mortgage rates and government support measures for housing construction and remodeling, notwithstanding the slow recovery of personal consumer confidence.

In this environment, the Company will build a foundation for its residential-related business under its new mid-term management plan. Throughout the Sekisui House Group, it will promote measures to help create high-quality housing stock for custom detached houses, rental houses, remodeling, etc., while expanding its business areas utilizing materials shipped from its factories. In addition, the Company will focus on expanding its overseas business, which has grown into one of its major pillars.

For the fiscal year ending January 31, 2018, the Company forecasts consolidated net sales of ¥2,144,000 million, consolidated operating income of ¥192,000 million, and profit attributable to owners of parent of ¥128,000 million.

■Basic Policy on profit distribution and dividend

The Company regards the maximization of shareholder value as one of the most important management issues. Accordingly, the Company will strive to enhance the shareholder return by increasing earnings per share through sustainable business growth and by improving asset efficiency. In doing so, it will take into comprehensive account the status of profits and cash flows in each fiscal year and future business development, among other factors, as well as making growth investments, implementing a shareholder return targeting a dividend payout ratio of 40% over the medium and long term, and acquiring and canceling its own shares in a timely manner.

For the year ended January 31, 2017, we paid an interim dividend of ¥32 and plan to pay out a year-end dividend of ¥32. For the next fiscal year ending January 31, 2018, we plan to pay out an interim dividend of ¥37 and a year-end dividend of ¥38.

I. Wada

Isami Wada
Chairman & CEO

Toshinori Abe

Toshinori Abe
President & COO

Segment Information

FY2016 Business results
Consolidated net sales: ¥2,026,932 million, Consolidated operating income: ¥184,165 million

Custom Detached Houses

Sales
¥ 383,129 million
(down 2.7% year-on-year)

Operating income
¥ 49,515 million
(up 4.9% year-on-year)

[Business details]
Design, construction, and contracting of built-to-order detached houses

[Summary]
Sales decreased given the impact of sluggish orders in the previous year, although the Company focused its efforts on sales of value-added products such as zero energy houses (Green First Zero of Sekisui House, Ltd) and the IS SERIES. On the other hand, operating income increased thanks to improvements in profit generation achieved by harnessing the Group's advantages in production, construction and logistics.

Built-to-Order Rental Housing

Sales
¥ 440,313 million
(up 9.9% year-on-year)

Operating income
¥ 60,832 million
(up 17.2% year-on-year)

[Business details]
Design, construction, and contracting of rental housing for sale, medical and nursing care facilities for sale, and other buildings

[Summary]
Both sales and profit increased on the back of an increase in unit price per building, which was attributable to the effect of thorough area marketing that leverages the Group's advantages, including measures to sell 3- and 4-story rental houses and collaborations with the Sekiwa Real Estate companies.

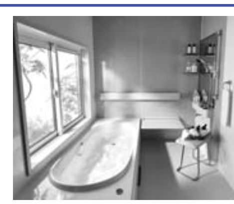
Remodeling

Sales
¥ 133,499 million
(down 0.7% year-on-year)

Operating income
¥ 17,545 million
(up 10.7% year-on-year)

[Business details]
Remodeling of residential properties

[Summary]
The Company focused on large-renovation remodeling and renovation businesses to strengthen its sales structure. In particular, the remodeling of rental buildings remained strong. Sales decreased partly due to a decline in solar-related remodeling. Even so, profit increased, reflecting improved profitability.



Real Estate Management Fees

Sales
¥ 469,133 million
(up 4.5% year-on-year)

Operating income
¥ 31,279 million
(up 16.6% year-on-year)

[Business details]
Sub-lease, management, operation and brokerage of real estate

[Summary]
The Company worked to advance penetration of the Sha-Maison brand by supplying high quality housing units. Both sales and income increased, reflecting a high occupancy rate of 96.5% and an increase in the number of units for management.

Houses for Sale

Sales
¥ 142,015 million
(up 3.3% year-on-year)

Operating income
¥ 8,823 million
(down 26.0% year-on-year)

[Business details]
Sale of houses and lands and designing, construction, and contracting of houses on lands for sale

[Summary]
Sales increased, reflecting strong business results from initiatives such as the active procurements of land and the holding of "*Machinami sankan-bi*" promotional events.

Condominiums

Sales
¥ 66,126 million
(down 18.8% year-on-year)

Operating income
¥ 2,249 million
(down 72.0% year-on-year)

[Business details]
Sale of condominiums

[Summary]
Sales decreased, reflecting the off-peak season for the delivery of condominium units. Despite that, orders remained strong for new properties for sale.

Urban Redevelopment

Sales
¥ 130,491 million
(up 40.3% year-on-year)

Operating income
¥ 23,414 million
(down 5.4% year-on-year)

[Business details]
Development of office buildings and commercial facilities, and management and operation of owned properties

[Summary]
Sales and profit increased significantly as a result of sales of properties to office and residential REITs, respectively, as well as a firm occupancy rate of rental properties owned by the Sekisui House Group.

Overseas Businesses

Sales
¥ 182,127 million
(up 103.4% year-on-year)

Operating income
¥ 25,172 million

[Business details]
Contracting of built-to-order detached houses, sale of houses and real estate, and development of facilities, including condominiums and commercial facilities, in overseas markets

[Summary]
Sales and profit increased significantly, reflecting strong business in the United States and Australia, sales of properties in Portland and Seattle in rental housing development, and progress in the delivery of condominiums in Sydney.

Other Businesses

[Business details] Mainly involving in exterior business, etc

Sales: ¥80,099 million (up 0.4% year-on-year), **Operating income**: ¥726 million (down 71.1% year-on-year)

Non Financial Information regarding ESG

■ Environmental Strategy at the Heart of Management Strategy

Sekisui House conducts business with a primary focus on its environmental strategies, as evident in the announcement of the Environmental Future Plan in 1999 and the Declaration of Sustainability in 2005.

Sekisui House has been developing technological innovations to reduce carbon dioxide emissions. In an effort to lower the impact on the environment by enhancing the performance of detached houses, we began to provide multi-layer thermal barrier insulation glass and insulated aluminum sash as standard in 2000, followed by an industry first with the introduction of next-generation energy-saving specifications as standard in 2003.

In 2008 G-8 Hokkaido Toyako Summit, we provided full support for the construction of the Zero Emission House as a futuristic residential building that emits no carbon dioxide throughout its product lifecycle, from production to dismantlement. Our environmental technologies and message were presented to the world through the media, earning strong praise. In addition, with its efforts having earned high marks, Sekisui House has been certified as Eco-First Company by the Ministry of the Environment since 2008.

In 2009, we defined environmentally friendly houses as a business axis and launched the Green First Strategy. We propose the Green First series of eco-friendly residential houses equipped with solar power generation systems as well as household fuel cells and storage batteries to cut CO_2 emissions by 50% and more in a state of occupancy.

In April 2013, the Company launched Green First Zero, in order to be ahead of time in realizing Zero Energy Houses (ZEH), which the government aims to disseminate as a standard house by 2020. This is an innovative house that drastically reduces energy consumption through high insulation values and the latest energy conservation facilities, as well as generating power using solar batteries and fuel cells, to aim for a Zero Energy Balance. In line with the government's policy that over half of all new houses built by house manufacturers and other such companies should be ZEH by fiscal 2020, Green First Zero accounted for approximately 70% of all detached house orders received in fiscal 2016, while the total number of orders received since we launched the scheme exceeded 28,000. This result gives Sekisui House the clear lead in the industry, and we see it as evidence of our strengths, such as the high-quality standard specifications of our housing and our sophisticated consulting proposals.

Our Green First initiative is not confined to new housing. We also promote Green First Remodeling for existing houses, responsible for a large proportion of CO_2 emissions in the household sector. Specifically, we propose remodeling for enhanced heat insulation efficiency and energy-saving equipment to improve living comfort as well as improved performance in energy generation and conservation.

At the COP21 conference in the French capital Paris in 2015, 70 organizations worldwide signed up to the Global Alliance for Buildings and Construction. The only Japanese names on the list were the Tokyo Metropolitan Government and Sekisui House. It is through initiatives such as this that we are aiming to reduce everyday CO_2 emissions by approximately 40% compared to levels in fiscal 2013 by 2030, including emissions from existing detached houses and rental properties.

■ Brand Vision - SLOW & SMART

Sekisui House adopted its brand vision of SLOW & SMART in 2012. We are moving forward with housing that offers richness and permanent comfort while seeking enhanced basic housing performance and advanced technologies and building the overall capability to offer lifestyle proposals.

Defining improvement in customer comfort as a priority challenge, we are working hard to develop cutting-edge technologies that help achieve the challenge. In addition to environmental technologies, we possess a large number of proprietary technologies. These include the SHEQAS seismic damping system accredited by the Minister of Land, Infrastructure, Transport and Tourism, the Airkis air environment specification, designed to cut indoor concentration of chemicals to less than half the standards set by the Japanese government, and the Bellburn earthenware exterior wall. With these technologies, we support the construction of SLOW & SMART houses.

Japan sees growing needs for, and mounting interest in, natural energy and energy conservation technologies. From an early stage, Sekisui House has focused on the smart house. We have conducted demonstrative and residential experiments in collaboration with many different companies, energy business operators and research institutions. For community building, we develop smart towns across the country. We will continue to advance housing and community construction to achieve SLOW & SMART lifestyles all over Japan and around the world.

■Development of our overseas business

Sekisui House set off its overseas business in 2009. Based on the high marks earned by our track record in eco-friendly technologies and high-quality house building, we have been launching a number of projects in Australia, the United States, China, and Singapore, in cooperation with local administrative authorities and major developers that agree with our corporate policies.

As a method of operating our business, we are proceeding with the urban development and with the housing construction and sales businesses in alliance with leading local developers and home builders. We are targeting countries and regions with population and high economic growth potential and robust demand for enriched and high-quality housing, while making a judgment on the housing market conditions and the adaptability of our businesses in each area.

We will contribute to improvements in the local housing environment and culture as a proactive creator of comfortable living environments.

■ Actions for Sustainability

In consideration of biological diversity, Sekisui House proposes the planting of native species suitable for the local climate and vegetation at the time of constructing residential buildings or areas in accordance with our original guidelines. In so doing, we are promoting the *Gohon no ki* landscaping concept that helps to conserve eco-systems. In the exterior business, the cumulative total of planted tress reached 10 million in 2013 as a result of promoting the *Gohon no ki* project.

We exhaustively practice the *Reduce, Reuse and Recycle* approach in an effort to reduce construction waste and to make effective use of resources. We have a waste disposal system with a high level of traceability that covers all processes from separation on the construction site to the recycling routes in factories. After achieving zero emissions from production plants, new building sites, after-sales maintenance and remodeling sites, we are striving to achieve the same at the time of dismantling houses.

In 2015, Sekisui House introduced integrated management of information on individual residential houses in all phases, covering sales, design, factory work, construction, and after-sales maintenance with the use of information technology. In addition, it made active use of mobile terminals to carry out operational and production reforms and to level out construction. In recognition of these actions, Sekisui House was selected as a Competitive IT Strategy Company, an honor jointly established by the Ministry of Economy, Trade and Industry and the Tokyo Stock Exchange.

We understand that one of our social missions is to pass the extensive knowledge and experience we have cultivated in our housing business on to society to help create comfortable living environments where both communities and homeowners thrive. For this reason, we engage in numerous educational activities, including initiatives to raise awareness of housing through experience and experiments, in addition to seminars for schools and the public on the subjects of housing and living as well as global warming and eco-system conservation through housing and living.

In 2013, Sekisui House established *Sumufumulab* (Osaka City) as an open innovation facility aiming to create a new housing culture. The Company transmits the values of day-to-day life to various stakeholders based on the research and development capabilities it has been cultivating for years. In 2015, the Sekisui House Eco First Park was inaugurated. The park brought together residential houses for demonstrative trials that exhibited our cutting-edge environmental technologies.

We are also involved in industry-academia collaboration with universities and research institutions for interdisciplinary research that is key to sustainability studies, including those on environmental technologies, resource recycling technologies, health considerations, robot technologies and the states of living and communities.

■ Promoting Diversity

In 2006, Sekisui House issued its Declaration for Human Resource Sustainability. It contained three pillars for supporting the participation of women in the workforce, the use of diverse human resources, and support for many different work styles and work-life balance. In the same year, the company set up the Diversity Development Team to actively work to encourage women to play active roles. In 2014, the Diversity and Inclusion Promoting Office was launched. Sekisui House carries out different efforts to help it become a sustainable corporate group that produces great extra value through mutual respect and by developing the potential of its broad range of human resources.

Specific initiatives include the Sekisui House Women's College, which is an internal training program under which prospective female executives selected from across the country learn about the managerial perspectives needed for managers and business administration in a curriculum lasting two years. Including those participating in training, there are 141 female managers in key roles throughout the Sekisui House Group at present (as of April 2017).

Sekisui House has introduced a highly flexible working system that allows working at home as well as reduced, earlier and later working hours. It has created many different programs for assistance in nursing care for family members to support the many different work styles of employees and their work-life balance. In addition, efforts are made to employ individuals with disabilities and to enhance the internal human resource development program.

