Proud City Inagekaigan Residence II

ANNUAL REPORT 2013

For the Year Ended March 31, 2013

HASEKO Corporation

Profile

Haseko Corporation and its group of companies have leveraged their capabilities in all condominium business fields – from gathering land information to planning, design, construction, sale, property management, renovation, brokering and renting. Building on this “total produce” capability, the Haseko Group has conducted marketing activities in which it proposes product planning, selling strategies and other issues that cannot be matched by competitors. Since constructing its first condominium in 1968, Haseko has built a cumulative total of around 530,000 condominium units (as of the end of March 2013) and established itself as a leading condominium contractor in Japan.

Going forward, while focusing on providing new condominiums as its mainstay business, Haseko will also direct its efforts at the exterior and interior improvement businesses, which are derived from condominium management and other housing-related services, as well as in developing new markets and new business offerings from the perspective of supporting life-conscious consumers and supporting owners and investors based on the condominium units managed and operated by the Haseko Group as a whole. By doing so, Haseko wants to create an unprecedented “urban-type” service business.

Contents

Cover photos

Proud City Inagekaigan Residence II (Mihama-ku, Chiba-shi, 130 units) in a large multi-use development project, for which Haseko prepared the entire landscape master plan as well as conducted design and construction of the for-sale condominiums (555 units in total) in the residential district.

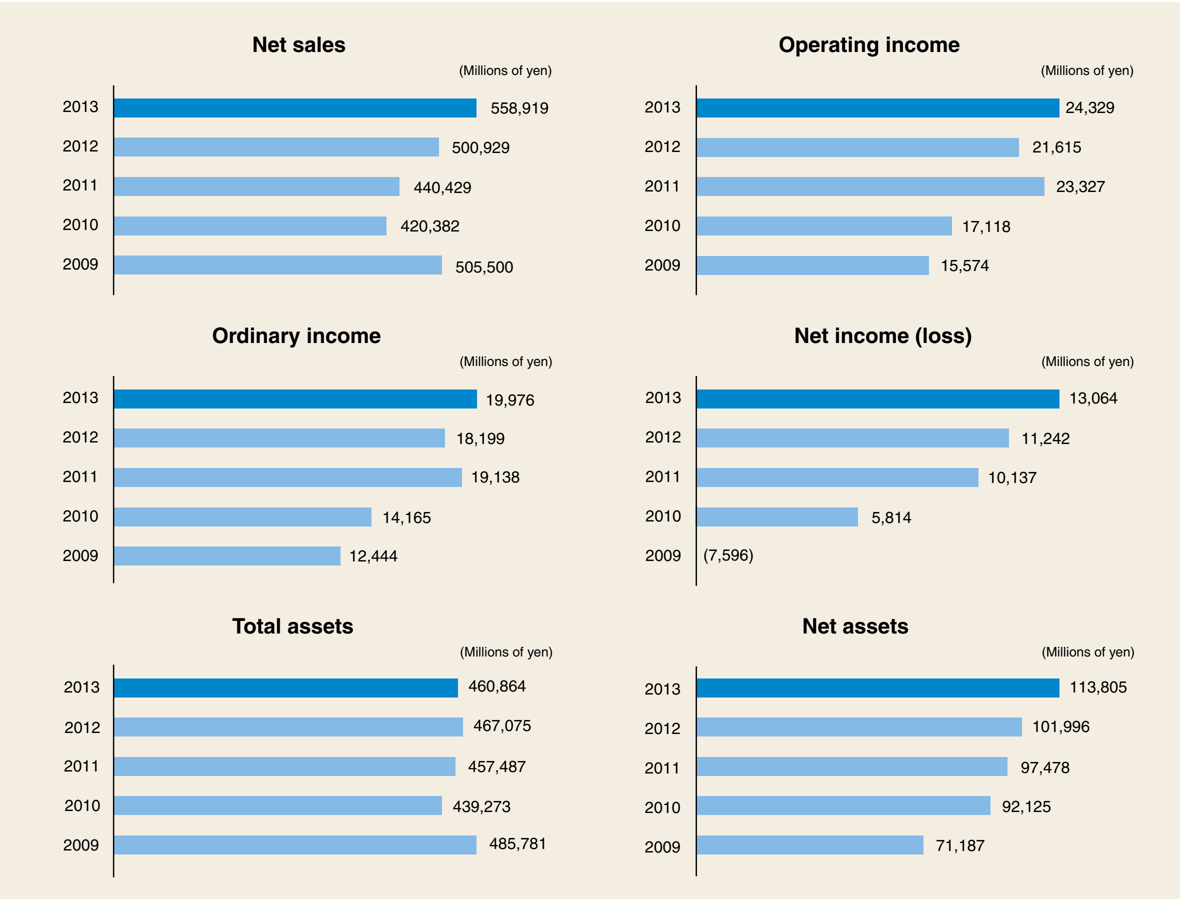
Financial Highlights

Haseko Corporation and its Consolidated Subsidiaries

(Years ended March 31, 2009, 2010, 2011, 2012 and 2013)

	Millions of Yen					Thousands of U.S. Dollars
For the Year	2009	2010	2011	2012	**2013**	**2013**
Net sales	¥505,500	¥420,382	¥440,429	¥500,929	**¥558,919**	**$5,942,786**
Operating income	15,574	17,118	23,327	21,615	**24,329**	**258,682**
Ordinary income	12,444	14,165	19,138	18,199	**19,976**	**212,398**
Net income (loss)	(7,596)	5,814	10,137	11,242	**13,064**	**138,905**
At Year-end						
Total assets	485,781	439,273	457,487	467,075	**460,864**	**4,900,202**
Net assets	71,187	92,125	97,478	101,996	**113,805**	**1,210,048**
	Yen					U.S. Dollars
Per Share Data						
Net income (loss)	(6.67)	3.79	6.29	7.05	**8.34**	**0.09**
Net assets	19.93	30.76	34.36	40.76	**51.98**	**0.55**

Note: The U.S. dollar amounts represent translations of yen amounts at the rate of ¥94.05 = U.S. $1.00, the exchange rate at March 29, 2013.



Message from the Management

I would like to express my heartfelt gratitude for your continued loyal patronage of the Haseko Group.

During the fiscal year ended March 2013, the Japanese economy started to show bright signs thanks to the heightened expectations for economic policies by the new government, reversal of the yen's appreciation and increasingly higher stock prices, on top of the modest recovery trend in light of demand for reconstruction from the Great East Japan Earthquake and other factors. However, given concerns about the recurrence of the European sovereign debt problem and the rise in prices of import goods caused by the weaker yen, the outlook of the economy continued to remain opaque. In the condominium market, supply increased only slightly but, in terms of sales, the initial month sales rate largely surpassed 70% – the benchmark of good/bad market conditions – to 76.7% in the Tokyo metropolitan area and 78.4% in the Kinki area.

Message from the Management

This resulted in the number of for-sale units being marketed, which represents inventories, decreasing significantly as of the end of March 2013 to 4,327 units (down 15.6% year-on-year) in the Tokyo metropolitan area and to 2,9725 units (down 28.9% year-on-year) in the Kinki area.

Under these circumstances, the Haseko Group had to face a severe situation in the fiscal year ended March 2013 due to delayed improvement of the environment for receiving orders. The profit margin of completed construction contracts dropped as a result of prolonged impact of the marginally profitable construction orders we won amid increasingly intensified competition against rival companies, as well as of an increase in construction costs caused by insufficient labor forces, etc. Nevertheless, the Company achieved increases both in revenues and profits for the fiscal year under review due to the increase in real property transactions for the purpose of winning construction orders, with net sales totaling 558.9 billion yen (up 11.6% year-on-year), operating income 24.3 billion yen (up 12.6%), ordinary income 20 billion yen (up 9.8%) and net income 13.1 billion yen (up 16.2%). However, we reluctantly decided to deliver no dividend to common stocks. This is for the purpose to reserve profits as retained earnings for redemption of preferred stocks, which we recognize as an important issue.

We made a good start with the “PLAN for NEXT” (Plan 4N), our new medium-term business plan created with an aim to firmly establish our management system for the future, as it proceeded generally as planned. In addition, based on the profit increase for the fiscal year ended March 2013 and the reinforcement of our financial foundation achieved through transfer of hotels, we will redeem 20 million shares in preferred stocks (totaling 10 billion yen) in the fiscal year ending March 2014 (executed for July 2013). As the Haseko Group places emphasis on achieving payment of dividends for its common stocks, we endeavor to solidify the prospect of redeeming the preferred stocks as soon as possible, enabling us to start paying dividends for the common stocks again.

Since the change of government that took place last year, signs have appeared to suggest that the Japanese economy would regain a positive outlook. In spite of this, the Haseko Group continues to be surrounded by a harsh environment with such factors as soaring materials and labor costs, trends in the foreign exchange rates and interest rates, and housing policies in accordance with the consumption tax increase. The domestic condominium market is exposed to structural changes of the Japanese economy, including intensification of competition over orders accompanying the contraction of the domestic construction market and the arrival of an aged society with decreasing population. Believing it is essential to respond to these changes for our future, the Haseko Group will work to establish the “stock-based” business comprised of management and large-scale repairs of existing condominiums within the scheduled period of the Plan 4N. The Company has a track record of replacing condominiums, and will make further efforts in this area which would lead to creation of the “flow-based” business of “replacement,” a step forward in the cycle from the stock-based business.