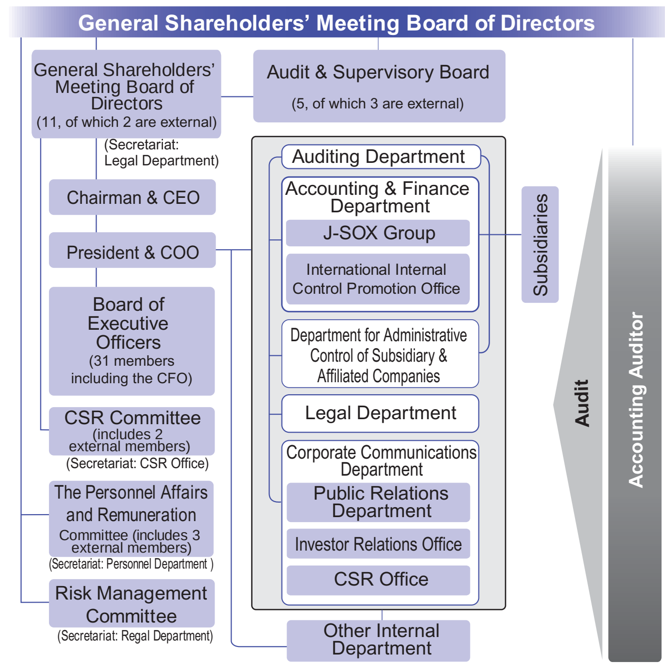
As a result of these efforts, Sekisui House has been included in the Nadeshiko list of companies that empower women and their careers through a scheme jointly run by the Ministry of Economy, Trade and Industry and the Tokyo Stock Exchange. It has been named a total of three times since the scheme was started in 2013, including selection for the fiscal year under review. Sekisui House is the only company in the housing and construction industry that has made this list four times.

■ Governance Structure

In accordance with the corporate philosophy espousing the underpinning philosophy of "Love of Humanity" that embraces "Truth and Trust", "Superior Quality and Leading Technology" and "Comfortable Housing and Ecologically Sound Communities", the Group considers corporate governance as one of the major management challenges and has put in place a system that enables speedy management marked with integrity.

To ensure the transparency of corporate administration and the timely and appropriate exertion of the check and supervisory functions, we have two outside directors and three outside auditors. We thus make clear the responsibility for management and accelerate business execution.

Corporate Governance Structure(as of April 2017)



In terms of our CSR structure too, we have a CSR Committee that acts as an advisory body to the Board of Directors. The committee includes two outside members, to enable us to take on board external perspectives on CSR management and improve our own activities.

In recognition of initiatives such as these, we are one of 26 Japanese companies included in the Dow Jones Sustainability Indices (DJSI) World Index, a leading share index that evaluates companies' environmental and social performance, as well as their financial credentials. We were also one of just three Japanese companies awarded the highest "Gold Class" in the homebuilding category at the RobecoSAM Sustainability Awards 2017.

As a structure for executing our CSR activities, the CSR Committee has been set up with two outside members, to serve as an advisory body for the board. Introducing outside perspectives to CSR management, we seek to enrich our CSR activities.

Information on these and other ESG related initiatives for FY2016 will be released in our "Sustainability Report 2017" and on our website.

Management's Discussion and Analysis

Results of Operations

For the year ended January 31

	Millions of yen					Thousands of U.S. dollars
	2017	2016	2015	2014	2013	**2017**
Net sales....................................	**¥ 2,026,932**	¥ 1,858,879	¥ 1,912,722	¥ 1,805,102	¥ 1,613,816	**$ 17,809,788**
Cost of sales..............................	**1,608,634**	1,485,011	1,544,275	1,446,602	1,314,313	**14,134,382**
Operating income.......................	**184,165**	149,645	146,596	131,930	86,197	**1,618,179**
Profit attributable to owners of parent.......................................	**121,853**	84,303	90,225	79,801	46,459	**1,070,670**

Segment Information (Note 21)
Sales by each segment

	Millions of yen					Thousands of U.S. dollars
	2017	2016	2015	2014	2013	**2017**
Custom detached houses...........	**¥ 383,129**	¥ 393,787	¥ 427,044	¥ 517,691	¥ 465,149	**$ 3,366,391**
Rental housing	**440,313**	400,601	398,483	356,203	303,713	**3,868,843**
Remodeling................................	**133,499**	134,459	134,167	125,047	111,549	**1,172,999**
Real estate management fees...	**469,133**	448,751	428,227	408,404	393,978	**4,122,072**
Houses for Sale	**142,015**	137,485	118,731	133,405	127,810	**1,247,825**
Condominiums...........................	**66,126**	81,470	56,699	63,084	52,539	**581,021**
Urban redevelopment	**130,491**	93,038	178,345	42,428	45,529	**1,146,569**
Overseas Business.....................	**182,127**	89,523	79,835	85,393	54,845	**1,600,272**
Other..	**80,099**	79,765	91,191	73,447	58,704	**703,796**
Consolidated..............................	**2,026,932**	1,858,879	1,912,722	1,805,102	1,613,816	**17,809,788**

Amounts per share (Note 18)	Yen					U.S. dollars
	2017	2016	2015	2014	2013	**2017**
Profit attributable to owners of parent. :						
Basic....................................	**¥ 175.48**	¥ 120.16	¥ 130.91	¥ 118.63	¥ 69.17	**$ 1.54**
Diluted..................................	**175.22**	119.41	125.22	110.50	64.32	**1.54**
Net assets.................................	**1,598.90**	1,508.81	1,527.52	1,358.60	1,200.63	**14.05**
Dividends..................................	**64.00**	54.00	50.00	43.00	28.00	**0.56**

Ratios

	2017	2016	2015	2014	2013
Equity ratio................................	**50.50%**	52.11%	55.38%	52.63%	52.39%
Return on assets (ROA)∗	**9.38%**	8.25%	8.40%	8.15%	5.96%
Return on equity (ROE).............	**11.28%**	7.93%	9.03%	9.19%	5.99%
D/E ratio....................................	**44.50%**	40.28%	32.92%	31.14%	33.31%

∗ ROA = (Operating income + Interest and dividend income + Equity in earnings of affiliates) / Total assets

Consolidated Balance Sheet

Sekisui House, Ltd. and Subsidiaries
January 31, 2017

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2016	**2017**
Assets			
Current assets:			
Cash and cash equivalents *(Note 19)*	**¥ 204,701**	¥ 192,338	**$ 1,798,621**
Short-term investments *(Notes 4, 10 and 19)*	**9,507**	5,700	**83,534**
Notes and accounts receivable :			
Affiliates	**5,041**	2,246	**44,293**
Trade *(Note 19)*	**44,944**	49,220	**394,904**
Other	**32,051**	30,662	**281,619**
Less allowance for doubtful accounts	**(1,172)**	(1,226)	**(10,298)**
	80,864	80,902	**710,518**
Inventories *(Notes 5 and 10)*	**997,746**	914,911	**8,766,769**
Deferred income taxes *(Note 11)*	**30,229**	31,177	**265,609**
Other current assets	**31,983**	39,905	**281,021**
Total current assets	**1,355,030**	1,264,933	**11,906,072**
Property, plant and equipment, at cost:			
Land *(Notes 6, 8 and 10)*	**325,073**	311,431	**2,856,278**
Buildings and structures *(Notes 6, 8 and 10)*	**354,012**	346,174	**3,110,552**
Machinery, equipment and other *(Note 6)*	**97,567**	94,976	**857,280**
Construction in progress	**24,951**	10,330	**219,234**
	801,603	762,911	**7,043,344**
Less accumulated depreciation	**(237,920)**	(229,736)	**(2,090,502)**
Property, plant and equipment, net	**563,683**	533,175	**4,952,842**
Investments and other assets:			
Long-term loans receivable	**40,646**	50,627	**357,139**
Less allowance for doubtful accounts	**(461)**	(543)	**(4,051)**
	40,185	50,084	**353,088**
Investments in securities *(Notes 4, 10 and 19)*	**102,661**	84,413	**902,038**
Investments in affiliates *(Notes 7, 10 and 19)*	**46,854**	31,128	**411,686**
Goodwill	**48**	106	**422**
Intangible assets	**13,297**	14,674	**116,835**
Deferred income taxes *(Note 11)*	**2,728**	2,292	**23,970**
Asset for retirement benefits *(Note 12)*	**8,117**	3,229	**71,321**
Other assets *(Note 10)*	**52,292**	45,760	**459,468**
Total investments and other assets	**266,182**	231,686	**2,338,838**
	¥ 2,184,895	¥ 2,029,794	**$19,197,742**

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2016	**2017**
Liabilities and net assets			
Current liabilities:			
Short-term loans *(Notes 9, 10 and 19)*	**¥ 150,863**	¥ 146,189	**$ 1,325,569**
Short-term bonds *(Note 9 and 19)*	**75,000**	60,000	**658,993**
Current portion of long-term debt and lease obligation *(Notes 9,10 and 19)*	**22,644**	98,651	**198,963**
Notes and accounts payable *(Note 19)* :			
Affiliates	**4,436**	3,567	**38,977**
Trade	**174,603**	162,518	**1,534,162**
Accrued income taxes *(Note 11)*	**34,312**	33,009	**301,485**
Advances received on construction projects in progress	**129,784**	117,254	**1,140,357**
Accrued employees' bonuses	**28,006**	26,628	**246,077**
Accrued directors' and corporate auditors' bonuses	**1,290**	1,063	**11,335**
Provision for warranties for completed construction	**2,800**	2,795	**24,602**
Other current liabilities	**90,208**	83,702	**792,619**
Total current liabilities	**713,946**	735,376	**6,273,139**
Long-term liabilities:			
Long-term debt and lease obligation *(Notes 9, 10 and 19)*	**242,510**	121,173	**2,130,832**
Guarantee deposits received *(Note 10)*	**59,952**	59,141	**526,773**
Accrued retirement benefits for directors and corporate auditors	**1,198**	1,151	**10,526**
Liabilities for retirement benefits *(Note 12)*	**20,266**	19,293	**178,069**
Deferred income taxes *(Note 11)*	**6,460**	1,435	**56,761**
Other liabilities	**22,299**	23,797	**195,932**
Total long-term liabilities	**352,685**	225,990	**3,098,893**
Contingent liabilities *(Note 14)*			
Net assets:			
Shareholders' equity *(Notes 15 and 24)*:			
Common stock:			
Authorized: 1,978,281,000 shares			
Issued: 709,683,466 shares in 2017 and 2016	**202,591**	202,591	**1,780,081**
Capital surplus	**253,559**	253,559	**2,227,915**
Retained earnings	**577,663**	498,094	**5,075,679**
Less treasury stock, at cost	**(37,248)**	(17,577)	**(327,283)**
Total shareholders' equity	**996,565**	936,667	**8,756,392**
Accumulated other comprehensive income:			
Net unrealized holding gain on securities	**37,840**	26,672	**332,484**
Deferred gain (loss) on hedges	**20**	(13)	**176**
Translation adjustments	**46,975**	68,748	**412,749**
Retirement benefits liability adjustements	**21,959**	25,622	**192,945**
Total accumulated other comprehensive income	**106,794**	121,029	**938,354**
Stock subscription rights *(Notes 15 and 24)*	**694**	623	**6,098**
Non-controlling interests	**14,211**	10,109	**124,866**
Total net assets	**1,118,264**	1,068,428	**9,825,710**
	¥ 2,184,895	¥ 2,029,794	**$19,197,742**

∗See notes to consolidated financial statements.

Consolidated Statement of Income

Sekisui House, Ltd. and Subsidiaries
Year ended January 31, 2017

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2016	**2017**
Net sales *(Note 21)*	**¥ 2,026,932**	¥ 1,858,879	**$17,809,788**
Cost of sales	**1,608,634**	1,485,011	**14,134,382**
Gross profit	**418,298**	373,868	**3,675,406**
Selling, general and administrative expenses *(Note 16)*	**234,133**	224,223	**2,057,227**
Operating income	**184,165**	149,645	**1,618,179**
Other income (expenses):			
Interest and dividend income	**3,557**	4,148	**31,254**
Interest expense	**(2,326)**	(1,031)	**(20,437)**
Loss on sales or disposal of fixed assets	**(536)**	(3,189)	**(4,710)**
Equity in earnings of affiliates	**10,022**	9,428	**88,059**
Loss on impairment of fixed assets *(Note 6)*	**(5,155)**	(10,617)	**(45,295)**
Foreign exchange loss, net	**(2,482)**	(478)	**(21,808)**
Gain on sales of investments in securities *(Note 4)*	**–**	8,996	**–**
Loss on project change	**–**	(4,443)	**–**
Loss on revaluation of investments in securities	**–**	(482)	**–**
Other, net	**(1,946)**	(1,123)	**(17,099)**
Profit before income taxes	**185,299**	150,854	**1,628,143**
Income taxes *(Note 11)*:			
Current	**54,486**	54,589	**478,745**
Deferred	**3,917**	10,078	**34,417**
	58,403	64,667	**513,162**
Profit	**126,896**	86,187	**1,114,981**
Profit attributable to :			
Non-controlling interrests	**(5,043)**	(1,884)	**(44,311)**
Owners of parent	**¥ 121,853**	¥ 84,303	**$ 1,070,670**

∗See notes to consolidated financial statements.

Consolidated Statement of Comprehensive Income

Sekisui House, Ltd. and Subsidiaries
Year ended January 31, 2017

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2016	**2017**
Profit	**¥ 126,896**	¥ 86,187	**$ 1,114,981**
Other comprehensive loss *(Note 23)*:			
Net unrealized holding gain (loss) on securities	**11,454**	(1,543)	**100,642**
Deferred gain (loss) on hedges	**13**	(12)	**114**
Translation adjustments	**(21,226)**	(21,830)	**(186,504)**
Retirement benefits liability adjustments	**(3,625)**	(10,580)	**(31,851)**
Share of other comprehensive loss of affiliates accounted for by the equity method	**(905)**	(628)	**(7,952)**
Total other comprehensive loss	**(14,289)**	(34,593)	**(125,551)**
Comprehensive income	**¥ 112,607**	¥ 51,594	**$ 989,430**

Total comprehensive income attributable to:			
Owners of parent	**¥ 107,618**	¥ 49,759	**$ 945,594**
Non-controlling interests	**4,989**	1,835	**43,836**

∗See notes to consolidated financial statements.