In the fiscal year ending March 2014 and after, the Haseko Group will continue to steadily implement the Plan 4N, which aims to further accelerate a shift to corporate management that builds upon both the “flow-based” market centering on construction and the “stock-based” market involving existing condominiums, prepare a financial standing that can endure conditional changes and meet the challenges of new endeavors from a medium- to long-term perspective, by exercising our comprehensive strengths based on the close coordination of respective Group companies. Always having heartfelt gratitude to our shareholders and other stakeholders who have extended support to us, we are determined to continue our efforts to establish ourselves as the one and only corporate group for housing that “creates great living.” Your continued support and encouragement would be greatly appreciated.

June 2013

Ikuo Oguri
President and Representative Director
Haseko Corporation

"PLAN for NEXT"

— Period for creating foundation for the new stage —

Period covered by the plan: Four fiscal years (from April 1, 2012 to March 31, 2016)

Enhancing Profitability of Main Businesses

- **Accelerate a shift to corporate management that builds on both construction-related business, which primarily targets the market for new housing supply, and service-related business, which is centered on the market related to existing residences, etc.**

Construction-related Business

Firmly secure the Company's market share of at least 20% in the construction of new for-sale condominiums on an order basis

- Increase the ratio of Haseko Designated Orders by reinforcing our ability to gather information on real estate (secure the ratio of Haseko Designated Orders to be at least 90%)
- Enhance joint work with project owners assuming that we conduct design and construction in packages (the ratio of design and construction in packages to be at least 90%), and strengthen our ability to control costs by taking advantage of our superiority
- Continue our real estate business by participating in projects with the primary aim of receiving construction orders
- Establish our system to gather information and conduct construction to expand the areas in which we work to receive construction orders, including major cities in the greater Tokyo metropolitan area (Tokyo metropolitan area + Ibaraki, Tochigi, Gunma, Yamanashi and Shizuoka Prefectures)
- Further evolve our system on after-sales services, including the provision of the "Haseko Premium After-Sales Services"
- Endeavor to expand order-reception for condominiums with services for the elderly and rental apartments

Service-related Business

Aiming to achieve 10 billion yen in ordinary income

- Aim to increase the number of for-sale condominium and rental condominium units under management, and enhance the business foundation by having the entire company fully conscious of our identity as a service business and invest in human resources
- Enhance the system that allows the provision of support, both in terms of products and services, concerning rebuilding, renovation for enhanced earthquake resistance and repairs, etc. of aging condominiums
- Accumulate know-how in the area of remodeling, such as large-scale exterior renovation, in order to expand revenues and profits
- Implement multi-faceted work in the area of housing for the elderly, including management and operations of the facilities
- Aim to expand the business scale and acquire know-how through M&As and tie-ups, as well as proactively implement peripheral work of existing businesses

Numerical Targets

Fiscal year ending March 2016 (target)
Consolidated ordinary income
Over 30 billion yen

Service-related business
10 billion yen

Medium-Term Business Plan

■ Reinforcing and Advancing Technological Capabilities and Technical Development Abilities

● Provide safe, reliable and comfortable condominiums

- Develop and construct next-generation production systems (such as utilization of information technologies and promotion of industrialization)
- Develop and introduce next-generation condominiums (such as those incorporating energy-saving and environment-related technologies)
- Develop production technologies of condominiums for the elderly and rental condominiums
- Further reinforce development of renovation technologies

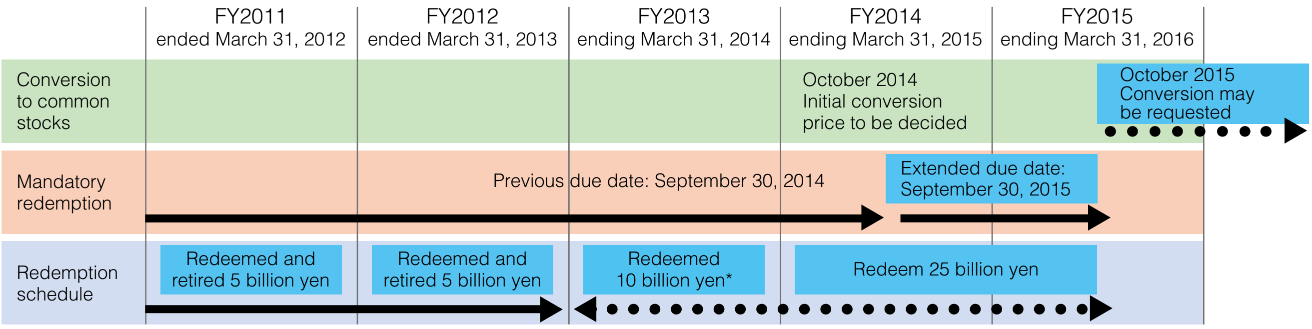
■ Financial Strategy and Capital Measures

● Secure a financial foundation that supports continuous growth, and resume dividends to the Company's common stocks

- Redeem all existing preferred stocks (Preferred Stocks Class B I) by the arrival of their conversion period that starts in October 2015, by using profits for the period, in order to avoid dilution caused by the conversion of the preferred stocks into common stocks
- Work to maintain and improve financial soundness by improving the quality of shareholders' equity and reducing interest-bearing debt, in order to secure flexibility in the financial strategy in accordance with the business policies and the growth strategies of the Company
- Resume stable dividends to the Company's common stocks as early as possible within the period covered by the Plan

Assumed Schedule for Redeeming the Preferred Stocks

Preferred stocks Class B I



*: The Company repurchased and retired 20 million shares on July 12, 2013.

■ New Challenges

● Facilitate the challenging of new endeavors from a medium- to long-term perspective

- Pursue the possibility of expanding our business areas in major cities in Japan, pivoting around service-related businesses
- Investigate and implement measures to expand revenues and profits in overseas markets as the Haseko Group

■ Corporate Management Systems, Etc.

● Focus on establishing highly effective governance and internal control

- Secure monitoring of management operations by the Board of Auditors, the majority of which are outside auditors, with an outside monitoring function from an objective and neutral standpoint, and activate the Board of Directors as well as enhance its function to monitor business management by adding outside directors
- Continuously maintain and enhance systems for compliance, quality (ISO9001), environment (ISO14001), information security and protection of personal information

History of Condominium Business in Japan

Japan's first for-sale condominium was built in 1956, followed by the first condominium boom from 1963 through 1964. The boom, triggered by the 1962 enactment of the Act on Building Unit Ownership, Etc., the basic law concerning condominiums, as well as by the 1964 Tokyo Olympic Games stimulating the economy, was limited to high-grade condominiums located in central Tokyo.

Latter Half of the 1960s: Popularization of Condominiums

Properties located near central Tokyo led the diffusion; the mortgage loan system became popular and triggered the market expansion.

It was 1968 when Haseko started construction of its first condominium. At this time, Haseko already worked not only on providing land information and receiving orders in the form of Haseko Exclusive Contracts through business proposals, but also on meeting and handling various customer needs and complaints.

1970s: Condominiums Become Common; Increase of Large-Scale Developments by Private Developers

Condominiums adopting Western unit plans increased, and the latter half of the 1970s saw the supply of condominiums gain momentum in areas adjacent to Tokyo Prefecture.

In 1973, Haseko developed CONBUS (Condominium Building System), an innovative condominium production system that went down in history. Enabling "improved productivity" as well as "stabilized quality and performance" through standardization, the system helped provide more people with reasonably-priced and quality housing. These condominiums spread dramatically in the metropolitan areas (Tokyo and Kansai), and Haseko used the system to provide approximately 120,000 units in 10 years.

Example of CONBUS series

1980s: Improvement in Condominium Quality, including High-Rise Buildings and Enhanced Livability

Super expensive properties were provided in the bubble-era specifications; family-type condominiums for first-time home buyers were built in suburbs: progress was made in construction technologies and functional performance.

The social environment no longer allowed uniform housing to meet the market needs. In light of this change, Haseko further enhanced the system developed in the CONBUS era and established industry standards by being a pioneer in responding to diversifying needs. An industry standard in the "condominium sales method" to date, in which a single condominium offers a variety of options for arranging different floor plans and interior designs for each of its units, was also developed by Haseko ahead of other companies.

1990s to Present Day: Realizing Large-Scale, Super High-Rise, Highly-Functional and Added-Value Condominiums

Demand expanded steeply due to the "phenomenon of returning to city centers"; unprecedented mass supply of over 80,000 units per year continued, and the era came to demand housing that allows permanent living while commanding variety and advanced features.

Haseko is a leader in providing housing that offers variety and advanced features as well as allowing permanent living – the values demanded by society. As such, Haseko has continued to propose "project-type condominiums"(*) that can realize widespread versatility, securing excellence in such fundamental aspects as earthquake resistance and environmental standards as a building over the long term, while responding to the wide range of needs residents.

(*) The project-type condominiums include "E-Label", a system providing an integrated set of selections for floor plans, interior specifications and facilities, and "Be-Next", a next-generation condominium that adds future versatility while enhancing fundamental performance and securing environmental performance that match the requirements of the times.

Number of Condominiums in Stock

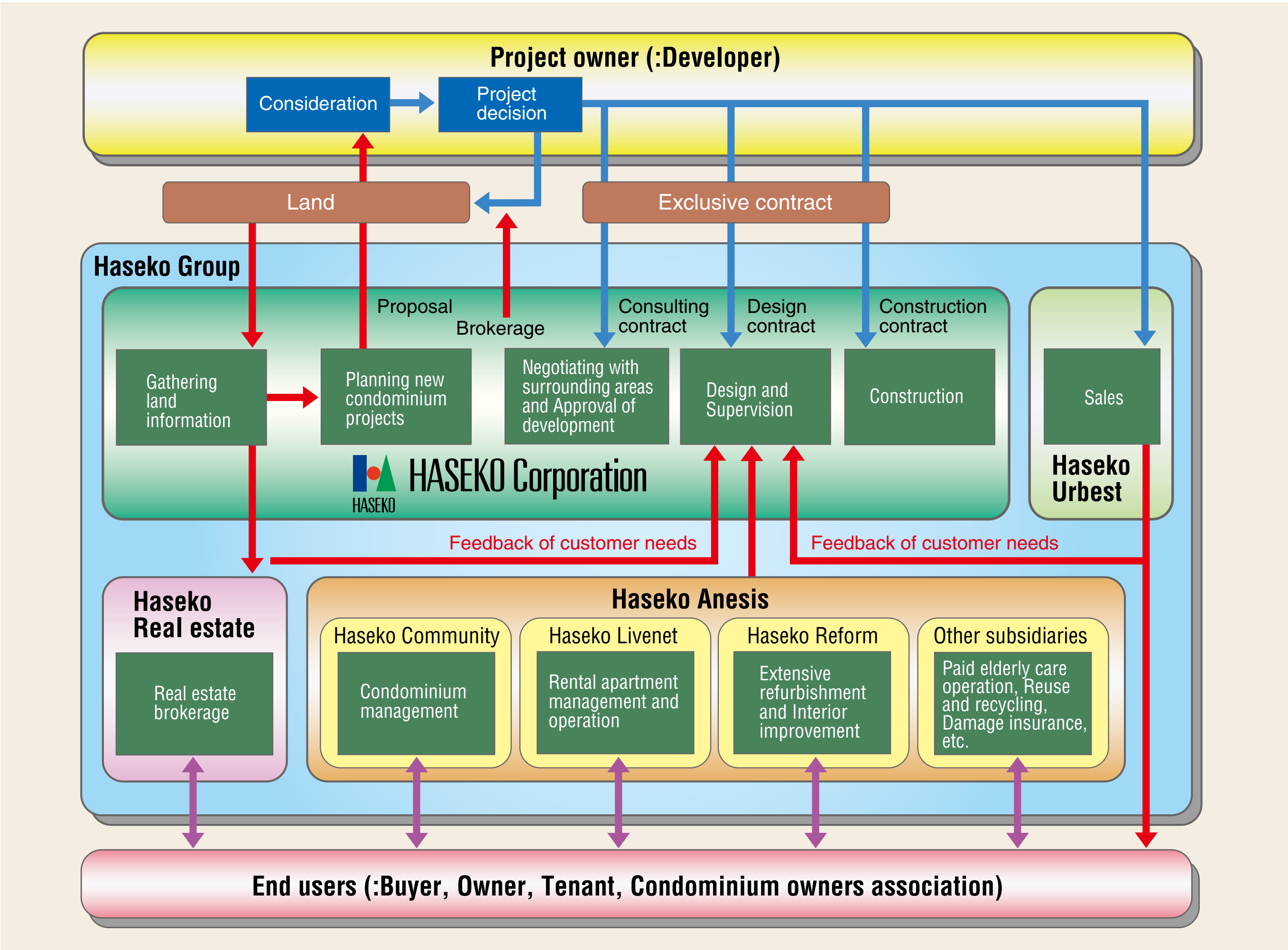
The Ministry of Land, Infrastructure, Transport and Tourism estimates the number of condominiums in stock throughout Japan to total 5.89 million units as of the end of 2012. Of these, Haseko has constructed roughly one out of ten condominium units, building a cumulative total of 528,966 condominium units as of the end of 2012.

Note 1. The number of new supply was estimated based on the Housing Starts Statistics and other data.
2. The number of units in stock was the total of estimated figures as of the end of respective years, based on the cumulative number of new supply, etc.
3. Condominiums mentioned here refer to apartment-type, middle-to high-rise (3-stories or higher) for-sale residences with reinforced concrete, steel and reinforced concrete or steel-frame structures.

Haseko Style of Receiving Orders: Provide Land for Projects and Win Orders

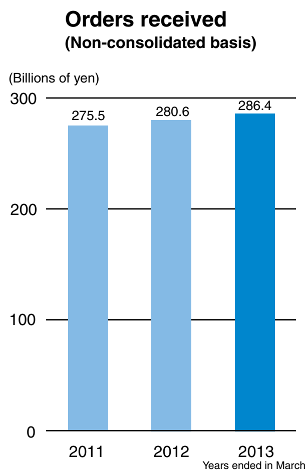
In the general flow of condominium construction, project owners (developers) acquire land and decide on a business plan with the projects before placing construction orders to general contractors. In contrast to this, Haseko collects land information, makes project plans based on the information, and proposes the plans to project owners. With this uniquely Haseko approach, such proposals are utilized to secure orders in the form of Haseko Exclusive Contracts. In addition, Haseko has a variety of condominium-related businesses within its Group, and has the strength that allows it to propose business plans integrating not only orders for construction but also for post-completion services including the sale and building management of condominiums. With design, construction and Haseko Exclusive Contracts serving as the core in conducting the condominium business, Haseko has established a proprietary business model in coordination with each of the Group companies.

Business Model Diagram



The Company's current medium-term business plan aims at "creating the foundation for the new stage." To realize the plan, it is essential to not only secure stable revenues but to further expand revenues. One of the basic policies of this PLAN for NEXT is to "accelerate a shift to corporate management that builds on both the construction-related business, which primarily targets the market for new housing supply, and the service-related business, which is focused on the existing residence-related market. Central to implementing this policy is the business model that leverages the comprehensive capabilities of the Haseko Group over the entire scope of all fields of the condominium business – the "total produce" business model that combines all functional expertise of every division involved in such fields as marketing, technologies and administration as well as of each company within the Group.

Construction



Haseko has specialized in condominium construction for a long time. This has enabled Haseko to establish highly skilled engineers, including subcontractors, and secure a robust competitiveness in every aspect of construction accuracy, scheduling and costs.

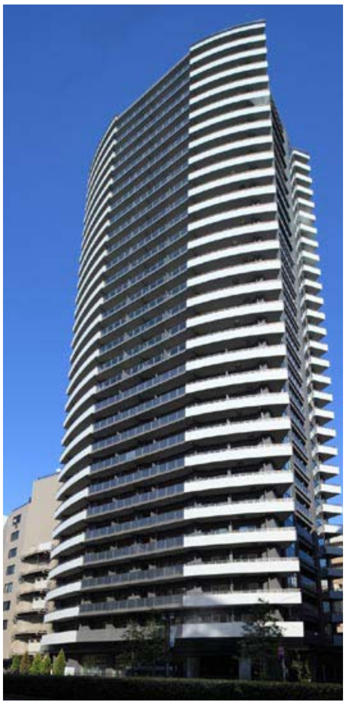
Haseko has established a construction management system that is efficient (no reconstruction) and highly precise (minimal complaints). In addition, Haseko adopts new products and technologies that have been developed at its Technology Research Institute. This has enabled Haseko to provide condominiums that realize shorter construction schedules and that are of a quality that does not compromise the trust of its customers. While employing state-of-the-art construction methods, Haseko works to establish an efficient construction management system that keeps to budgets and promotes smooth implementation of project schedules. These measures are what have maintained Haseko's high productivity, which serves as a source of its high profitability.

Latest Completed Properties

OHANA Hiratsuka Momohama

Suitafujishirodai (Osaka prefectural housing)
Prefectural housing is government-subsidized rental property

The Parkhouse Umeda



LUMINARY Tower Ikebukuro

The Company's Strengths Bolstering the Haseko Exclusive Contracts

● Comprehensive Business Planning

Haseko conducts planning by fully utilizing its unique functions not possessed by rival companies as well as the networks of the Group, including investigation of project size that takes into consideration profitability, product planning based on marketing data and the realization of reasonably priced high-quality planning through cost simulations. At the same time, the Company makes comprehensive business proposals that cover such aspects as sales, construction and management.

● Work Consignment

Aside from construction, Haseko Exclusive Contracts also include orders for other tasks that accompany construction work. In particular, Haseko demonstrates its superb ability to ensure the speedy approval of development, as it negotiates with neighboring residents, prepares shadow maps, and participates in development briefings after confirming the project owner's desire to proceed with the project. In addition, in large-scale projects that will lead urban development, Haseko proactively works to develop the city in close coordination with neighboring residents and governmental offices.

● Receiving Orders for Design and Construction in Packages

Haseko constructs condominiums with its construction and design sections working as one. The Company works to improve productivity and cost reductions, and establish the value engineering (VE) design system through close organizational coordination between the two sections.