Consolidated Statement of Changes in Net Assets

Sekisui House, Ltd. and Subsidiaries
Year ended January 31, 2017

	Millions of yen											
						Accumulated other comprehensive income						
	Number of shares in issue	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Net unrealized holding gain on securities	Deferred gain (loss) on hedges	Translation adjustments	Retirement benefits liability adjustments	Stock subscription rights	Non-controlling interests	Total net assets
Balance at February 1, 2015	**699,845,934**	**¥191,716**	**¥248,684**	**¥466,950**	**¥(500)**	**¥28,203**	**¥0**	**¥91,168**	**¥36,202**	**¥537**	**¥10,105**	**¥1,079,065**
Cumulative effects of changes in accounting policies...............	-	-	-	(15,237)	-	-	-	-	-	-	-	(15,237)
Balance at February 1, 2015, as adjusted...............................	699,845,934	197,716	248,684	451,713	(500)	28,203	0	91,168	36,202	537	10,105	1,063,828
Issuance of new shares..............	9,837,532	4,875	4,875	-	-	-	-	-	-	-	-	9,750
Profit attributable to owners of parent for the year....................	-	-	-	84,303	-	-	-	-	-	-	-	84,303
Cash dividends...........................	-	-	-	(36,391)	-	-	-	-	-	-	-	(36,391)
Purchases of treasury stock........	-	-	-	-	(20,037)	-	-	-	-	-	-	(20,037)
Sales of treasury stock................	-	-	-	(1,531)	2,960	-	-	-	-	-	-	1,429
Other changes............................	-	-	-	-	-	(1,531)	(13)	(22,420)	(10,580)	86	4	(34,454)
Balance at February 1, 2016	**709,683,466**	**¥202,591**	**¥253,559**	**¥498,094**	**¥(17,577)**	**¥26,672**	**¥(13)**	**¥68,748**	**¥25,622**	**¥623**	**¥10,109**	**¥1,068,428**
Profit attributable to owners of parent for the year....................	-	-	-	121,853	-	-	-	-	-	-	-	121,853
Cash dividends...........................	-	-	-	(41,087)	-	-	-	-	-	-	-	(41,087)
Purchases of treasury stock........	-	-	-	-	(22,018)	-	-	-	-	-	-	(22,018)
Sales of treasury stock................	-	-	-	(1,197)	2,347	-	-	-	-	-	-	1,150
Other changes............................	-	-	-	-	-	11,168	33	(21,773)	(3,663)	71	4,102	(10,062)
Balance at January 31, 2017	**709,683,466**	**¥202,591**	**¥253,559**	**¥577,663**	**¥(37,248)**	**¥37,840**	**¥20**	**¥46,975**	**¥21,959**	**¥694**	**¥14,211**	**¥1,118,264**

	Thousands of U.S. dollars (Note 1)										
					Accumulated other comprehensive income						
	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Net unrealized holding gain on securities	Deferred gain (loss) on hedges	Translation adjustments	Retirement benefits liability adjustments	Stock subscription rights	Non-controlling interests	Total net assets
Balance at February 1, 2016	**$1,780,081**	**$2,227,915**	**$4,376,540**	**$(154,442)**	**$234,356**	**$(114)**	**$604,059**	**$225,130**	**$5,474**	**$88,823**	**$9,387,822**
Profit attributable to owners of parent for the year....................	-	-	1,070,670	-	-	-	-	-	-	-	1,070,670
Cash dividends...........................	-	-	(361,014)	-	-	-	-	-	-	-	(361,014)
Purchases of treasury stock........	-	-	-	(193,463)	-	-	-	-	-	-	(193,463)
Sales of treasury stock................	-	-	(10,517)	20,622	-	-	-	-	-	-	10,105
Other changes............................	-	-	-	-	98,128	290	(191,310)	(32,185)	624	36,043	(88,410)
Balance at January 31, 2017	**$1,780,081**	**$2,227,915**	**$5,075,679**	**$(327,283)**	**$332,484**	**$176**	**$412,749**	**$192,945**	**$6,098**	**$124,866**	**$9,825,710**

*See notes to consolidated financial statements.

Consolidated Statement of Cash Flows

Sekisui House, Ltd. and Subsidiaries
Year ended January 31, 2017

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2016	**2017**
Cash flows from operating activities			
Profit before income taxes	**¥ 185,299**	¥ 150,854	**$ 1,628,143**
Adjustments for:			
Depreciation and amortization	**23,125**	24,438	**203,190**
Loss on impairment of fixed assets	**5,155**	10,617	**45,295**
Increase in liability for retirement benefits	**532**	75	**4,674**
Increase in asset for retirement benefits	**(10,531)**	(13,518)	**(92,531)**
Interest and dividend income	**(3,557)**	(4,148)	**(31,254)**
Interest expense	**2,326**	1,031	**20,437**
Equity in earnings of affiliates	**(10,022)**	(9,428)	**(88,059)**
Gain on sales of investments in securities	**–**	(8,996)	**–**
Loss on revaluation of investments in securities	**–**	482	**–**
Decrease in notes and accounts receivable	**792**	3,600	**6,959**
Increase in inventories	**(62,733)**	(97,632)	**(551,208)**
Increase in notes and accounts payable	**34,692**	6,133	**304,824**
Increase in advances received on construction projects in progress	**13,278**	15,296	**116,668**
Other	**(12,803)**	9,314	**(112,494)**
Subtotal	**165,553**	88,118	**1,454,644**
Interest and dividends received	**7,092**	4,152	**62,315**
Interest paid	**(2,598)**	(1,447)	**(22,828)**
Income taxes paid	**(54,226)**	(44,938)	**(476,461)**
Net cash provided by operating activities	**115,821**	45,885	**1,017,670**
Cash flows from investing activities			
Proceeds from sales of short-term investments	**2,800**	440	**24,602**
Proceeds from sales of property, plant and equipment	**448**	144	**3,936**
Purchases of property, plant and equipment	**(94,588)**	(77,818)	**(831,104)**
Proceeds from sales and redemption of investments in securities	**910**	13,600	**7,996**
Purchases of investments in securities	**(6,463)**	(9,913)	**(56,788)**
Increase in loans receivable	**(8,875)**	(1,360)	**(77,981)**
Collection of loans receivable	**9,725**	4,851	**85,449**
Other	**(11,354)**	(6,111)	**(99,762)**
Net cash used in investing activities	**(107,397)**	(76,167)	**(943,652)**
Cash flows from financing activities			
Proceeds from issuance of short-term bonds	**(25,000)**	40,000	**(219,664)**
Increase in short-term loans, net	**6,636**	78,332	**58,307**
Proceeds from issuance of bonds	**80,000**	30,000	**702,926**
Redemption of bonds	**–**	(70,000)	**–**
Proceeds from long-term debt	**155,594**	100,991	**1,367,138**
Repayment of long-term debt	**(145,600)**	(89,723)	**(1,279,325)**
Cash dividends paid	**(41,087)**	(36,391)	**(361,014)**
Purchases of treasury stock	**(22,015)**	(20,035)	**(193,436)**
Other	**(3,016)**	(1,089)	**(26,500)**
Net cash provided by financing activities	**5,512**	32,085	**48,432**
Effect of exchange rate changes on cash and cash equivalents	**(1,573)**	(4,473)	**(13,822)**
Net increase (decrease) in cash and cash equivalents	**12,363**	(2,670)	**108,628**
Cash and cash equivalents at beginning of the year	**192,338**	195,008	**1,689,993**
Cash and cash equivalents at end of the year	**¥ 204,701**	¥ 192,338	**$ 1,798,621**

∗See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Sekisui House, Ltd. and Subsidiaries
January 31, 2017

1. Basis of Preparation

The accompanying consolidated financial statements of Sekisui House, Ltd. (the "Company") and its subsidiaries (collectively, the "Group") have been compiled from the consolidated financial statements prepared by the Company as required by the Financial Instruments and Exchange Act of Japan. In preparing the accompanying consolidated financial statements, certain reclassifications and rearrangements have been made to present them in a form which is familiar to readers outside Japan. In addition, the notes to the accompanying consolidated financial statements include information which is not required under accounting principles generally accepted in Japan but is presented herein as additional information.
The translation of Japanese yen amounts into U.S. dollars is included solely for the convenience of the reader and has been made at ¥113.81 = U.S.$1.00, the approximate rate of exchange in effect on January 31, 2017. This translation should not be construed as a representation that the Japanese yen amounts have been, could have been, or could in the future be, converted into U.S. dollar amounts at the above or any other rate.

2. Summary of Significant Accounting Policies

(a) Principles of consolidation
The accompanying consolidated financial statements include the accounts of the Company and all 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.
For consolidation purposes, the financial statements of the subsidiaries whose balance sheet dates are either March 31, May 31 or November 30 were prepared as of and for the year ended January 31, 2017.
The balance sheet date of overseas subsidiaries and one domestic subsidiary is December 31. Any significant differences in intercompany accounts and transactions arising from intervening intercompany transactions during the period from January 1 through January 31 have been adjusted, if necessary.

(b) Foreign currency translation
All monetary assets and liabilities denominated in foreign currencies are translated into yen at the rates of exchange in effect at the balance sheet date, except that receivables and payables hedged by qualified forward foreign exchange contracts are translated at the corresponding forward foreign exchange contract rates. Gain or loss on each translation is credited or charged to income.
The financial statements of overseas subsidiaries are translated into yen at the rate of exchange in effect at the balance sheet date except that the components of net assets are translated at their historical exchange rates. The income statement accounts are translated at the average exchange rate during the year. Differences arising from the translations are included in "Translation adjustments" and "Non-controlling interests" in the accompanying consolidated balance sheets.

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

(d) Short-term investments and investments in securities
Securities other than those of affiliates are classified into three categories: trading securities, held-to-maturity debt securities and other securities.

Trading securities, consisting of debt and marketable equity securities, are stated at fair value. Gain or loss, both realized and unrealized, is credited or charged to income. Held-to-maturity debt securities are stated at amortized cost. Marketable securities classified as other securities are carried at fair value with any changes in unrealized holding gain or loss, net of the applicable income taxes, reported as a separate component of accumulated other comprehensive income. Cost of securities sold is determined by the moving average method. Non-marketable securities classified as other securities are carried at cost determined by the moving average method.
Under the Corporation Law of Japan (the "Law"), unrealized holding gain on other securities, net of the related taxes, is not available for distribution as dividends.

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

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

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

(h) Intangible assets (except for leased assets)
Amortization of intangible assets is calculated by the straight-line method over the estimated useful lives of the respective assets.

(i) Leases
Leased assets under finance lease transactions which do not transfer ownership to the lessee are capitalized and depreciated or amortized over the respective lease terms to a nil residual value by the straight-line method.
Finance lease transactions commencing on or before January 31, 2009 other than those in which the ownership of the leased assets is transferred to the lessee continue to be accounted for as operating leases.

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

(k) Consumption taxes
Transactions subject to consumption taxes are recorded at amounts exclusive of consumption taxes.
Consumption taxes paid not offset by consumption taxes received in accordance with the Consumption Tax Act of Japan are charged to income when incurred. In certain subsidiaries, which are mainly engaged in the real estate leasing business, consumption taxes paid not offset by consumption taxes received in accordance with the Consumption Tax Act of Japan that arise from the purchases of tangible fixed assets are

recorded as “Other assets” and amortized over 5 years by the straight-line method.

(l) Allowance for doubtful accounts

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

(m) Accrued employees’ bonuses

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

(n) Accrued directors’ and corporate auditors’ bonuses

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

(o) Provision for warranties for completed construction

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

(p) Retirement benefits

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

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

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

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

(q) Recognition of revenues and costs of construction contracts

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

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

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

(s) Research and development cost

Research and development cost is charged to income as incurred.

(t) Capitalization of interest expenses

Interest expenses incurred for real estate development projects conducted by certain overseas subsidiaries have been capitalized as a part of the development cost of such projects.

For the years ended January 31, 2017 and 2016, interest expenses that were capitalized and included in inventories as part of “Construction for sale, including projects under construction,” “Land held for sale,” “Land held for development” and “Construction in progress” were ¥7,321 million ($64,327 thousand) and ¥9,765 million, ¥2,287 million ($20,095 thousand) and ¥1,598 million, and ¥516 million ($4,534 thousand) and ¥1,024 million, and ¥527 million ($4,631 thousand) and nil, respectively.

(u) Derivative transactions and hedge accounting

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

Foreign exchange contracts are used to hedge foreign currency trade receivables and payables and forecasted transactions. In addition, interest rate swap contracts are used to hedge bank loans.

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

The Company also formally assesses, at the hedge’s inception, whether the derivatives used in the hedging transactions are highly effective in offsetting any changes in fair values or cash flows of the hedged items so that the actual fluctuations of each hedge are within the acceptable range of approximately 80% to 125%. However, an evaluation of effectiveness of forward foreign exchange contracts was omitted because the significant terms related to the hedged items and hedging instruments are the same and cash flows are also fixed.

(Accounting standards issued but not yet effective)

Implementation Guidance on Recoverability of Deferred Tax Assets

On March 28, 2016, the Accounting Standards Board of Japan (ASBJ) issued “Implementation Guidance on Recoverability of Deferred Tax Assets” (ASBJ Guidance No.26).

(a) Overview

“Implementation Guidance on Recoverability of Deferred Tax Assets” basically transferred the accounting guidance included in the Japanese Institute of Certified Public Accountants Audit Committee Report No.66 “Audit Treatment on Determining the Recoverability of Deferred Tax Assets” (JICPA Report No.66) to the ASBJ. The ASBJ basically continues to apply the framework of the JICPA Report No.66, whereby companies are categorized into five categories and deferred tax assets are calculated based on each of these categories. However, the ASBJ conducted a necessary review regarding the partial accounting treatments for the categorizing criteria and recoverability of deferred tax assets and established the guidance in applying “Accounting Standard for Tax Effect Accounting” (Business Accounting Council of Japan), regarding the recoverability for deferred tax assets.

(1) Treatment is clarified for entities that do not meet the criteria for any of the five categories.

(2) Criteria for classifying entities as “Category 2” or “Category 3” is changed from ordinary income to taxable income in the absence of infrequent or unusual events.