Design

The design division, for which it is vital to plan products that meet the diversifying needs of customers, is always pursuing "what is best for residents." Feedback from customers is received and design work is conducted from the viewpoint of end users. In terms of product performance, utilizing proposed plans and accumulated technologies and knowhow from the construction track record of over 530,000 units built, it proactively works to enrich fundamental performances of condominiums, improve versatility and secure environmental and disaster prevention performances. It also has built a presentation space, called "LIPS," for our condominiums, and at the condominium design stage after confirmation of the project has been finalized, decisions regarding the products to be used are made while looking at a variety of offerings including cutting-edge products with the project owner. This approach makes it possible to realize prompt, reliable designs since it facilitates the smooth selection of parts, materials and products.

Furthermore, close collaboration with the construction divisions is conducted in order to realize designs that facilitate construction and are economical. This has achieved a system that effectively lowers costs by winning orders through the integration of design and construction.

LIPS "Living Image Presentation Space"

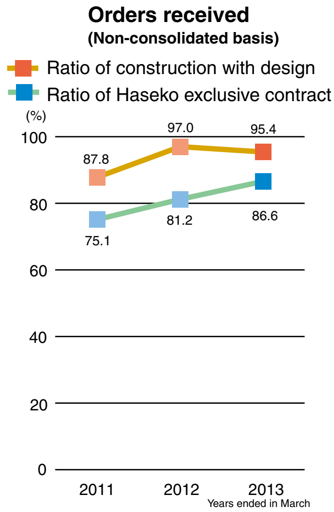
● Product Planning Ability to Capture Customer Needs

Through condominium sales and management operations, Haseko feeds the voices of purchasers and residents back to the design sections and condominium construction sites so that they are reflected in creating condominiums. Moreover, the Company's design know-how that leads the condominium and apartment industry helps generate its product planning ability that captures customer needs.

● Haseko Premium After-Sales Services – Ever-Evolving After-Sales Services that Only Haseko Can Provide

The Haseko Premium After-sales Services is a system in which Haseko, a constructor having the deep knowledge of buildings, directly listens to customers to grasp the conditions of their condominiums and provide adjustments and repairs so that customers can use them over a long period of time.

Under the system, Haseko significantly extends the period in which the Company provides after-sales services for condominiums it sells, and works to enhance the sense of security and satisfaction of residents and improve added value by reinforcing its regular services. Moreover, in order to realize quick responses, the Company has set up call centers to directly receive after-sales service requests from residents.



Lions Minami-Senri Satakedai Grand Heart (Suita-shi, Osaka)

Wins Osaka Prefecture Governor Award at the 6th Osaka Green Excellence Award

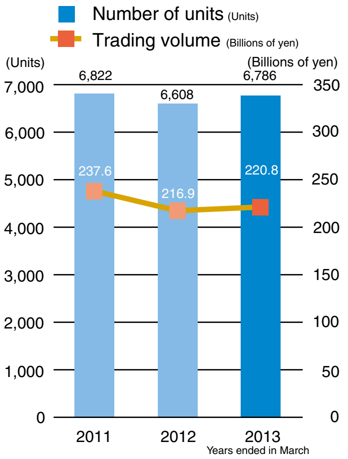
MYRICA HILLS

A row of cherry blossom trees utilized the preservation tree

A walking trail which removed existing trees

Sale of Newly-Built For-Sale Condominiums

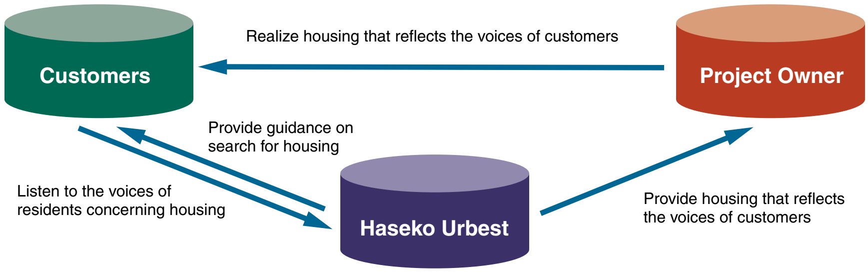
Consignment sales of newly-built for-sale condominiums (Haseko Urbest)



Key Sales to Success in the Condominium Business

Haseko Urbest is commissioned by project owners for general operations related to selling of for-sale condominiums. The company is totally commissioned for marketing operations including market research, product planning, sales planning and advertising, as well as for sales to customers, contracting, brokerage of financing and registration support.

With the added feature of ample marketing functions, the company builds on elaborate analyses based on a huge volume of customer information to plan and develop highly-competitive products and propose them to project owners.



Product Planning that Reflects Customer Needs

U's-style

The "U's-style" products are based on original specifications for condominiums, materializing the voices of customers wishing for "what would better."

With the concept of housing that provides "real comfort" and a "real sense of reliability" as well as of "housing you are really attached to" by continuing to live there for many decades, the company provides people with a condominium-life that only sales companies can realize by combining existing products and newly developed products.

Major Line of Business

● Consigned Sales

The company proposes "housing demanded by the market" and provides support to customers while carrying out elaborate discussions in advance with project owners. The company implements consulting-based marketing that advises customers based on its expertise, aside from making consultation on how to demonstrate products, including exhibiting model rooms and setting up sales centers.

● Information Provision

The company provides information services, including regular delivery of mail magazines to customers and operating the "Urbest Style," an Internet-based website that makes lifestyle proposals. Moreover, the company has established a "customer consultation center" to respond to requests and inquiries from customers.

● Planning

The company's planning section, comprising the "product planning team" and the "customer information team," is engaged in "making proposals of products that sell", taking full advantage of its elaborate market research and of its proposal ability through customer-needs-specific marketing activities based on direct voices of customers.

● Contracting

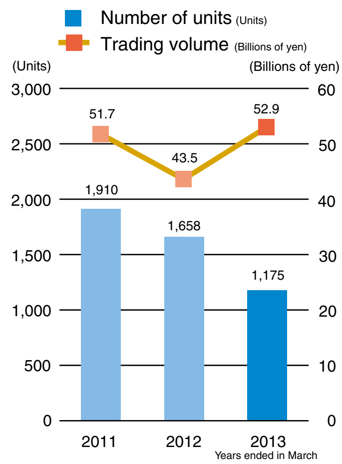
In place of project owners, the company performs a series of complicated operations concerning contracts in an easy-to-understand and efficient manner, from sales contracts to delivery of condominiums and including loan arrangements and registration work for customers. It also prepares contracts and materials based on real estate laws for respective condominiums.

Real Estate Brokerage

Providing comprehensive support menus

Based on the Haseko Group's basic philosophy of "creating good housing, taking proper care of housing and living in housing over a long period of time," the Company integrated the Group's real estate brokerage business to create Haseko Real Estate Inc. in July 2012. The new firm is engaged in the housing brokerage business, renovation business, commercial real estate brokerage business and real estate solution business, and provides support menus that meet a variety of requirements from individual and corporate customers, fully utilizing the networks of the Haseko Group.

Brokerage of real estate



Note: Figures are based on Haseko Urbest brokered units in 2011 and 2012.

Renovation

Before

After

Major Line of Business

● Housing Brokerage Business

The company supports customers who want to "sell," "buy" or "lease" condominiums and stand-alone houses, helping them to realize safe, quick and appropriate implementation of complicated real estate transactions. Moreover, it strongly backs up customers by offering a wide range of support menus from consultations on financing to referral of renovation, house-moving and fire insurance.

● Renovation Business

The company renovates existing condominiums and serves as the seller in marketing them. Taking advantage of the Haseko Group's experience as the top achiever in condominium construction, the company delivers housing to the next residents, conducting operations from purchase to renovation work and sales of residences.

● Commercial Real Estate Brokerage Business

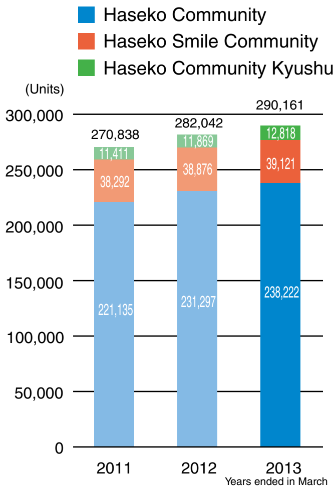
The company responds to every type of customer need for real estate, including selling and buying, for not only condominiums, stand-alone houses and commercial sites but also condominium buildings for sale as a whole, profit-generating buildings and other properties. Moreover, it provides appropriate support for real estate transactions from price negotiations to contract executions by acting as agent in real estate surveys including market trends and various legal matters, fully utilizing the networks of the Haseko Group.

● Real Estate Solutions Business

The company fully utilizes the networks of the Haseko Group to provide total support for business planning to operations and management of condominium projects, offices, retail stores, facilities for the elderly and other properties, helping customers to conduct asset management by realizing the property value to the maximum.

Condominium Building Management

Three companies Condominium building management



Supporting "Safe," "Reliable" and "Comfortable" Lives

Haseko Community, Haseko Smile Community and Haseko Community Kyushu are commissioned by management associations, which are comprised of residents of condominiums, to provide services that should maintain and improve the asset values of the buildings and enrich life in condominiums.

Handles a Variety of Condominium-related Matters, Utilizing High Technological Capabilities and Building and Facilities

As a management company belonging to a general contractor group, the company has handled a variety of matters related to buildings and facilities. Based on these experiences, it has accepted not only the problems related to construction or management but also whatever issues customers might have, and investigated the causes and solved them. The accumulation of such endeavors gives the company the ability to solve various matters occurring with regard to buildings and facilities at condominiums.

Working to Keep People Safe and At Ease Around the Clock

The company's centralized remote monitoring center, which conducts monitoring of abnormalities at buildings and facilities via online systems for every unit, conducts comprehensive monitoring operations around the clock. In case of any abnormality, the situation is quickly grasped and security personnel are dispatched in emergencies as needed. Moreover, specialized technical staff is available around the clock to provide assistance and advice for problems in daily life, in order to maintain a sense of security for residents.

Providing Advice and Backup for Creating a Comfortable Community

Over recent years, condominiums have seen attention increasingly gathered on condominium management from the viewpoint of not only keeping living spaces comfortable but also maintaining the asset value into the future, partly driven by the growing orientation to permanent living in condominium units. In the face of such a move, Haseko counts on community creation as one of the important issues in conducting condominium management, and believes that it is one of the important roles of a management company to support formation of a community.

Major Line of Business

● Maintenance and Management

The company's technical staffs periodically inspect buildings, elevators, water supply and drainage, fire prevention facilities and other accessorial facilities. On top of proposing repairs of defects, the company forecasts future deterioration of buildings over time and appropriately proposes repair work plans and financing plans in a timely manner.

● Management and Cleaning

Caretakers and cleaners who have mastered professional knowledge and skills perform reception, surveillance and attendance services as well as cleaning services of common areas.

● Clerical Services

In place of management associations, the company collects and keeps management fees and repair deposits, gives reminders for payment of unpaid proceeds, reports financial statements and providing accounting services including financial settlements.

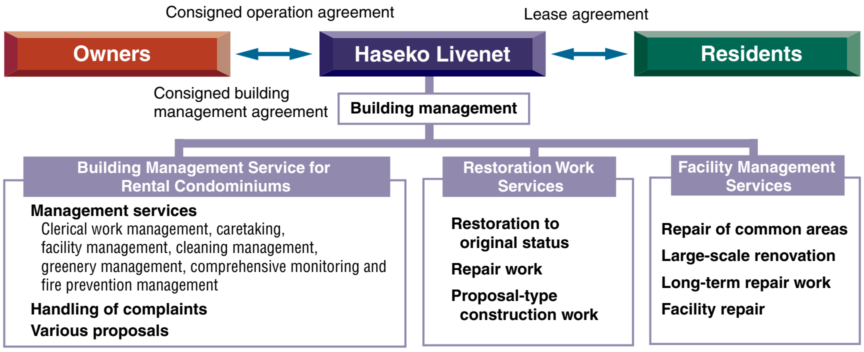
● Life Support Services

The company provides services that support the daily lives of residents, including acceptance of clothes for cleaning, arranging for taxis and catering services, and conducting a variety of community events. Moreover, it offers services that enrich the living at condominiums, such as cafés and culture schools operated in condominiums as well as car sharing.

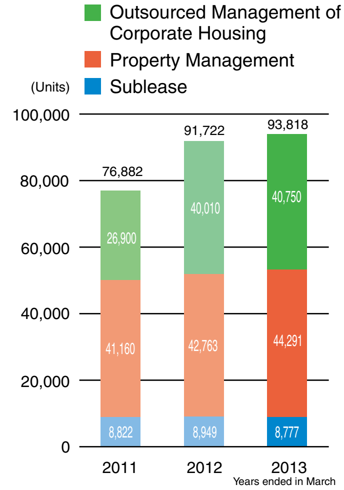
Management and Operation of Rental Condominiums

Rental Condominium Experts

Haseko Livenet implements services that widely meet corporate needs, such as management and operations of rental condominiums, company housing brokerage and management agency services and solution business for corporate real estate issues, fully utilizing the various condominium-related businesses of the Haseko Group, including the ability to gather information, design and construction, real estate transaction, and repairs and renovation. It has not only managed over 90,000 units of rental condominiums and corporate housing and operated them at an average occupancy rate of more than 95%, but also established strong networks with major investment funds inside and outside Japan and other players, and has accumulated achievements in transaction brokerage and consulting services as well.



Haseko Livenet
Rental condominium management and operation



Major Line of Business

● Development of For-Investment Rental Condominiums

The company coordinates development of rental condominiums and prepares plans based on marketing results. It can achieve high occupancy rates by being simultaneously consigned for property management.

● Outsourced Management of Corporate Housing

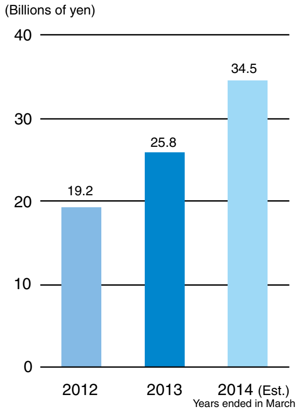
Having pioneered the corporate housing business model, the company provides support ranging from reviews of corporate housing systems to CRE strategies. It features high-quality services that have been selected by many global companies.

● Property Management

The company leads the country in the number of units under consigned management in for-investment residential properties. The sublease system in which it rents the entire properties for lease, the "total package management" service in which the company performs various procedures and works on rental operations as an agency as well as performing building management on its own, and the full support it offers for all aspects down to exit strategies are part of what has made the company the leader in this field. In addition, the company maintains high occupancy rates by soliciting excellent tenants.

Large-Scale Repair and Interior Remodeling

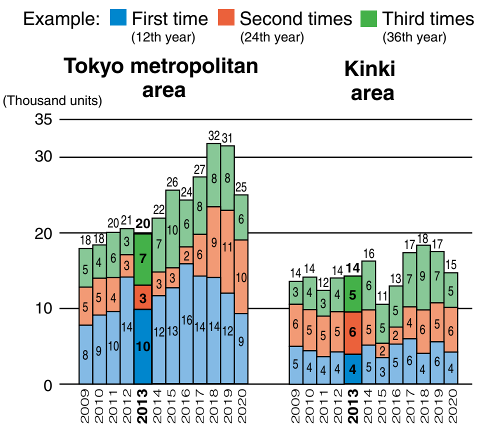
Orders received (Haseko Reform)



Modular type suspended scaffolding that secures anti-crime performance and livability

Building diagnosis by "Ju-yu-shi" (living-friendly engineers)

When will the condominiums previously constructed by Haseko require large-scale exterior renovations, and subsequent renovations?



Maintaining and Enhancing Comfortable, Safe Living and the Asset Values of Customers

Haseko Reform is engaged in renewal construction and maintenance work primarily for condominiums. Its "Ju-yu-shi" (living-friendly engineers) provides building diagnosis of condominiums free of charge and report the deterioration status of the buildings. Based on abundant experience as the leading company in condominium construction, it makes appropriate renewal proposals – including renovations of earthquake-resistant structures, ordinary repairs, large-scale repairs and remodeling – in accordance with the respective buildings' characteristics (size, design and specifications) in order to provide construction quality that achieves the maintenance and enhancement of the value of the asset with the aim of extending the building life.

Exterior Facility Renewal Project for ELCITY Shin-Urayasu

The project has not only implemented external facility renewal works for damages from the Great East Japan Earthquake but also adopted technical proposals made by Haseko Corp, including new installment of emergency wells, based on lessons learned from the earthquake, and modification of common-use areas in order to better suit actual use. Haseko received the order for the project, winning the recognition of the management association that valued us as "the company to which we can entrust everything on repair matters, not only for the building but also exterior facilities, equipment and interior fittings."

Before

Before

After

After

Major Line of Business

● Large-scale repair work (renewal and maintenance of common zones)

The experience and the track record of a total of approximately 500,000 units of condominium constructions are fed back to renewal and maintenance work.
The company executed condominium renewal and maintenance work totaling approximately 2,200 buildings (approximately 220,000 units) over the last 20 years.
Proactively adopts construction methods that take into consideration the living environment as it conducts "construction work while letting residents remain."

● Interior reform work in condominium units

Proposes appropriate reform for not only unit floor plans and designs but also for replacement of water supply, drainage and electricity facilities.
Female interior coordinators make arrangements based on the condominium construction record data.

Haseko Technical Research Institute


Solar Photovoltaic Power Generation Panels

The Haseko Technical Research Institute is the Company's base for research and technological development. It features a Housing Performance Test Building, which is a reconstruction of a condominium at scale and the sole such facility in Japan, a Thermal Environment Test Building, a Structural Material Test Building and other facilities, and is engaged in a wide range of activities from basic research to technological development of condominiums and rental apartments. In recent years, it has been focusing on research in environmental and renovation technologies under the themes of renewable energy use, CO_2 reduction and energy saving, extension of building life and other topics. The Institute has also set up a venue within its site for exhibiting technologies, and proactively explaining and demonstrating its initiatives on environmental issues to outside audiences.

Comprehensive Renovation for Reducing CO_2 Emission that Can Be Conducted while Residents Continue Living in the Building

For heat isolation renovation of fairly old condominiums (around 30 years since completion), which are buildings constructed before the Energy Saving Act was enforced and requiring interior demolition for the work, Haseko developed "outside heat isolation renovation work method," in which exterior materials having heat isolation layers are attached to outer walls and roof surfaces of buildings, making it possible to conduct comprehensive renovation for reducing CO_2 emission while residents continue living in the buildings.