(3) For “Category 2” entities, deferred tax assets attributable to deductible temporary differences for which scheduling the timing of the reversals is not possible are considered to be realizable if certain conditions are met.

Under Audit Committee Report No.66, deferred tax assets are considered to be realizable to the extent not exceeding the amount based on a scheduling of future reversals of temporary differences.

(4) For “Category 3” entities, the future period of estimated taxable income can be estimated in excess of five years if certain conditions are met.

Under Audit Committee Report No.66, the future estimable period is generally limited to five years.

(5) For entities classified as “Category 4,” they can be treated as “Category 2” or “Category 3” if certain conditions are met and such entities can use the methods of measurement of deferred tax assets stipulated in “Category 2” or “Category 3.”

(b) Scheduled date of adoption

The Company and its domestic subsidiaries plan to adopt the guidance effective from February 1, 2017.

(c) Impact of adoption

The Company is currently evaluating the effect of adopting this revised implementation guidance on its consolidated financial statements.

3. Changes in Accounting Policies

(a) Application of Accounting Standards regarding Business Combinations

Effective from the fiscal year ended January 31, 2017, the Group adopted “Accounting Standard for Business Combinations” (ASBJ Statement No.21, September 13, 2013; hereinafter “Business Combinations Accounting Standard”), “Accounting Standard for Consolidated Financial Statements” (ASBJ Statement No.22, September 13, 2013; hereinafter “Consolidation Accounting Standard”), “Accounting Standard for Business Divestitures” (ASBJ Statement No.7, September 13, 2013; hereinafter “Business Divestitures Accounting Standard”) and other standards. Accordingly, the accounting method has been changed such that the differences associated with changes in equity in subsidiaries remaining under the control of the Group are recorded in capital surplus, and acquisition-related costs are recorded as expenses for the fiscal year of incurrence.

For business combinations implemented from the beginning of the fiscal year ended January 31, 2017, the accounting method has been changed so as to reflect the adjustments to the allocated amount of acquisition costs on the finalization of provisional accounting treatment in the consolidated financial statements for the year in which the business combination occurs. Additionally, the presentation method of “net income” was amended and the description of “minority interests” was changed to “non-controlling interests”. The Group has applied the standards mentioned above from the beginning of the fiscal year ended January 31, 2017, following the transitional treatment prescribed in Article 58-2 (4) of the Business Combinations Accounting Standard, Article 44-5 (4) of the Consolidation Accounting Standard and Article 57-4 (4) of the Business Divestitures Accounting Standard. There was no effect of this adoption on the accompanying consolidated financial statements for the year ended January 31, 2017.

(b) Application of Practical Solution on Accounting for Changes in Depreciation Method related to the 2016 Tax Law Changes

Due to a change in the corporation tax law, effective the year ended January 31, 2017, the Company and its domestic subsidiaries have adopted “Practical Solution on Accounting for Changes in Depreciation Method related to the 2016 Tax Law Changes” (ASBJ Practical Issues Task Force No. 32, issued on June 17, 2016). The depreciation for concerning structures attached to the buildings and structures which were acquired on or after April 1, 2016 was changed to the straight-line method from the declining-balance method. The effect of this adoption on the accompanying consolidated financial statements for the year ended January 31, 2017 was immaterial.

4. Short-Term Investments and Investments in Securities

Information on held-to-maturity debt securities with determinable market value at January 31, 2017 and 2016 were as follows:

	Millions of yen							
	Held-to-maturity debt securities							
	2017				2016			
	Carrying value	Gross unrealized gain	Gross unrealized loss	Estimated fair value	Carrying value	Gross unrealized gain	Gross unrealized loss	Estimated fair value
Market value determinable:								
National Bonds	**¥ 1,989**	**¥ 5**	**¥ –**	**¥ 1,994**	¥ 4,787	¥ 5	¥ –	¥ 4,792
	¥ 1,989	**¥ 5**	**¥ –**	**¥ 1,994**	¥ 4,787	¥ 5	¥ –	¥ 4,792

	Thousands of U.S. dollars			
	Held-to-maturity debt securities			
	2017			
	Carrying value	Gross unrealized gain	Gross unrealized loss	Estimated fair value
Market value determinable:				
National Bonds	$ 17,476	$ 44	$ –	$ 17,520
	$ 17,476	$ 44	$ –	$ 17,520

Information on other securities with determinable market value at January 31, 2017 and 2016 were as follows：

	Millions of yen							
	Other securities							
	2017				2016			
	Acquisition cost	Gross unrealized gain	Gross unrealized loss	Carrying value (estimated fair value)	Acquisition cost	Gross unrealized gain	Gross unrealized loss	Carrying value (estimated fair value)
Market value determinable:								
Equity securities	**¥37,453**	**¥53,132**	**¥ (21)**	**¥90,564**	¥37,211	¥37,883	¥ (293)	¥74,801
	¥37,453	**¥53,132**	**¥ (21)**	**¥90,564**	¥37,211	¥37,883	¥ (293)	¥74,801

	Thousands of U.S. dollars			
	Other securities			
	2017			
	Acquisition cost	Gross unrealized gain	Gross unrealized loss	Carrying value (estimated fair value)
Equity securities	$329,084	$466,848	$ (185)	$795,747
	$329,084	$466,848	$ (185)	$795,747

Sales of other securities for the years ended January 31, 2017 and 2016 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	**2017**
Proceeds from sales	**¥ –**	¥13,624	**$ –**
Gross realized gain	**–**	8,996	**–**

5. Inventories

Inventories at January 31, 2017 and 2016 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	**2017**
Land held for sale	**¥566,019**	¥510,247	**$4,973,368**
Land held for development	**92,683**	86,881	**814,366**
Construction for sale, including projects under construction	**321,682**	301,126	**2,826,483**
Contracts in process	**10,151**	9,396	**89,192**
Other	**7,211**	7,261	**63,360**
	¥997,746	¥914,911	**$8,766,769**

Loss on devaluation of inventories included in cost of sales for the years ended January 31, 2017 and 2016 amounted to ¥8,944 million ($78,587 thousand) and ¥14,876 million, respectively.

Due to changes in holding purpose, ¥10,271 million ($90,247 thousand) and ¥71 million of inventories, which were mainly included in “Land held for development” and “Land held for sale,” were principally reclassified to “Land” at January 31, 2017 and 2016, respectively. In addition, ¥50,238 million ($441,420 thousand) and ¥54,735 million of investment real estate and land for internal use, which were mainly included in “Buildings and structures” and “Land,” were reclassified to “Construction for sale, including projects under construction” and “Land held for sale,” classified as inventories in the accompanying consolidated balance sheets at January 31, 2017 and 2016, respectively.

6. Impairment of Fixed Assets

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

For the year ended January 31, 2017, the Group has written down certain factory assets and certain real estate for lease to their respective net recoverable values. For the year ended January 31, 2016, the Group has written down certain real estate for lease to their respective net recoverable values.
Consequently, the Group recorded losses on impairment of fixed assets of ¥5,155 million ($45,295 thousand) and ¥10,617 million in the accompanying consolidated statements of income for the years ended January 31, 2017 and 2016, respectively.

The losses on impairment of fixed assets for the years ended January 31, 2017 and 2016 are outlined as follows:

2017

Location	Use	Classification	Millions of yen	Thousands of U.S. dollars
Naka-ku Nagoya City etc.	Real estate for lease etc.	Buildings and structures	¥ 994	$ 8,734
		Machinery, equipment and other	113	993
		Land	3,841	33,749
		Other	207	1,819
			¥ 5,155	$ 45,295

2016

Location	Use	Classification	Millions of yen
Shenyang City, China etc.	Factory etc.	Buildings and structures	¥ 6,860
		Machinery, equipment and other	1,737
		Land	1,603
		Other	417
			¥10,617

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

7. Investments in Affiliates

Investments in affiliates at January 31, 2017 and 2016 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	**2017**
Investments in capital stock, at cost	**¥ 24,025**	¥ 12,509	**$ 211,097**
Equity in undistributed earnings since acquisition, net	**22,829**	18,619	**200,589**
	¥ 46,854	¥ 31,128	**$ 411,686**

8. 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, 2017 and 2016, rental profit and loss on impairment of these rental properties amounted to ¥8,095 million ($71,127 thousand) and ¥8,721 million and ¥4,815 million ($42,307 thousand) and ¥3,860 million, respectively.
Rental income is included in net sales and related costs are included in the cost of sales.
For the year ended January 31, 2016, loss on sales or disposal of investment and rental properties amounted to ¥2,271 million.
The carrying value in the accompanying consolidated balance sheets as of January 31, 2017 and 2016 and corresponding fair value of those properties are as follows:

Millions of yen			
Carrying value			Fair value
January 31, 2016	Net change	January 31, 2017	January 31, 2017
¥ 446,290	¥ 28,945	¥ 475,235	¥ 540,848

Millions of yen			
Carrying value			Fair value
January 31, 2015	Net change	January 31, 2016	January 31, 2016
¥ 447,372	¥ (1,082)	¥ 446,290	¥ 485,441

Thousands of U.S. dollars			
Carrying value			Fair value
January 31, 2016	Net change	January 31, 2017	January 31, 2017
$ 3,921,360	$ 254,327	$ 4,175,687	$ 4,752,201

Notes:
1. The carrying value represents the acquisition cost less accumulated depreciation and impairment losses.
2. The main components of net change in carrying value are the increase of ¥83,920 million ($737,369 thousand) in acquisitions of real estate and the decreases of ¥39,503 million ($347,096 thousand) in transfer to inventories, ¥9,652 million ($84,808 thousand) in depreciation and ¥4,815 million ($42,307 thousand) in loss on impairment of the rental properties for the year ended January 31, 2017. The main components of net change in carrying value are the increase of ¥70,321 million in acquisitions of real estate and ¥54,664 million in transfer from inventories and the decrease of ¥10,157 million in depreciation and ¥3,860 million in loss on impairment of the rental properties for the year ended January 31, 2016.
3. The fair value of main real estate is computed based on appraisal amounts valued by real estate appraisers. The fair value of the others is computed by the Group in accordance with “Real Estate Appraisal Standards.”

9. 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, 2017 and 2016 were 1.77% and 1.09%, respectively.
The interest rates on the short-term bonds outstanding at January 31, 2017 and 2016 were (0.00) % and 0.08%, respectively.
Long-term debt at January 31, 2017 and 2016 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	**2017**
Unsecured loans from banks and insurance companies at interest rates ranging from 0.12% to 5.37%, due from 2017 to 2021	**¥ 76,321**	¥ 65,510	**$ 670,600**
Zero-coupon unsecured convertible bonds with stock subscription rights, due 2016	**–**	1,130	**–**
Nonrecourse bank loans at interest rates ranging from 2.22% to 8.00%, due from 2017 to 2023	**54,408**	59,624	**478,060**
Unsecured bonds denominated in yen at interest rates ranging from 0.11% to 0.31%, due 2017	**40,000**	40,000	**351,463**
Unsecured bonds denominated in yen at an interest rate of 0.13%, due 2018	**15,000**	15,000	**131,799**
Unsecured bonds denominated in yen at an interest rate of 0.18%, due 2019	**20,000**	20,000	**175,731**
Unsecured bonds denominated in yen at an interest rate of 0.22%, due 2020	**15,000**	15,000	**131,799**
Unsecured bonds denominated in yen at an interest rate of 0.04%, due 2021	**30,000**	–	**263,597**
Unsecured bonds denominated in yen at an interest rate of 0.11%, due 2023	**30,000**	–	**263,597**
Unsecured bonds denominated in yen at an interest rate of 0.20%, due 2026	**20,000**	–	**175,731**
Lease obligations	**4,425**	3,560	**38,881**
	305,154	219,824	**2,681,258**
Less current portion	**(62,644)**	(98,651)	**(550,426)**
	¥ 242,510	¥ 121,173	**$ 2,130,832**

The aggregate annual maturities of long-term debt subsequent to January 31, 2017 are summarized as follows:

Year ending January 31,	Millions of yen	Thousands of U.S. dollars
2018	¥ 62,644	$ 550,426
2019	21,275	186,934
2020	85,812	753,993
2021	20,524	180,336
2022 and thereafter	114,899	1,009,569
	¥305,154	$2,681,258

In order to achieve more efficient and flexible financing, the Company has concluded line-of-credit agreements with certain financial institutions. The status of these lines of credit at January 31, 2017 and 2016 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	**2017**
Lines of credit	**¥ 337,889**	¥ 343,307	**$ 2,968,887**
Credit utilized	**150,555**	132,373	**1,322,863**
Available credit	**¥ 187,334**	¥ 210,934	**$ 1,646,024**

10. Mortgaged and Pledged Assets

At January 31, 2017 and 2016, 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 ¥58,203 million ($511,405 thousand) and ¥61,245 million, respectively.

	Millions of yen		Thousands of U.S. dollars
	2017	2016	**2017**
Inventories	**¥ 94,601**	¥ 131,603	**$ 831,219**
Land	**2,971**	3,109	**26,105**
Buildings and structures	**511**	528	**4,490**
Investments in affiliates	**1,227**	1,062	**10,781**
	¥ 99,310	¥ 136,302	**$ 872,595**

Investments in securities are mortgaged for guarantees of liabilities of investments.

As of January 31, 2017 and 2016, ¥94,555 million ($830,815 thousand) and ¥131,550 million of inventories were pledged as collateral for nonrecourse liabilities of short-term and long-term debt, including current portion and totaled ¥56,719 million ($498,366 thousand) and ¥59,623 million, respectively. These nonrecource liabilities and corresponding assets are included in the above table.

In addition, for the purpose of covering warranty obligations for latent defects on certain housing, ¥586 million ($5,149 thousand) and ¥1,985 million of investments in securities, ¥1,400 million ($12,301 thousand) and ¥2,788 million of short-term investments, and ¥4,646 million ($40,822 thousand) and ¥1,057 million of other assets were deposited in accordance with relevant laws at January 31, 2017 and 2016, respectively.

11. Income Taxes

The Company and its domestic subsidiaries are subject to several taxes based on income which, in the aggregate, resulted in statutory tax rates of approximately 32.8% and 35.4% for the years ended January 31, 2017 and 2016, respectively. Overseas subsidiaries are subject to the income taxes of the countries in which they operate.

The difference between the statutory tax rate and the effective tax rate for the year ended January 31, 2017 was omitted because such difference is less than 5% of the statutory tax rate.

The effective tax rate reflected in the accompanying consolidated statement of income for the year ended January 31, 2016 differs from the above statutory tax rate for the following reasons:

	2016
Statutory tax rate	**35.4%**
Non-deductible entertainment expenses	**0.9**
Non-taxable dividend income	**(0.3)**
Inhabitants' per capita taxes	**0.4**
Valuation allowance	**3.9**
Equity in earnings of affiliates	**(2.2)**
Effect of changes in corporation tax rates	**2.6**
Tax rate differences with the overseas subsidiaries	**1.8**
Other	**0.4**
Effective tax rate	**42.9%**

The significant components of the Group's deferred tax assets (liabilities) at January 31, 2017 and 2016 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	**2017**
Loss on revaluation of real estate held for sale	**¥ 16,787**	¥ 17,676	**$ 147,500**
Liability for retirement bebefits	**6,358**	6,528	**55,865**
Accrued employees' bonuses	**8,796**	8,901	**77,287**
Accumulated losses on impairment of fixed assets	**8,007**	8,553	**70,354**
Unrealized gain on fixed assets	**4,271**	3,776	**37,527**
Tax loss carryforwards	**3,878**	5,113	**34,075**
Loss on revaluation of securities	**2,721**	2,855	**23,908**
Asset for retirement benefits	**(2,535)**	(1,083)	**(22,274)**
Net unrealized holding gain on securities	**(15,020)**	(10,952)	**(131,974)**
Other, net	**9,487**	9,953	**83,358**
Less valuation allowance	**(16,253)**	(19,286)	**(142,808)**
Net deferred tax assets	**¥ 26,497**	¥ 32,034	**$ 232,818**

Valuation allowances consists of deferred tax assets derived from non-schedulable temporary differences on loss on revaluation of securities and accumulated losses on impairment of fixed assets.

The "Act for Partial Revision of the Income Tax Act etc." (Act No. 15 of 2016) and the "Act for Partial Revision of the Local Tax Act etc." (Act No. 13 of 2016) were passed in the Diet on March 29, 2016, and other Acts were passed in the Diet on November 18, 2016. Accordingly, the statutory tax rates used for calculating deferred tax assets and liabilities will be reduced from 32.1% to 30.7% for temporary differences which are expected to be realized during the period from February 1, 2018 to January 31, 2019 and to 30.5% for those which are expected to be realized on or after February 1, 2019.

As a result of this change, deferred tax assets, net of deferred tax liabilities, decreased by ¥910 million ($7,996 thousand) and income taxes – deferred, net unrealized holding gain on securities and retirement benefits liability adjustments increased by ¥2,204 million ($19,366 thousand), ¥788 million ($6,924 thousand) and ¥506 million ($4,446 thousand), respectively, as of and for the year ended January 31, 2017.

12. Retirement Benefit Plans

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

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

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

Defined benefit pension plan

The changes in the retirement benefit obligations, including those for which the Simplified Method is applied, during the years ended January 31, 2017 and 2016 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Retirement benefit obligations at the beginning of the year	¥ 253,402	¥ 224,131	$ 2,226,535
Cumulative effects of changes in accounting policies	–	22,432	–
Balance at the beginning of the year,as adjusted	253,402	246,563	2,226,535
Service cost	10,075	9,594	88,525
Interest cost	3,544	3,437	31,140
Actuarial (gain) loss	(1,180)	1,070	(10,368)
Retirement benefit paid	(6,906)	(7,189)	(60,680)
Prior service cost	–	(9)	–
Reclassification of retirement benefit obligations resulting from change from the Simplified Method	–	(64)	–
Retirement benefit obligations at the end of the year	¥ 258,935	¥ 253,402	$ 2,275,152

The changes in plan assets, including those for which the Simplified Method is applied, during the years ended January 31, 2017 and 2016 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Plan assets at the beginning of the year	¥ 237,338	¥ 235,361	$ 2,085,388
Expected return on plan assets	5,909	5,853	51,920
Actuarial gain (loss)	2,219	(5,531)	19,497
Contributions paid by the Company	7,575	8,046	66,558
Retirement benefits paid	(6,255)	(6,267)	(54,960)
Reclassification of retirement benefit obligations resulting from change from the Simplified Method	–	(124)	–
Plan assets at the end of the year	¥ 246,786	¥ 237,338	$ 2,168,403

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, 2017 and 2016 for the Company's and domestic subsidiaries' defined benefit pension plans, including those for which the Simplified Method is applied:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Funded retirement benefit obligation	¥ 238,669	¥ 234,109	$ 2,097,083
Plan assets at fair value	(246,786)	(237,338)	(2,168,404)
	(8,117)	(3,229)	(71,321)
Unfunded retirement benefit obligation	20,266	19,293	178,069
Net liability for retirement benefits in the balance sheets	12,149	16,064	$ 106,748
Liability for retirement benefits	20,266	19,293	$ 178,069
Asset for retirement benefits	(8,117)	(3,229)	(71,321)
Net liability for retirement benefits in the balance sheets	¥ 12,149	¥ (16,064)	$ 106,748

The components of retirement benefit expenses for the years ended January 31, 2017 and 2016 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Service cost	¥ 10,075	¥ 9,594	$ 88,525
Interest cost	3,545	3,437	31,148
Expected return on plan assets	(5,909)	(5,852)	(51,920)
Amortization of actuarial gain	(2,963)	(5,028)	(26,035)
Amortization of prior service cost	(6,521)	(6,701)	(57,297)
Reclassification of retirement benefit obligations resulting from change from the Simplified Method	–	60	–
Other	521	644	4,578
Retirement benefit expenses	¥ (1,252)	¥ (3,846)	$ (11,001)

(Note)

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

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

The components of retirement benefits liability adjustments included in other comprehensive income (before tax effect) for the years ended January 31, 2017 and 2016 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Prior service cost	¥ (6,596)	¥ (6,692)	$ (57,956)
Actuarial loss (gain)	511	(11,613)	4,490
Total	¥ (6,085)	¥ (18,305)	$ (53,466)

The components of retirement benefits liability adjustments included in accumulated other comprehensive income (before tax effect) as of January 31, 2017 and 2016 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Unrecognized prior service cost	¥ 16,095	¥ 22,690	$ 141,420
Unrecognized actuarial gain	15,556	15,045	136,684
Total	¥ 31,651	¥ 37,735	$ 278,104

The fair values of plan assets, by major category, as a percentage of total plan assets as of January 31, 2017 and 2016 are as follows:

	2017	2016
Debt securities	36%	42%
Equity securities	29	23
Hedge fund	15	17
General accounts at insurance companies	13	11
Cash and deposits	2	3
Other	5	4
Total	100%	100%

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

The assumptions used in accounting for the above retirement benefit plans for the years ended January 31, 2017 and 2016 are as follows:

	2017	2016
Discount rates	1.4%	1.4%
Expected long-term rate of return on plan assets	2.5%	2.5%
Expected salary increase rate	4.5%	4.5%

Expected salary increase rate calculate based on pay point system.

Defined contribution pension plan

Total contributions paid by the domestic subsidiaries to the defined contribution plan for the years ended January 31, 2017 and 2016 were ¥6 million ($53 thousand) and ¥8 million, respectively.

13. Asset Retirement Obligations

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

The asset retirement obligations included in other liabilities are determined and discounted to their present value using a risk-free rate at the beginning of the year and the anticipated future useful lives for each housing exhibition, office or real estate.

The changes in asset retirement obligations for the years ended January 31, 2017 and 2016 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	**2017**
Balance at the beginning of the year	**¥ 2,370**	¥ 2,174	**$ 20,824**
Liabilities incurred for assets acquired	**138**	261	**1,213**
Accretion expense	**18**	17	**158**
Liabilities settled	**(87)**	(82)	**(764)**
Balance at the end of the year	**¥ 2,439**	¥ 2,370	**$ 21,431**

14. Contingent Liabilities

The Group had the following contingent liabilities at January 31, 2017:

	Millions of yen	Thousands of U.S. dollars
Guarantees of housing loans to customers	¥ 102,605	$ 901,546
Guarantees of bank loans of a third party	371	3,260
	¥ 102,976	$ 904,806

15. Shareholders' Equity

The Law, which superseded most of the provisions of the Commercial Code of Japan (the "Code"), went into effect on May 1, 2006. The Law provides that an amount equal to 10% of the amount to be disbursed as distributions of capital surplus (other than the capital reserve) and retained earnings (other than the legal reserve) be transferred to the capital reserve and the legal reserve, respectively, until the sum of the capital reserve and the legal reserve equals 25% of the capital stock account. Such distributions can be made at any time by resolution of the shareholders, or by the Board of Directors if certain conditions are met.

The Company's legal reserve included in retained earnings at January 31, 2017 and 2016 amounted to ¥23,129 million ($203,225 thousand).

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

Stock option plan

Stock option expenses per accounts for the years ended January 31, 2017 and 2016 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	**2017**
Cost of sales	**¥ 3**	¥ 3	**$ 26**
Selling, general and administrative expenses	**88**	92	**773**

Description of each stock option plan as of January 31, 2016 is as follows:

Stock option plans	Plan approved on April 27, 2006 (the 2006 plan)	Plan approved on May 17, 2007 (the 2007 plan)	Plan approved on May 15, 2008 (the 2008 plan)
Individuals covered by the plan	Total 27 Directors and Executive Officers	Total 26 Directors and Executive Officers	Total 32 Directors and Executive Officers
Type and number of shares to be issued upon the exercise of the share subscription rights	48,000 shares of common stock	55,000 shares of common stock	108,000 shares of common stock
Grant date	April 27, 2006	June 7, 2007	June 6, 2008
Vesting period	No applicable period of service is specified	No applicable period of service is specified	No applicable period of service is specified
Exercise period	From April 28, 2006 to April 27, 2026	From June 8, 2007 to June 7, 2027	From June 7, 2008 to June 6, 2028

	Plan approved on May 21, 2009 (the 2009 plan)	Plan approved on May 20, 2010 (the 2010 plan)	Plan approved on May 19, 2011 (the 2011 plan)
Individuals covered by the plan	Total 30 Directors and Executive Officers	Total 30 Directors and Executive Officers	Total 28 Directors and Executive Officers
Type and number of shares to be issued upon the exercise of the share subscription rights	106,000 shares of common stock	105,000 shares of common stock	130,000 shares of common stock
Grant date	June 9, 2009	June 16, 2010	June 14, 2011
Vesting period	No applicable period of service is specified	No applicable period of service is specified	No applicable period of service is specified
Exercise period	From June 10, 2009 to June 9, 2029	From June 17, 2010 to June 16, 2030	From June 15, 2011 to June 14, 2031

	Plan approved on May 17, 2012 (the 2012 plan)	Plan approved on May 16, 2013 (the 2013 plan)	Plan approved on May 15, 2014 (the 2014 plan)
Individuals covered by the plan	Total 33 Directors and Executive Officers	Total 32 Directors and Executive Officers	Total 34 Directors and Executive Officers
Type and number of shares to be issued upon the exercise of the share subscription rights	147,000 shares of common stock	68,000 shares of common stock	100,000 shares of common stock
Grant date	June 13, 2012	June 13, 2013	June 13, 2014
Vesting period	No applicable period of service is specified	No applicable period of service is specified	No applicable period of service is specified
Exercise period	From June 14, 2012 to June 13, 2032	From June 14, 2013 to June 13, 2033	From June 14, 2014 to June 13, 2034

	Plan approved on May 21, 2015 (the 2015 plan)	Plan approved on May 19, 2016 (the 2016 plan)
Individuals covered by the plan	Total 34 Directors and Executive Officers	Total 35 Directors and Executive Officers
Type and number of shares to be issued upon the exercise of the share subscription rights	63,000 shares of common stock	66,000 shares of common stock
Grant date	June 12, 2015	June 14, 2016
Vesting period	No applicable period of service is specified	No applicable period of service is specified
Exercise period	From June 13, 2015 to June 12, 2035	From June 15, 2016 to June 14, 2036

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

	The 2006 plan	The 2007 plan	The 2008 plan	The 2009 plan	The 2010 plan	The 2011 plan	The 2012 plan	The 2013 plan	The 2014 plan	The 2015 plan	The 2016 plan
Number of stock options:											
Non-vested											
Outstanding at February 1, 2016	26,000	30,000	57,000	63,000	85,000	107,000	134,000	62,000	100,000	63,000	–
Granted	–	–	–	–	–	–	–	–	–	–	66,000
Forfeited	–	–	–	–	–	–	–	–	–	–	–
Vested	5,000	6,000	2,000	4,000	3,000	6,000	5,000	3,000	3,000	3,000	–
Outstanding at Janyuary 31, 2017	21,000	24,000	55,000	59,000	82,000	101,000	129,000	59,000	97,000	60,000	66,000
Vested											
Outstanding at February 1, 2016	3,000	3,000	14,000	14,000	11,000	17,000	10,000	4,000	–	–	–
Vested	5,000	6,000	2,000	4,000	3,000	6,000	5,000	3,000	3,000	3,000	–
Exercised	1,000	1,000	8,000	4,000	4,000	5,000	–	2,000	–	–	–
Forfeited	–	–	–	–	–	–	–	–	–	–	–
Outstanding at January 31, 2017	7,000	8,000	8,000	14,000	10,000	18,000	15,000	5,000	3,000	3,000	–
Exercise price (Yen)	¥1	¥1	¥1	¥1	¥1	¥1	¥1	¥1	¥1	¥1	¥1
Average stock price at exercise (Yen)	¥1,911	¥1,911	¥1,775	¥1,751	¥1,898	¥1,776	–	¥1,963	–	–	–
Fair valu price at grant date (Yen)	–	¥1,571	¥876	¥681	¥717	¥592	¥495	¥1,071	¥974	¥1,507	¥1,356
Exercise price (USD)	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
Average stock price at exercise (USD)	$17	$17	$16	$15	$17	$16	–	$17	–	–	–
Fair value price at grant date (USD)	–	$14	$ 8	$ 6	$ 6	$ 5	$ 4	$ 9	$ 9	$13	$12

The fair value as of the grant date for stock options which were issued during the year ended January 31, 2017 was estimated using the Black-Scholes Option Pricing Model with the following assumptions:

	Note	The 2016 plan
Expected volatility	*1	25.504%
Expected remaining period	*2	10 years
Estimated dividend per share	*3	¥54 ($0)
Risk-free rate	*4	(0.165)%

*1 Expected volatility was computed by the actual prices of the Company during the period from June 2006 to May 2016.
*2 Expected remaining period was estimated based on the assumption that the options are exercised in the middle of the exercise period.
*3 The estimated dividend per share was calculated at the actual amount for the year ended January 31, 2016.
*4 The risk-free rate was the yield on Japanese government bonds for the period that corresponds to the expected remaining period.