If conducted simultaneously with introduction of high voltage power collective receiving facilities, which help decreases power rates, and installment of smart meters that can make power consumption "visible," the method can make significant advances in saving energy and reducing CO_2 emission as well as extending the life of condominiums.

Classification of renovation	Details of renovation
Renovation for heat isolation	• Outside heat isolation renovation of outer walls • Outside heat isolation renovation of roof surfaces • Renovation of internal resin windows (mounting after installation)
Renovation for heightening facility efficiency	• Replacing lighting equipment in common spaces with LED lamps • Replacing hot-water heaters with highly efficient ones
Renovation for "being smart"	• Introduction of high voltage power collective receiving facilities • Making power consumption "visible" by installing smart meters • Reinforcement of power capacity of exclusive areas through renovation of main power lines • Introduction of HEMS (home energy management system) and MEMS (condominium energy management system) • Installation of solar power generation equipment and storage batteries
Other renovation works	• Conduct renovation works, including earthquake resistant repairs, as needed while allowing residents to continue living in the building during the works

Estate Tsurumaki Residences No. 4 and No. 5 (construction started in February 2013, scheduled for completion in March 2014) Selected as the First Properties for Applying the Method

Outside heat isolation renovation and renovation for "being smart" have achieved a reduction of utility expenses at approximately 37,000 yen per household annually, an approximate 5% reduction of power rates for exclusive areas, an approximate 23% reduction of CO_2 emission for the entire life cycle, and an extension of life from approximately 45 years to approximately 90 years in terms of the assumed use period of the buildings.

● Leading Initiatives for Reducing CO_2 at Housing and Architecture by the Ministry of Land, Infrastructure, Transport and Tourism

The initiatives, implemented by the Ministry of Land, Infrastructure, Transport and Tourism since fiscal 2008, publicly solicit and support housing and building and architecture projects that would be the leading projects with good prospect of realizing CO_2 reductions, with an aim of strongly promoting measures to reduce CO_2 and enhance the market value of housing and architecture as well as improve the living and production environment.

Environmental Preservation

Haseko Corporation has made it a social mission to create an environment that is optimal for cities and people. With the belief that creation of a truly rich environment can be achieved only after we realize a society that preserves the global environment and can develop in a sustainable manner, the Company operates activities in pursuit of preserving and improving the global environment in a better way.

Specifically, Haseko has established its environmental policy as a company and acquired ISO 14001 certification. Each business unit implements environmental preservation activities by setting specific objectives including reduction of construction waste and promotion of recycling. Moreover, our internal audit and external review are being executed on a regular basis to realize continual improvements.

Haseko Corporation is proactively engaged in conducting social contribution activities based on the thinking that corporate value is enhanced by respecting harmony with society and growing in mutual prosperity with society. Aside from economic contributions it should naturally make through developing its business, the Company is also working on a variety of social contribution activities as a “trusted corporate citizen.”

● Environmental Policy

1. The Company shall establish and operate an environment management system in order to promote environmental preservation activities, and shall work to make continuous improvement of the environment and prevent contamination.
2. The Company shall abide by laws, agreements and other arrangements concerning the environment, as well as prepare and implement voluntary standards as necessary.
3. The Company shall assess the impact of its business activities on the environment and establish environment-specific purposes and goals that can be achieved both technically and economically. Such environment-specific purposes and goals shall be reviewed periodically.
4. The Company shall focus on the following items in order to implement environmental preservation activities:
   (1) Reduce construction wastes, and conduct construction giving consideration to recycling and the neighboring environment.
   (2) Propose environment-conscious designs.
   (3) Conduct office work giving consideration to reduced use of paper, recycling, waste separation and energy saving.
5. The Company shall widely notify all its officers and staff as well as all people working with Haseko of its environmental policy, and request its partner companies to notifying those within their companies and for their cooperation.
6. The Company shall disclose its environmental policy to outside parties that make such a request.

Environment-conscious designs

Reducing CO_2 through greening

Proud city Urawa

“Haseko Living Design Competition” Held

Since 2007, Haseko has been holding the annual “Haseko Living Design Competition” for students, with the aim of fostering young people who wish to work in the world of architecture.

The sixth competition held in 2012 set the theme of “renovation at familiar and next-door places” given the issues in modern society such as environmental matters, decreasing birthrate and aging population. A total of 217 proposals were submitted from 582 registrants, awarding one proposal with first prize, three proposals with awards of excellence, and ten proposals with honorable piece of work.

“Mission Uchimizu (Water Sprinkling) at Condominiums” Implemented

The Mission Uchimizu (Water Sprinkling) started in 2003 as an initiative of countermeasures against the heat island phenomenon and global warming that everyone can easily implement with pleasure by utilizing secondary water from available sources, and is backed by the Ministry of Land, Infrastructure, Transport and Tourism and the Ministry of the Environment. Haseko Community, Haseko Smile Community and Haseko Community Kyushu, which constitute Haseko’s management company groups, have implemented the Mission Uchimizu at condominiums they manage since 2008. With the management companies serving as leaders, the initiative helps to heighten residents’ awareness of global warming and ecological considerations, as well as improve communications among residents and with neighboring communities, which will become essential in disasters and other emergency occasions. In 2012, people totaling as many as 51,365 households from 941 condominiums participated in the initiative.

■ **What is Uchimizu?**

An old tradition in Japan, it means sprinkling water on the streets, yards and other outdoor places. Sprinkled water vaporizes while using heat, leading to lowering the temperature. As such, water is sprinkled early in the morning or in the evening, especially in summer, for its cooling effects. In recent years, people mainly use such secondary water around them as surplus water from baths or showers and rainwater, rather than tap water, for sprinkling because of environmental considerations.

Participation in Environmental Preservation Activities

Since fiscal 2012, the Haseko Group has been participating in the “Tokyo Greenship Action” promoted by the Tokyo Metropolitan Government. Thirty-five employees of the Haseko Group took part in green zone preservation activities in the Kiyose Matsuyama Green Zone Preservation District (Kiyose-shi, Tokyo) conducted in November 2012. In the Kansai area, the Haseko Group signed the “Joint Declaration on Creating Symbiosis Forests in Sakai No. 7-3 District” with the Port and Harbor Bureau, Osaka Prefectural Government in June 2013. In this initiative, the Haseko Group plans to conduct weed clearing, planting and caring for trees in the Symbiosis Forests.

Corporate Governance

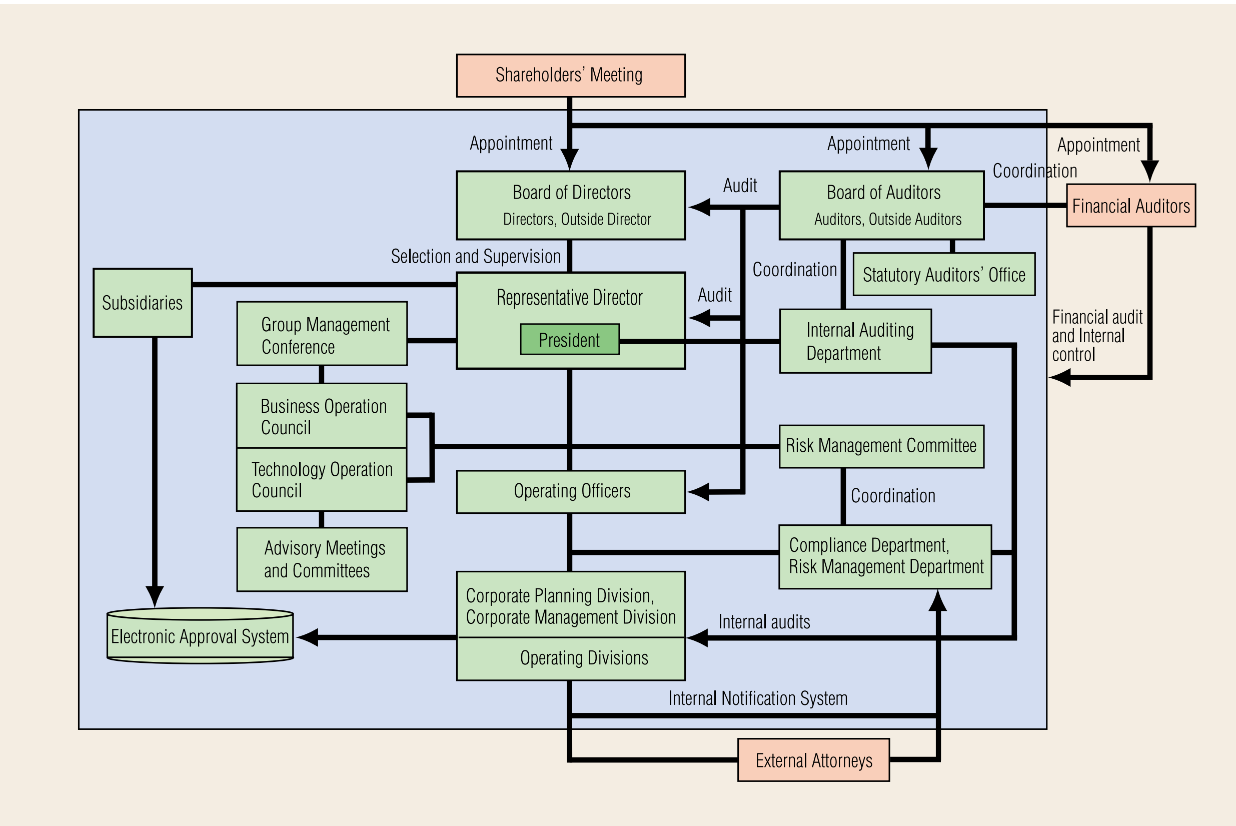
Haseko Corporation has made it a basic policy of its corporate management to contribute to society and win society's confidence through its business operations that put customers first. The Company has also positioned reinforcement of corporate governance as one of its utmost management priorities, based on the recognition that it is indispensable to secure management transparency and objectivity for maximizing corporate value in a stable manner over a long term and ensuring shareholders' interests.