Because it is difficult to reasonably estimate the number of options that will expire in the future, the number of options that have actually forfeited is reflected.

Treasury stock

Movements in treasury stock during the years ended January 31, 2017 and 2016 are summarized as follows:

	Number of shares 2017			
	January 31, 2016	Increase	Decrease	January 31, 2017
Treasury stock	8,670,214	12,107,304	1,166,642	19,610,876

The increase in treasury stock consists of 12,097,400 shares resulting from the repurchasing based on the article of incorporation of the Company under Article 165 (2) of the Companies Act, 8,403 shares resulting from the purchase of shares less than one unit by the Company, and 1,501 shares of treasury stock attributable to the Company resulting from the purchase by an affiliate for the year ended January 31, 2017. The decrease in treasury stock consists of 1,141,413 shares resulting from the conversion of convertible bonds, 229 shares resulting from sale of shares less than one unit by the Company, and 25,000 shares resulting from the exercise of stock option plans for the year ended January 31, 2017.

	Number of shares 2016			
	January 31, 2015	Increase	Decrease	January 31, 2016
Treasury stock	396,443	9,718,680	1,444,909	8,670,214

The increase in treasury stock consists of 9,699,300 shares resulting from the repurchasing based on the article of incorporation of the Company under Article 165 (2) of the Companies Act, 18,556 shares resulting from the purchase of shares less than one unit by the Company, and 824 shares of treasury stock attributable to the Company resulting from the purchase by an affiliate for the year ended January 31, 2016. The decrease in treasury stock consists of 1,432,743 shares resulting from the conversion of convertible bonds, 166 shares resulting from sale of shares less than one unit by the Company, and 12,000 shares resulting from the exercise of stock option plans for the year ended January 31, 2016.

16. Research and Development Cost

Research and development cost charged to income amounted to ¥4,991 million ($43,854 thousand) and ¥4,773 million for the years ended January 31, 2017 and 2016, respectively.

17. Leases

(Lessee)

Finance lease transactions commencing on or before January 31, 2009 other than those in which the ownership of the leased assets is transferred to the Company or its subsidiaries are accounted for in the same manner as operating leases.
However, the related disclosures as of and for the years ended January 31, 2017 and 2016 were omitted because these amounts were immaterial.
Future minimum lease payments subsequent to January 31, 2017 under non-cancellable operating leases are summarized as follows:

Year ending January 31,	Millions of yen	Thousands of U.S. dollars
2018	¥ 7,155	$ 62,868
2019 and thereafter	21,312	187,259
	¥ 28,467	$ 250,127

(Lessor)

The Company has leased assets under finance lease transactions which do not transfer ownership to the lessee, which mainly consists of business-use servers, vehicles and software.
Regarding the depreciation method of leased assets under finance lease transactions which do not transfer ownership to the lessee, please refer to in Note 2 (i).
Lease receivables from finance lease transactions in which the ownership of the leased assets is not transferred to the lessee as of January 31, 2017 and 2016 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Current assets:			
Gross lease receivables	¥ 3,402	¥ 3,023	$ 29,892
Less unearned interest income	(6)	(11)	(53)
Net lease receivables	¥ 3,396	¥ 3,012	$ 29,839

Contractual maturities of the above gross lease receivables subsequent to January 31, 2017 in which the ownership of the leased assets is not transferred to the lessee are as follows:

Year ending January 31,	Millions of yen	Thousands of U.S. dollars
2018	¥ 116	$ 1,019
2019	116	1,019
2020	104	914
2021	91	800
2022	91	800
2023 and thereafter	2,884	25,340
	¥ 3,402	$ 29,892

Contractual maturities of lease receivables from finance lease transactions subsequent to January 31, 2017 in which the ownership of the leased assets is transferred to the lessee are as follows:

Year ending January 31,	Millions of yen	Thousands of U.S. dollars
2018	¥ 191	$ 1,678
2019	191	1,678
2020	191	1,678
2021	191	1,678
2022	191	1,678
2023 and thereafter	4,028	35,392
	¥ 4,983	$ 43,782

Future minimum lease receipts subsequent to January 31, 2017 under non-cancellable operating leases are summarized as follows:

Year ending January 31,	Millions of yen	Thousands of U.S. dollars
2018	¥ 8,353	$ 73,394
2019 and thereafter	14,460	127,054
	¥ 22,813	$ 200,448

Lease receivables and lease obligations in which the ownership of the leased assets is not transferred to the lessee as of January 31, 2017 and 2016 under sub-lease transactions are as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Lease receivables:			
Current	¥ 2,824	¥ 2,936	$ 24,813
Lease obligations:			
Current	117	117	1,028
Non-current	2,830	2,947	24,866

18. Amounts per Share

Per share amounts as of and for the years ended January 31, 2017 and 2016 are as follows:

	Yen		U.S. dollars
	2017	2016	2017
Profit attributable to owners of parent:			
Basic	¥ 175.48	¥ 120.16	$ 1.54
Diluted	175.22	119.41	1.54
Net assets	1,598.90	1,508.81	14.05
Cash dividends	64.00	54.00	0.56

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

Diluted profit per share is computed based on the profit available for distribution to shareholders and the weighted-average number of shares of common stock outstanding during each year after giving effect to the dilutive potential of shares of common stock to be issued upon the exercise of stock options and conversion of convertible bonds.

Amounts per share of net assets have been computed based on the net assets available for distribution to the shareholders and the number of shares of common stock outstanding at the year end.

Cash dividends per share of the Company represent the cash dividends declared as applicable to the respective years together with the interim cash dividends paid.

Financial data for the computation of basic profit per share for the years ended January 31, 2017 and 2016 in the table above is summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Information on basic net income per share:			
Profit	¥ 121,853	¥ 84,303	$1,070,670
Profit not attributable to common stockholders	–	–	–
Adjusted profit attributable to common stockholders	¥ 121,853	¥ 84,303	$1,070,670

	Thousands of shares	
	2017	2016
Weighted-average number of shares of common stock outstanding during the year	694,392	701,606
Increase in common stock:		
Bonds with stock subscription rights	815	775
Stock subscription rights	225	3,560

Financial data for the computation of net assets per share at January 31, 2017 and 2016 in the above table is summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Total net assets	¥1,118,264	¥1,068,428	$ 9,825,710
Deductions from total net assets:			
Stock subscription rights	(694)	(623)	(6,098)
Non-controlling interests	(14,211)	(10,109)	(124,866)
Total net assets attributable to common stockholders	¥1,103,359	¥1,057,696	$ 9,694,746

	Thousands of shares	
	2017	2016
Number of shares of common stock used in the calculation of net assets per share	690,073	701,013

19. 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 issuance of bonds. The Group enters into derivative transactions for the purpose of reducing risk 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 market risk. 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. Notional amounts related to forward foreign exchange contracts are set within the amounts of import transactions denominated in the foreign currencies. Further information regarding hedge accounting can be found in Note 2 (u).

For managing credit risk arising from receivables, each related division of the Group monitors the collection, due dates and outstanding balances by customer. In addition, the Group makes efforts to identify and mitigate risks of bad debts from customers experiencing financial difficulties.

The Group executes and manages derivative transactions in accordance with internal rules. The Group enters into derivative transactions dispersedly with financial institutions with high credit ratings to mitigate the credit risks.

For short-term investments and investments in securities, the Group periodically reviews the fair values of such financial instruments and the financial position of the issuers.

Based on reports from each division of the Group, the Company prepares and updates their cash flow plans on a timely basis and maintains appropriate liquidity levels to manage liquidity risk. The Company also has multiple methods of stable financing, such as entering into commitment line contracts or providing the bond issuance limits. In addition, the Group has funding systems, such as the cash management system, to supply funds to the subsidiaries flexibly.

The fair value of financial instruments is determined based on their quoted market price, if available. When there is no available quoted market price, fair value is reasonably estimated. Since a number of variable factors are reflected in estimating the fair value, different factors could result in different fair values. In addition, the notional amounts of derivative transactions in the following table are not necessarily indicative of the actual market risk involved in the derivative transactions.

The carrying values of financial instruments on the accompanying consolidated balance sheets as of January 31, 2017 and 2016 and their estimated fair values are shown in the following table. The following table does not include financial instruments for which it is extremely difficult to determine the fair value.

	Millions of yen			Thousands of U.S. dollars		
	2017			2017		
	Carrying value	Estimated fair value	Difference	Carrying value	Estimated fair value	Difference
Cash and cash equivalents	¥ 204,701	¥ 204,701	¥ –	$ 1,798,621	$ 1,798,621	$ –
Notes and accounts receivable - trade	49,031			430,814		
Less allowance for doubtful accounts	(284)			(2,495)		
Sub total	48,747	48,747	–	428,319	428,319	–
Short-term investments and investments in securities and affiliates:						
Held-to-maturity debt securities	1,989	1,995	6	17,476	17,529	53
Investments in affiliates	3,388	2,044	(1,344)	29,769	17,960	(11,809)
Other securities	98,671	98,671	–	866,980	866,980	–
Total	357,496	356,158	(1,338)	3,141,165	3,129,409	(11,756)
Notes and accounts payable	179,039	179,039	–	1,573,139	1,573,139	–
Short-term loans	150,863	150,863	–	1,325,569	1,325,569	–
Bonds	170,000	168,912	(1,008)	1,493,718	1,484,158	(9,560)
Long-term loans including current portion	130,729	130,728	(1)	1,148,660	1,148,651	(9)
Total	¥ 630,631	¥ 629,542	¥ (1,089)	$ 5,541,086	$ 5,531,517	$ (9,569)
Derivative transactions (*)	¥ 328	¥ 328	¥ –	$ 2,882	$ 2,882	$ –

	Millions of yen		
	2016		
	Carrying value	Estimated fair value	Difference
Cash and cash equivalents	¥ 192,338	¥ 192,338	¥ –
Notes and accounts receivable - trade	50,256		
Less allowance for doubtful accounts	(349)		
Sub total	49,907	49,907	–
Short-term investments and investments in securities and affiliates:			
Held-to-maturity debt securities	4,787	4,792	5
Investments in affiliates	3,344	1,791	(1,553)
Other securities	77,702	77,702	–
Total	328,078	326,530	(1,548)
Notes and accounts payable	166,085	166,085	–
Short-term loans	146,189	146,189	–
Bonds	90,000	90,136	136
Long-term loans including current portion	125,134	125,135	1
Total	¥ 527,408	¥ 527,545	¥ 137
Derivative transactions (*)	¥ 45	¥ 45	¥ –

(*)The value of assets and liabilities arising from derivatives is shown at net value, and the amounts in parentheses represent net liability position.

The fair values of cash and cash equivalents and notes and accounts receivable – trade approximate their carrying values since these items are settled in a short period of time.

The fair values of short-term investments and investments in equity securities are determined based on quoted market prices. The fair value of debt securities is based on either quoted market price or the price provided by the counterparty financial institutions.

For further information of fair values of short-term investments and investments in securities, please refer to Note 4.

The fair values of notes and accounts payable and short-term loans approximates their carrying value since these items are settled in a short period of time.

The fair values of bonds are determined based on market prices.

The fair value of long-term loans including the current portion with variable interest rates approximates the carrying value. The fair value of long-term loans including the current portion with fixed interest rates is determined based on the discounted present value of the principal and interest payments using the corresponding fixed interest rate for new loans with the same terms and conditions.

Regarding derivative transactions, refer to Note 20.

Financial instruments for which it is extremely difficult to determine the fair value as of January 31, 2017 and 2016 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	**2017**
Unlisted stocks	**¥ 50,810**	¥ 32,564	**$ 446,446**
Investments in silent partnership	**2,357**	1,220	**20,710**
Preferred stocks	**999**	999	**8,778**
Investments in special purpose entities	**590**	590	**5,184**
Unlisted bonds	**120**	–	**1,054**
Investments in investment limited liability partnerships	**97**	34	**852**

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, 2017 are as follows:

	2017 Millions of yen			
	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
Cash and cash equivalents	¥ 204,701	¥ –	¥ –	¥ –
Notes and accounts receivable	49,030	1	–	–
Short-term investments and investments in securities:				
Held-to-maturity debt securities (National government bonds)	1,400	589	–	–
Other securities with maturities (Debt securities)	8,107	–	–	120
Total	¥ 263,238	¥ 590	¥ –	¥ 120

	2017 Thousands of U.S. dollars			
	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
Cash and cash equivalents	$ 1,798,621	$ –	$ –	$ –
Notes and accounts receivable	430,805	9	–	–
Short-term investments and investments in securities:				
Held-to-maturity debt securities (National government bonds)	12,301	5,175	–	–
Other securities with maturities (Debt securities)	71,233	–	–	1,054
Total	$2,312,960	$ 5,184	$ –	$ 1,054

The redemption schedules for long-term debt are disclosed in Note 9 "Short-Term Loans, Short-Term Bonds and Long-Term Debt."