At Haseko, the Board of Directors of Haseko Corporation serves as the institution where directors with expert knowledge and experience in various business sectors conduct decision-making on managerial issues and supervise execution of duties of other directors. As for monitoring of management operations, the Company's system provides the Board of Auditors, the majority of which are outside auditors, with the monitoring function from an objective and neutral standpoint from outside through implementation of audits. On top of these functions, starting in June 2011, Haseko added an outside director with abundant experience and track record to provide appropriate opinions and advice in order to further activate discussions at the Board of Directors as well as enhance the function to monitor business management. In June 2013, the Company increased the number of outside directors to two, which it believes will further enhance the functions of the Board of Directors. Going forward, we will continue to look for a system that is optimum for the Company, taking into consideration the balance between the operation of the Board of Directors and the monitoring functions.

Roles and Operations of Corporate Institutions

The Board of Directors holds regular meetings once a month and additional special meetings as necessary, and is responsible for important decision-making and regular reports on matters related to management. In

Diagram of company institutions and internal governance



addition, operating officers make operational reports on a regular basis to the Board.

The company has also established two operation councils – the Business Operation Council and the Technology Operation Council – to facilitate prompt and flexible decision-making on matters related to daily operations to the extent they are authorized by the Board of Directors. Participation of directors in these councils is limited to a certain level, so that the functions of making decisions and supervising such decision-making are divided and clarification is made for the responsibilities and authority for these functions. Moreover, the function of discussing in advance the important issues to be decided at the Board of Directors is implemented via advance discussion by the above-mentioned two operation councils, as well as by the Group Management Council, which is held under the chairmanship of the President.

The Risk Management Committee is held once every quarter under the chairmanship of the President, and shall also be held on an ad hoc basis as necessary whenever any material risk has arisen. It examines and determines the establishment, amendment or abolishment of internal rules on risk management and risk prevention plans, etc., as well as discusses and decides on the implementation policies and specific measures for risk management, among other things.

Internal Governance and Risk Management System

Compliance System

With the recognition that intensive compliance is indispensable for the existence and continuity of a corporation, the Company established the Haseko Group Standards of Conduct in April 2003, under which Haseko has been working to establish a management system where all directors, operating officers and staff respect societal standards and take sensible courses of action in keeping with their duties as members of society, as well as complying with all laws and the Company's articles of incorporation, so that the Company can win the confidence of society. Moreover, for enhanced compliance Haseko established the Compliance Department which conducts promotion and education of compliance based on the internal rules and regulations on compliance. An internal whistleblowing system for consultations on compliance and notification of illegal conduct, etc. and an external contact have also been established.

In April 2005, the Company established the Internal Auditing Department that is under the direct control of the President. Pursuant to internal rules and regulations on internal audits, the Department investigates and evaluates whether activities of respective divisions conform to laws and regulations, the Articles of Incorporation, the Company's rules and regulations, corporate policies, etc. and whether they are reasonable, and works to make improvements based on the results. The Company has no relations with anti-social forces or groups that threaten the order and security of civic life, and will cope with such anti-social forces and groups systematically, and with an adamant and resolute attitude.

Risk Management System

In anticipation of a variety of risks, Haseko endeavors to collect risk-related information and prepares preventive measures and appropriate countermeasures in advance against risks according to their magnitude and possibility of arising. Through these efforts, Haseko aims to minimize the potential losses and to systematically cope with risk management centering on the Risk Management Department established in April 2006. Specifically, Haseko has set up a system in which respective sections of the Planning Division and the Management Division coordinate with each other and check the status of business operations in accordance with the roles they are assigned, while the Auditing Department conducts further checking

For the corporate approval system that serves as a record of decision-making for work implementation, the Company has introduced an electronic system in which legal procedures have been digitized. This system enables auditors and the Management Division to view and check the content at any time. Furthermore, of the issues forwarded to the Board of Directors and the two operation councils (the Business Operation Council and Technology Operation Council), those involving many departments or requiring specialized knowledge are subject to sufficient verification in advance by the adequately established advisory meetings and committees. Periodical results reports are also mandatory for issues that require monitoring.

On top of these, the Company established the Risk Management Council under the chairmanship of the President, in May 2006 with the aim of strengthening the risk management system of Haseko and its entire Group. This enhanced the Company's risk management system in which cross-sectional collection of information, analysis, valuation and handling of risks are conducted in accordance with the internal rules on risk management.

Management Team *(As of June 27, 2013)*

Directors and Corporate Auditors

Ikuo Oguri
Representative Director
President

Noriaki Tsuji
Representative Director
Executive Vice President

Atsushi Hasegawa
Representative Director
Executive Operating Officer

Minoru Nishino
Representative Director
Executive Operating Officer

Shosuke Muratsuka
Director
Executive Operating Officer

Morio Shimada
Director
Executive Operating Officer

Ryuichiro Yoshida
Representative Director
Senior Operating Officer

Yuhei Imanaka
Director
Senior Operating Officer

Kinichi Kitamura
Director
Senior Operating Officer

Kazuo Ikegami
Director
Operating Officer

Junichi Tani
Director
Operating Officer

Takeshi Tsunematsu
Director
Operating Officer

Masataka Yamamoto
Outside Director

Kohei Amano
Outside Director

Teruo Kojima
Full-time Corporate Auditor

Koichi Suzuki
Full-time Corporate Auditor

Haruya Uchikawa
Corporate Auditor

Masahiko Nakamichi
Corporate Auditor

Katsuhiko Kamijo
Corporate Auditor

Operating Officers

Senior Operating Officers

Masaki Sato
Fujio Hirano
Naobumi Tago
Yoshinori Haraguchi
Masaaki Matsuoka

Operating Officers

Yutaka Okada
Satoshi Amano
Junji Kawamura
Takashi Kawamura
Syoji Naraoka
Hideo Yokokawa
Takeshi Yoshioka
Yoshiaki Yamada
Toshiyuki Murakawa
Misato Yamamoto
Jun Kawamoto
Nobuhiro Tani
Masahito Koizumi
Shuhei Ooka
Katsuhide Takahashi
Masahiro Okuyama
Mamoru Kameoka
Nobuo Imagawa
Yoshifumi Sadanaga
Takashi Tsuruta
Satoshi Kumano

Five-Year Summary
Haseko Corporation and its Consolidated Subsidiaries
(Years ended March 31, 2009, 2010, 2011, 2012 and 2013)

	Millions of Yen				
	2009	2010	2011	2012	**2013**
For the Year:					
Net sales	¥505,500	¥420,382	¥440,429	¥500,929	**¥558,919**
Cost of sales	460,938	374,935	389,566	451,264	**505,460**
Selling, general and administrative expenses	28,988	28,329	27,537	28,050	**29,130**
Operating income	15,574	17,118	23,327	21,615	**24,329**
Ordinary income	12,444	14,165	19,138	18,199	**19,976**
Income (Loss) before income taxes and minority interests	(958)	12,560	19,615	18,673	**11,704**
Net income (loss)	(7,596)	5,814	10,137	11,242	**13,064**
For the Year:					
Cash flows from operating activities	(47,255)	2,038	28,629	33,711	**38,231**
Cash flows from investing activities	(4,008)	10,009	136	2,363	**14,843**
Cash flows from financing activities	44,784	(7,394)	(6,848)	(28,801)	**(24,115)**
Cash and cash equivalents at end of the year	55,130	59,815	81,656	88,885	**118,239**
At Year-end:					
Total current assets	¥313,253	¥277,138	¥314,202	¥333,297	**¥352,624**
Total assets	485,781	439,273	457,487	467,075	**460,864**
Total current liabilities	310,814	252,958	192,285	211,666	**215,044**
Total long-term liabilities	103,780	94,190	167,724	153,413	**132,015**
Total shareholders' equity	82,536	102,085	111,460	116,952	**124,482**
Net assets	71,187	92,125	97,478	101,996	**113,805**
	Yen				
Per Share Data:					
Net income (loss)	¥ (6.67)	¥ 3.79	¥6.29	¥7.05	**¥8.34**
Diluted net income	–	2.93	5.02	5.29	**6.50**
Net assets	19.93	30.76	34.36	40.76	**51.98**
Ratios:					
Profit ratio of construction contracts	10.5	11.6	12.1	9.5	**8.9**
Operating income ratio	3.1	4.1	5.3	4.3	**4.4**
Equity ratio (%)	14.6	20.9	21.3	21.8	**24.7**
Return on equity (%)	(8.4)	7.1	10.7	11.3	**12.1**
Price/Earnings ratio (times)	–	22.96	10.17	9.50	**10.31**
Number of employees	4,326	4,384	4,505	4,549	**4,640**

Analyses of Financial Condition and Business Performance

(1) Business Performance

For the fiscal year ended March 31, 2013, the condominium market had initially been forecasted to grow significantly because of the scheduled supply of properties that respond to the changes in buyers' attitudes since the earthquake and properties centering on units for first-time home buyers as well as large projects. However, supply in the Tokyo metropolitan area increased only slightly to 46,754 units (up 3.5% year-on-year), partly due to supply of certain properties being postponed as sales were on a weaker note around autumn primarily in central Tokyo. In contrast, supply was steady in the Kinki area, totaling 24,114 units (up 18.1%). In terms of sales, the initial month sales rate largely surpassed 70% - the benchmark of good/bad market conditions – both in the Tokyo metropolitan area (76.7%) and the Kinki area (78.4%). The number of for-sale units being marketed as of the end of March 2013, which indicates the inventory situation, significantly decreased to 4,327 units (down 15.6% year-on-year) in the Tokyo metropolitan area and 2,075 units (down 28.9%) in the Kinki area.