20. Derivative Transactions and Hedging Activities

The contract value (notional principal amount) and the estimated fair value of the derivative instruments outstanding which did not qualify for deferral hedge accounting at January 31, 2017 and 2016 were as follows:

Currency-related transactions

		2017 Millions of yen			
Classification	Description of transaction	Contract value (notional principal amount)	Contract value (notional principal amount) (over 1 year)	Estimated fair value	Unrealized gain
Over-the-counter transactions	Currency swap contracts	¥ 2,526	¥ 1,915	¥ 328	¥ 328

		2016 Millions of yen			
Classification	Description of transaction	Contract value (notional principal amount)	Contract value (notional principal amount) (over 1 year)	Estimated fair value	Unrealized gain
Over-the-counter transactions	Currency swap contracts	¥ 2,534	¥ 2,534	¥ 64	¥ 64

		2017 Thousands of U.S. dollars			
Classification	Description of transaction	Contract value (notional principal amount)	Contract value (notional principal amount) (over 1 year)	Estimated fair value	Unrealized gain
Over-the-counter transactions	Currency swap contracts	$ 22,195	$ 16,826	$ 2,882	$ 2,882

The fair value of the above derivative transactions is determined based on the prices provided by counterparty financial institutions.

The contract value (notional principal amount) and the estimated fair value of the derivative instruments outstanding which qualify for deferral hedge accounting at January 31, 2017 and 2016 were as follows:

Interest-rate related transactions

			2016 Millions of yen		
Method of hedge accounting	Description of transaction	Hedged items	Contract value (notional principal amount)	Contract value (notional principal amount) (over 1 year)	Estimated fair value
Deferral hedge accounting	Interest rate swap contracts Pay fixed / Receive floating	Long-term borrowings	¥ 3,517	¥ –	¥ (19)

The fair value of the above derivative transactions is determined based on the prices provided by counterparty financial institutions at January 31, 2016.

There are no items to be disclosed for the year ended January 31, 2017.

21. 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 businesses related to construction and development of residential properties. The Company establishes business domains, plans separate business strategies for each business domain and conducts business to achieve sustainable growth through the optimization of business resources.

The Company's business segments are classified by different products and services based on their business domains. The Company's business segments, excluding the other businesses segment, consist of the following reportable segments: custom detached houses, rental housing, remodeling, real estate management fees, houses for sale, condominiums, urban redevelopment and overseas.

Details of the reportable segments are as follows:

Custom detached houses:	Design, construction, and contracting of built-to-order detached houses
Rental housing:	Design, construction, and contracting of built-to-order properties for lease, medical and nursing care facilities, and other buildings
Remodeling:	Remodeling of residential properties
Real estate management fees:	Sub-lease, management, operation and brokerage of real estate
Houses for sale:	Sale of houses and lands and designing, construction, and contracting of houses on lands for sale
Condominiums:	Sale of condominiums
Urban redevelopment:	Development of office buildings and commercial facilities, and management and operation of owned properties
Overseas:	Contracting of built-to-order detached houses, sale of houses and real estate, and development and sale of facilities, including condominiums and commercial facilities, in overseas markets

The accounting policies of the reportable segments are identical to those described in Note 2.

Information on net sales, income or loss, assets and other items by each reportable segment for the years ended January 31, 2017 and 2016 is outlined as follows:

	Millions of yen					
	2017					
	Reportable segments					
	Custom detached houses	Rental housing	Remodeling	Real estate management fees	Houses for sale	Condominiums
Sales to third parties	¥ 383,129	¥ 440,313	¥ 133,499	¥ 469,133	¥ 142,015	¥ 66,126
Intersegment sales and transfers	–	5,639	246	3,380	–	–
Net sales	383,129	445,952	133,745	472,513	142,015	66,126
Segment income	¥ 49,515	¥ 60,832	¥ 17,545	¥ 31,279	¥ 8,823	¥ 2,249
Segment assets	¥ 59,798	¥ 48,617	¥ 14,721	¥ 100,125	¥ 144,110	¥ 158,890
Other items:						
Depreciation and amortization	4,319	2,866	93	908	1,064	23
Increase in property, plant and equipment and intangible assets	3,953	1,996	59	972	901	54

	Millions of yen						
	2017						
	Reportable segments						
	Urban redevelopment	Overseas	Sub Total	Other	Total	Adjustments	Consolidated
Sales to third parties	¥ 130,491	¥ 182,127	¥ 1,946,833	¥ 80,099	¥ 2,026,932	¥ –	¥ 2,026,932
Intersegment sales and transfers	100	–	9,365	5,497	14,862	(14,862)	–
Net sales	130,591	182,127	1,956,198	85,596	2,041,794	(14,862)	2,026,932
Segment income	¥ 23,414	¥ 25,172	¥ 218,829	¥ 726	¥ 219,555	¥ (35,390)	¥ 184,165
Segment assets	¥590,985	¥825,507	¥ 1,942,753	¥ 18,016	¥ 1,960,769	¥ 224,126	¥ 2,184,895
Other items:							
Depreciation and amortization	9,754	673	19,700	913	20,613	2,512	23,125
Increase in property, plant and equipment and intangible assets	82,599	4,113	94,647	70	94,717	3,561	98,278

	Millions of yen					
	2016					
	Reportable segments					
	Custom detached houses	Rental housing	Remodeling	Real estate management fees	Houses for sale	Condominiums
Sales to third parties	¥ 393,787	¥ 400,601	¥ 134,459	¥ 448,751	¥ 137,485	¥ 81,470
Intersegment sales and transfers	0	4,808	233	3,160	–	–
Net sales	393,787	405,409	134,692	451,911	137,485	81,470
Segment income (loss)	¥ 47,208	¥ 51,919	¥ 15,848	¥ 26,819	¥ 11,920	¥ 8,031
Segment assets	¥ 64,218	¥ 44,813	¥ 14,577	¥ 95,670	¥ 164,911	¥ 149,139
Other items:						
Depreciation and amortization	4,506	2,736	95	886	1,142	20
Increase in property, plant and equipment and intangible assets	2,628	591	13	828	600	29

	Millions of yen						
	2016						
	Reportable segments						
	Urban redevelopment	Overseas	Sub Total	Other	Total	Adjustments	Consolidated
Sales to third parties	¥ 93,038	¥ 89,523	¥ 1,779,114	¥ 79,765	¥ 1,858,879	¥ –	¥ 1,858,879
Intersegment sales and transfers	123	–	8,324	4,705	13,029	(13,029)	–
Net sales	93,161	89,523	1,787,438	84,470	1,871,908	(13,029)	1,858,879
Segment income (loss)	¥ 24,748	¥ (5,673)	¥ 180,820	¥ 2,511	¥ 183,331	¥ (33,686)	¥ 149,645
Segment assets	¥556,932	¥721,320	¥ 1,811,580	¥ 17,345	¥ 1,828,925	¥ 200,869	¥ 2,029,794
Other items:							
Depreciation and amortization	10,214	1,635	21,234	961	22,195	2,243	24,438
Increase in property, plant and equipment and intangible assets	72,318	332	77,339	41	77,380	3,879	81,259

	Thousands of U.S. dollars					
	2017					
	Reportable segments					
	Custom detached houses	Rental housing	Remodeling	Real estate management fees	Houses for sale	Condominiums
Sales to third parties	$3,366,391	$3,868,843	$1,172,999	$4,122,072	$1,247,825	$ 581,021
Intersegment sales and transfers	–	49,547	2,161	29,699	–	–
Net sales	3,366,391	3,918,390	1,175,160	4,151,771	1,247,825	581,021
Segment income	$ 435,067	$ 534,505	$ 154,160	$ 274,835	$ 77,524	$ 19,761
Segment assets	$ 525,420	$ 427,177	$ 129,347	$ 879,756	$1,266,233	$1,396,099
Other items:						
Depreciation and amortization	37,949	25,183	817	7,978	9,349	202
Increase in property, plant and equipment and intangible assets	34,733	17,538	518	8,541	7,917	475

	Thousands of U.S. dollars						
	2017						
	Reportable segments						
	Urban redevelopment	Overseas	Sub Total	Other	Total	Adjustments	Consolidated
Sales to third parties	$ 1,146,569	$ 1,600,272	$17,105,992	$ 703,796	$17,809,788	$ –	$17,809,788
Intersegment sales and transfers	879	–	82,286	48,300	130,586	(130,586)	–
Net sales	1,147,448	1,600,272	17,188,278	752,096	17,940,374	(130,586)	17,809,788
Segment income	$ 205,729	$ 221,176	$ 1,922,757	$ 6,379	$ 1,929,136	$ (310,957)	$ 1,618,179
Segment assets	$5,192,733	$ 7,253,378	$17,070,143	$ 158,299	$17,228,442	$1,969,300	$19,197,742
Other items:							
Depreciation and amortization	85,704	5,914	173,096	8,022	181,118	22,072	203,190
Increase in property, plant and equipment and intangible assets	725,762	36,139	831,623	615	832,238	31,289	863,527

“Other” in the above tables represents a segment other than the reportable segments, which includes the exterior business.

Adjustments in the above tables:

The adjustments of segment income in the amounts of ¥35,390 million ($310,957 thousand) and ¥33,686 million for the years ended January 31, 2017 and 2016 include eliminations of intersegment transactions of ¥3,299 million ($28,987 thousand) and ¥3,084 million and corporate expenses of ¥30,092 million ($264,406 thousand) and ¥30,602 million, which were related to administration expenses and research and development costs, respectively.

The adjustments of segment assets in the amounts of ¥224,126 million ($1,969,300 thousand) and ¥200,869 million at January 31, 2017 and 2016, respectively, include corporate assets consisting of surplus funds held by the Company (cash and short-term investments), long-term investments (investments in securities) and assets of administration departments.

The adjustments of depreciation and amortization in the amounts of ¥2,512 million ($22,072 thousand) and ¥2,243 million for the years ended January 31, 2017 and 2016, 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 ¥3,561 million ($31,289 thousand) and ¥3,879 million for the years ended January 31, 2017 and 2016, respectively, consist of the purchase of machinery and 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, 2017 and 2016.

Information on each product and service for the years ended January 31, 2017 and 2016 was omitted because it was identical to that of the reportable segment information.

Geographical information and sales information by major customer for the years ended January 31, 2017 and 2016 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, 2017 and 2016 was as follows:

	Millions of yen					
	Year ended January 31, 2017					
	Custom detached houses	Rental housing	Remodeling	Real estate management fees	Houses for sale	Condominiums
Loss on impairment of fixed assets	¥ –	¥ –	¥ –	¥ –	¥ –	¥ –

	Millions of yen					
	Year ended January 31, 2017					
	Urban redevelopment	Overseas	Other	Total	Eliminations and other	Consolidated
Loss on impairment of fixed assets	¥4,815	¥ –	¥ 134	¥4,949	¥ 206	¥5,155

	Millions of yen					
	Year ended January 31, 2016					
	Custom detached houses	Rental housing	Remodeling	Real estate management fees	Houses for sale	Condominiums
Loss on impairment of fixed assets	¥ 856	¥ –	¥ –	¥ –	¥ –	¥ –

	Millions of yen					
	Year ended January 31, 2016					
	Urban redevelopment	Overseas	Other	Total	Eliminations and other	Consolidated
Loss on impairment of fixed assets	¥3,861	¥5,540	¥ –	¥10,257	¥ 360	¥10,617

	Thousands of U.S. dollars					
	Year ended January 31, 2017					
	Custom detached houses	Rental housing	Remodeling	Real estate management fees	Houses for sale	Condominiums
Loss on impairment of fixed assets	$ –	$ –	$ –	$ –	$ –	$ –

	Thousands of U.S. dollars					
	Year ended January 31, 2017					
	Urban redevelopment	Overseas	Other	Total	Eliminations and other	Consolidated
Loss on impairment of fixed assets	$42,307	$ –	$1,178	$43,485	$1,810	$45,295

Information on amortization of goodwill and the remaining balance by reportable segment as of and for the years ended January 31, 2017 and 2016 was as follows:

	Millions of yen					
	As of and for the year ended January 31, 2017					
	Custom detached houses	Rental housing	Remodeling	Real estate management fees	Houses for sale	Condominiums
Amortization of goodwill	¥ 30	¥ –	¥ –	¥ –	¥ 4	¥ –
Remaining balance	–	–	–	–	–	–

	Millions of yen					
	As of and for the year ended January 31, 2017					
	Urban redevelopment	Overseas	Other	Total	Eliminations and other	Consolidated
Amortization of goodwill	¥ –	¥ 24	¥ –	¥ 58	¥ –	¥ 58
Remaining balance	–	48	–	48	–	48

	Millions of yen					
	As of and for the year ended January 31, 2016					
	Custom detached houses	Rental housing	Remodeling	Real estate management fees	Houses for sale	Condominiums
Amortization of goodwill	¥ 182	¥ –	¥ –	¥ –	¥ 21	¥ –
Remaining balance	30	–	–	–	3	–

	Millions of yen					
	As of and for the year ended January 31, 2016					
	Urban redevelopment	Overseas	Other	Total	Eliminations and other	Consolidated
Amortization of goodwill	¥ –	¥ 121	¥ –	¥ 324	¥ –	¥ 324
Remaining balance	–	72	–	105	–	105

	Thousands of U.S. dollars					
	As of and for the year ended January 31, 2017					
	Custom detached houses	Rental housing	Remodeling	Real estate management fees	Houses for sale	Condominiums
Amortization of goodwill	$ 264	$ –	$ –	$ –	$ 35	$ –
Remaining balance	–	–	–	–	–	–

	Thousands of U.S. dollars					
	As of and for the year ended January 31, 2017					
	Urban redevelopment	Overseas	Other	Total	Eliminations and other	Consolidated
Amortization of goodwill	$ –	$ 211	$ –	$ 510	$ –	$ 510
Remaining balance	–	422	–	422	–	422

There was no information on gain on bargain purchase for the years ended January 31, 2017 and 2016.

22. Related Party Transactions

Principal transactions and balances between the Company and its related parties as of and for during the year ended January 31, 2017 are summarized as follows:

		Transaction amount		Balances		
		2017		2017		
Names of related parties	Description	Millions of yen	Thousands of U.S. dollars	Account name	Millions of yen	Thousands of U.S. dollars
Isami Wada Chairman, Representative Director & CEO	Sales of condominium	¥ –	¥ –	Advances received	¥ 16	$ 141
	Remodeling of house	11	97	–	–	–
Relative of Kengo Yoshida	Construction of house	35	308	–	–	–

The prices for the transactions were determined using the same method as for third party transactions.

There are no items to be disclosed for the year ended January 31, 2016.

23. Other Comprehensive Income

The following table presents an analysis of other comprehensive (loss) income for the years ended January 31, 2017 and 2016.

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Net unrealized holding gain (loss) on securities:			
Amount arising during the year	¥ 15,522	¥ 4,466	$ 136,385
Reclassification adjustments for gain included in profit	–	(8,514)	–
Before tax effect	15,522	(4,048)	136,385
Tax effect	(4,068)	2,505	(35,743)
Net unrealized holding gain (loss) on securities	11,454	(1,543)	100,642
Deferred gain (loss) on hedges:			
Amount arising during the year	18	(17)	158
Before tax effect	18	(17)	158
Tax effect	(5)	5	(44)
Deferred gain (loss) on hedges	13	(12)	114
Translation adjustments:			
Amount arising during the year	(21,226)	(21,830)	(186,504)
Retirement benefits liability adjustments:			
Amount arising during the year	3,399	(6,576)	29,866
Reclassification adjustments for gains included in profit	(9,484)	(11,729)	(83,332)
Before tax effect	(6,085)	(18,305)	(53,466)
Tax effect	2,460	7,725	21,615
Retirement benefits liability adjustments	(3,625)	(10,580)	(31,851)
Share of other comprehensive loss of affiliates accounted for by the equity method:			
Amount arising during the year	(975)	(628)	(8,567)
Reclassification adjustments for gains included in profit	70	–	615
Share of other comprehensive loss of affiliates accounted for by the equity method	(905)	(628)	(7,952)
Total other comprehensive loss	¥ (14,289)	¥ (34,593)	$(125,551)

24. Supplemental Information to Consolidated Statements of Cash Flows

During the years ended January 31, 2017 and 2016, stock subscription rights were exercised and the related convertible bonds converted to common stock without any cash settlement. Details of the movement resulting from the exercise of stock subscription rights are as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Increase in common stock	¥ –	¥ 4,875	$ –
Increase in capital surplus	–	4,875	–
Loss on disposal of treasury stock	(1,167)	(1,517)	(10,254)
Decrease in treasury stock	2,297	2,937	20,183
Decrease in convertible bonds	¥ 1,130	¥ 11,170	$ 9,929

During the year ended January 31, 2017, the Company acquired shares by contribution in kind. Details of the movement resulting from the acquisition of shares by contribution in kind are as follows:

	Millions of yen	Thousands of U.S. dollars
	2017	2017
Decrease in long-term loan receivables	¥ 11,420	$ 100,343
Decrease in accounts receivables - other	431	3,787
Increase in investments in securities	¥ 11,851	$ 104,130

25. Subsequent Events

1.Acquisition of shares by a consolidated subsidiary

At a meeting of the Board of Directors held on February 22, 2017, a reorganization plan was determined. Under the reorganization plan, SH Residential Holdings, LLC ("SHRH"), a wholly-owned subsidiary of Sekisui House US Holdings, LLC ("SHUSH"), a wholly-owned subsidiary of the Company, acquired all shares of Woodside Homes Company, LLC ("WHC"), which operates a detached housing construction business in the United States, through a merger with Crayon Special Vehicle-I, LLC ("CSV"), a wholly-owned subsidiary of SHRH. CSV and WHC entered into merger agreement on February 22, 2017. As a result of the merger, WHC was the surviving company. In addition, North America Sekisui House, LLC ("NASH"), a wholly-owned subsidiary of the Company, became a wholly-owned subsidiary of SHUSH as a result of the reorganization. Under the above mentioned reorganization plan and the merger, the Company transferred all shares of NASH to SHUSH through a contribution in kind. As a result, NASH became a wholly-owned subsidiary of SHUSH effective on February 23, 2017 (February 22, 2017 in the United States).

In addition, the Company transferred funds to SHUSH and SHUSH increased its common stock amount on February 28, 2017 (February 27, 2017 in the United States). SHUSH also transferred funds to SHRH and SHRH increased its common stock amount as of the same date. The funds were used for the acquisition of shares of WHC, which was completed on March 1, 2017 (February 28, 2017 in the United States). As a result of the reorganization, SHUSH, SHRH, and WHC became specified subsidiaries of the Company effective on February 23, 2017, February 28, 2017 and March 1, 2017, respectively, whose common stock amounts exceeded 10% of that of the Company.

(1)Purpose of acquisition of shares

The housing market in the United States is one of the most important markets for the Company's overseas business because growth in detached housing demand in suburbs is expected in the future as a result of a lower unemployment rate, increase in salaries, and continuation of comparatively lower housing loan interest rates as seen from a historical viewpoint. In addition, in order to resolve a part of social issues by houses, the Company is making efforts for the development and spread of ecologically conscious houses and builds a Net Zero Energy House ("ZEH") as a main product and supplies such houses in Japan which should provide additional value in the future. In the United States, the State of California plans to adopt regulations that require building ZEH for all new detached houses by 2020. Interest and support for sustainable living environments are rapidly increasing in the United States as well as Japan.

The Company recognizes that such a housing environment in the United States is the best chance to operate its business using environmental technologies of the Company and determined to enter into the housing business in the United States. For the start of the business, the Company determined to cooperate with WHC, which has operated its housing business with the same platform and a united brand name in multiple areas for a long time and has a stable profit basis, and the Company intends to start its operations mainly in the western area of the United States, such as the State of Utah, where the head office of WHC is located and the State of California, in which WHC mainly operates. WHC is a major house builder in the western area of the United States. WHC operates mainly in the western states of the United States and has sold over 40 thousand houses in total since it was established. WHC has various product lineups in response to diverse customer needs and sells ecologically conscious houses. The Company plans to expand the business in the United States using the experiences and knowhow of both the Company and WHC.

(2)Names of shareholders from which the Company acquired shares

The Company acquired the shares of WHC from Oaktree AC Invest Co 3, L.P. ("Oaktree"), Stonehill Institutional Partners, L.P. ("Stonehill") and 12 other investment entities. Both Oaktree and Shonehill were main shareholders of WHC and are private equity funds in the United States. Details of each fund are not disclosed at their request. There are no specified relationships regarding capital, human resources, or business transactions.

(3)Information regarding the acquisition

Information regarding the acquisition is as follows:

Name of acquired company	Woodside Homes Company, LLC
Description of business	WHC is a holding company which owns shares in companies which are involved in the production and sales of detached housing and related businesses.
Size of acquired company	Consolidated net assets and consolidated total assets of WHC as of December 31, 2016 were $388 million and $791 million, respectively.
Acquisition date	March 1, 2017 (February 28, 2017, in the United States)
Number of acquired equity shares	21,549,342.22 shares
Acquisition price	$460 million, which is an estimated amount, including acquisition costs and advisory fees
Holding ratio after acquisition	100.0%
Financing method	Issuance of short-term bonds and loans

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 9, 2017. Details of the cancellation of treasury stock are as follows:

Objective	In order to improve capital efficiency and shareholder value through reducing outstanding shares
Cancellation method	Reduction from retained earning
Class of shares to be cancelled	Common stock
Number of shares to be cancelled	19,000,000 shares (2.68% of total outstanding shares before cancellation)
Scheduled cancellation date	April 28, 2017
Total number of outstanding shares after cancellation	690,683,466 shares

The above cancellation of treasury stock is subject to the approval of the reversal of general reserves that the Company will seek to obtain at its general meeting of shareholders to be held on April 27, 2017.

Independent Auditor's Report

The Board of Directors
Sekisui House, Ltd.

We have audited the accompanying consolidated financial statements of Sekisui House, Ltd. and subsidiaries, which comprise the consolidated balance sheet as at January 31, 2017, and the consolidated statements of income, comprehensive income, changes in net assets, and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

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

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

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

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

Opinion
In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Sekisui House, Ltd. and subsidiaries as at January 31, 2017, and their consolidated financial performance and cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

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

April 27, 2017
Osaka, Japan

Ernst & Young ShinNihon LLC

Ernst & Young ShinNihon LLC
Auditors

Corporate Data

Outline of the Company

(As of January 31, 2017)

Established
August 1, 1960

Capital Stock Issued
¥202,591 million

Employees
23,299 (Consolidated)

Head Office
Tower East Umeda Sky Building
1-88 Oyodonaka 1-chome Kita-ku Osaka
531-0076 Japan
Phone: 81-6-6440-3111
Facsimile: 81-6-6440-3369

Factories
Ibaraki, Shizuoka, Yamaguchi, Miyagi and Hyogo

Laboratory
Comprehensive Housing R & D Institute (Kyoto)

Major Subsidiaries and Affiliates
Sekiwa Real Estate, Ltd.
Sekisui House Remodeling Central, Ltd.
Sekiwa Construction Higashi-Tokyo, Ltd.
Sekisui House Investment Advisors,Ltd.
Sekisui House SI Asset Management, Ltd.
Sekisui House Australia Holdings Pty Limited
North America Sekisui House, LLC
Sekisui House Changcheng (Suzhou) Real Estate Development Co. Ltd.

Stock Information

(As of January 31, 2017)

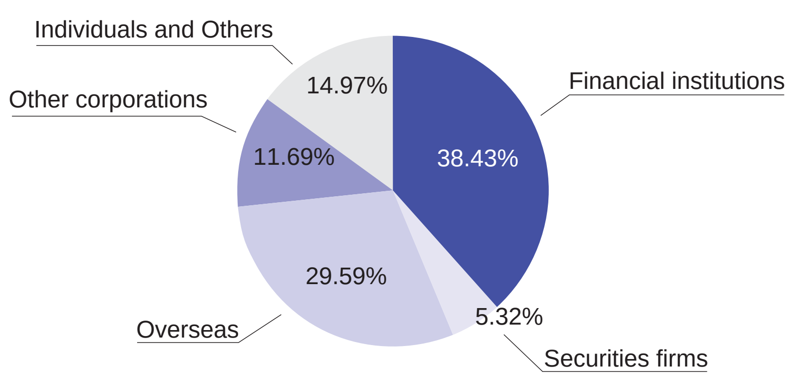
Stock Listing
Tokyo, Nagoya

American Depositary Receipts
Symbol: SKHSY
CUSIP: 816078307
Ratio: 1:1
Exchange: OTC (Over-The-Counter)
Depositary: The Bank of New York Mellon
BNY Mellon Shareowner Services
P.O. Box 30170
College Station, TX 77842-3170 U.S.A.
U.S. toll free: (888)269-2377 (888-BNY-ADRS)
International Callers: +1(201)680-6825
http://www.adrbnymellon.com

Major Shareholders

	Name	Number of shares	Shareholding ratio (%)
1	The Master Trust Bank of Japan, Ltd. (Trust account)	51,189,300	7.21
2	Sekisui Chemical Co., Ltd.	42,168,727	5.94
3	Japan Trustee Services Bank, Ltd. (Trust account)	38,594,900	5.44
4	The Bank of Tokyo-Mitsubishi UFJ, Ltd.	13,624,515	1.92
5	Employees' Stockholding	13,159,086	1.85
6	The Dai-ichi Life Insurance Company, Limited	12,158,730	1.71
7	Japan Trustee Services Bank, Ltd. (Trust account 7)	9,117,800	1.28
8	THE BANK OF NEW YORK MELLON SA/NV 10	9,041,078	1.27
9	STATE STREET BANK WEST CLIENT-TREATY 505234	8,833,286	1.24
10	STATE STREET BANK AND TRUST COMPANY 505225	8,735,010	1.23

Stock Composition



Directors and Corporate Auditors
(As of April 27, 2017)

Chairman, Representative Director & CEO
Isami Wada

President, Representative Director & COO
Toshinori Abe

Executive Vice President & Director & CFO
Shiro Inagaki

Executive Vice President & Director
Tetsuo Iku

Directors
Teruyuki Saegusa
Shiro Wakui
Takashi Uchida
Fumiyasu Suguro
Kunpei Nishida
Yosuke Horiuchi
Yoshihiro Nakai

Standing Corporate Auditors
Sumio Wada
Kengo Yoshida

Corporate Auditors
Yoshinori Shinohara
Koichi Kunisada
Takashi Kobayashi

Executive Officers
(As of April 27, 2017)

Executive Vice President
Shiro Inagaki
Tetsuo Iku

Senior Managing Officers
Takashi Uchida
Fumiyasu Suguro

Managing Officers
Kunpei Nishida
Yosuke Horiuchi
Yoshihiro Nakai
Motohiko Fujiwara
Koji Nakata
Noboru Ashida
Hiroyuki Sato
Kazushi Mitani
Haruyuki Iwata
Daisuke Akamatsu
Kenichi Ishida
Noriaki Ogata
Kazuchika Uchiyama
Toshiharu Miura
Toru Ishii

Executive Officers
Michio Yoshizaki
Hisao Yamada
Yuichi Matsushima
Akira Kuroda
Osamu Minagawa
Toshikazu Shimanuki
Futoshi Teramura
Hideyuki Kamijo
Hitoshi Kuroyanagi
Takakazu Koi
Yutaka Amemiya
Masayoshi Ishii

ANNUAL REPORT 2017

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