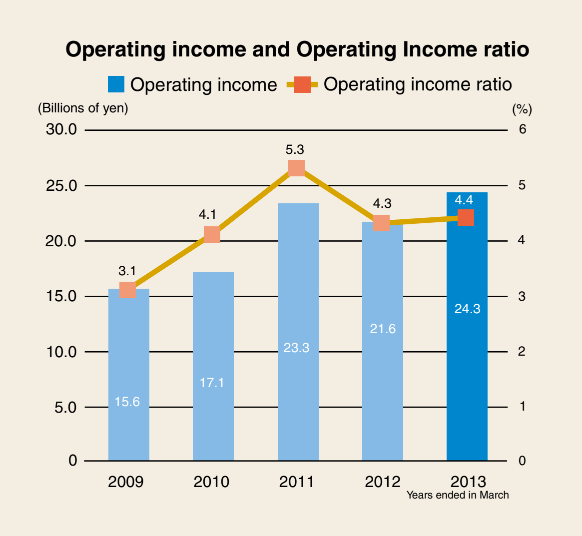
During the fiscal year under review, which marked the first fiscal year of the "PLAN for NEXT" (Plan 4N), our new medium-term business plan, the Haseko Group saw a delay in the improvement of the environment for receiving orders, and the profit margin of completed construction contracts dropped as a result of prolonged impact of the marginally profitable construction orders we won amid increasingly intensified competition against rival companies, as well as of an increase in construction costs caused by insufficient labor forces, etc. The situation became even severer as general and administrative expenses increased due to organizational and systematic changes for expanding the Residential Property-Related Business. Nevertheless, the profit margin of real estate business increased as a result of an increase in real property transactions for the purpose of winning construction orders, and operating income surpassed the previous year's results. In addition, though the Company recorded 7.7 billion yen as Special Losses for the losses related to the transfer of all shares of Brighton Corporation, a consolidated subsidiary, and retreat from the hotel business, income taxes decreased by 7.6 billion yen mainly as a result of recording deferred tax assets due to losses for tax purposes, which resulted from the valuation loss of Brighton Corporation's shares recorded in the previous fiscal year and the recording of Special Losses for the fiscal year under review.

As a result of the above, the Company posted net sales of 558.9 billion yen (up 11.6% year-on-year), operating income of 24.3 billion yen (up 12.6%), ordinary income of 20 billion yen (up 9.8%) and net income of 13.1 billion yen (up 16.2%) for the consolidated fiscal year ended March 31, 2013. The operating income ratio was 4.4% (up 0.1 points) and ordinary income ratio was 3.6% (remaining flat).

(2) Performance by Segment

The Haseko Group conducts business activities centering on all businesses related to condominiums. Of these, Haseko Corporation implements the "Design and Construction-Related Business," which provides design and construction of condominiums and other facilities, and the "Real Estate-Related Business," which conducts sales of for-sale condominiums, consigned sales of for-sale condominiums and other operations. These businesses promote operations by respectively coordinating with Haseko's consolidated subsidiaries, each of which is an independently managed unit. Moreover, a group of subsidiaries centering on Haseko Anesis, a consolidated subsidiary, conducts the "Residential Property-Related Business," which supervises the service operations for existing condominiums and other stock-based markets.

Accordingly, in consideration of its business formats in the condominium-related businesses, Haseko has made the three



sectors ("Design and Construction-Related Business," "Real Estate-Related Business" and "Residential Property-Related Business") its reportable segments.

*Please refer to a business schematic of Haseko group's reportable segments on page 24.

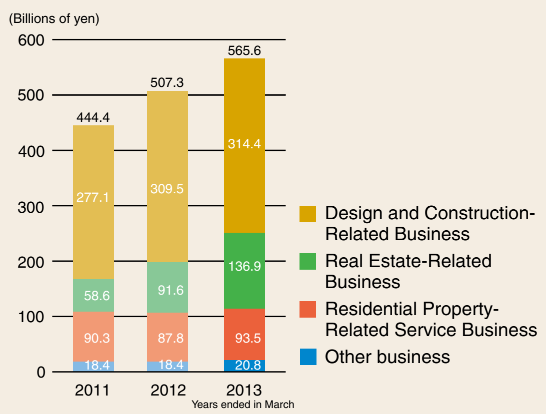
Design and Construction-related Business

During the fiscal year under review, sales of condominiums for first-time home buyers remained strong, with project owners observed to invigorate activities to promote their projects in suburban areas. In terms of orders for new construction of for-sale condominiums, the Haseko Group won orders of 128 properties in total throughout Japan, comprised of 95 in the Tokyo metropolitan area including 15 large projects with at least 200 units and 33 in the Kinki area including 7 large projects with at least 200 units. Amid the increase in construction costs due to inadequate labor forces and other factors, project owners recognized the high efficiency and technological capabilities of Haseko that specializes in condominium construction, leading to an increase not only in orders received in the form of Haseko Exclusive Contracts by providing land for project owners, a special feature of Haseko's business model, but also in the Haseko Exclusive Contracts other than providing land. As for construction completion, the Company completed construction of 132 projects including 117 for-sale condominiums in the fiscal year.

In design and supervision operations, where the Company proactively endeavors after enriching fundamental performances, improving versatility and securing environment and disaster prevention performances, construction completed for Proud City Inagekaigan Residence II (Mihama-ku, Chiba-shi, 130 units) in a large multi-use development project, for which Haseko prepared the entire landscape master plan as well as conducted design and construction of the for-sale condominiums (555 units in total) in the residential district. Moreover, the Company adopted "Be-Next," Haseko's next-generation condominium format that incorporates natural wind and natural light, to Breezia Terrace Fuchinobe (Chuo-ku, Sagamihara-shi, 220 units) and Breezia Blanc Higashi-Sonoda (Amagasaki-shi, Hyogo, 108 units), the first such condominium in western Japan for the Company.

As a result, sales of this segment totaled 314.4 billion yen, a year-on- year increase of 1.6%. However, operating income decreased 5.8% year-on-year to 21.2 billion yen due to a drop in the profit margin of completed construction contracts.

Sales breakdown by reportable segment



Real Estate-Related Business

Condominium consignment sales operations saw both the number of people visiting our model rooms and the number of contracted units increase from the previous fiscal year that had been under the impact of the earthquake. However, the number of delivered units decreased partly due to the smaller number of completed units.

In the sale of for-sale condominium units, as a project owner, the Company worked to sell units of properties incorporating the "E-label" system, which provides consumers with a variety of options in specifications, facilities and plans. Moreover, the Company sold properties that adopt "Haseko Premium After-Sales Service (PAS)," which feature direct and quick responses and significantly extend the warranty periods, among other points. In the fiscal year under review, the Company conducted sale and delivery of 20 newly completed properties and other products.

As a result, the segment posted sales of 136.9 billion yen, a year-on-year increase of 49.4% due to the increase of properties sold for the purpose of winning construction orders, and operating income 3.1 billion yen (in contrast to operating loss of 0.8 billion yen in the previous fiscal year).

Residential Property-Related Service Business

In the condominium building management operations, the business environment remained tough for winning new consigned management due to the continued intense competition over orders. However, the Haseko Group endeavored to further improve the level of our services and increase the number of units it is consigned to manage. These efforts led to the number of units the Haseko Group is consigned to manage surpassing 290,000 units.

In repair work, the Company won the order for large-scale repair work at Estate Tsurumaki Residences No. 4 and No. 5 (Tama-shi, Tokyo, 356 units) in Tama New Town. This project was selected as one of the Leading Initiatives for Reducing CO_2 at Housing and Architecture for fiscal 2012 by the Ministry of Land, Infrastructure, Transport and Tourism, and Haseko will conduct the work with subsidies provided by the government.

In leasing management operations, Haseko maintained the number of units it operates surpassing 90,000 units for the lease management operations and corporate housing management agency services combined, despite new supply remaining low. In addition, the Sendai Branch of Haseko Livenet, Inc. was newly opened on July 1, 2012 with an aim to expand the marketing area.

In the senior living business, the occupancy rates of paid facilities for the elderly the Company operates continued to be high for all properties. The general insurance agent operations and printing services also steadily increased earnings.

As a result of the above, sales of this segment totaled 93.5 billion yen, up 6.5% year-on-year, while operating income was 5.2 billion yen, a decrease of 1.7% from the previous fiscal year as general and administrative expenses increased due to organizational and systematic changes for expanding the business.

Other Business Segments

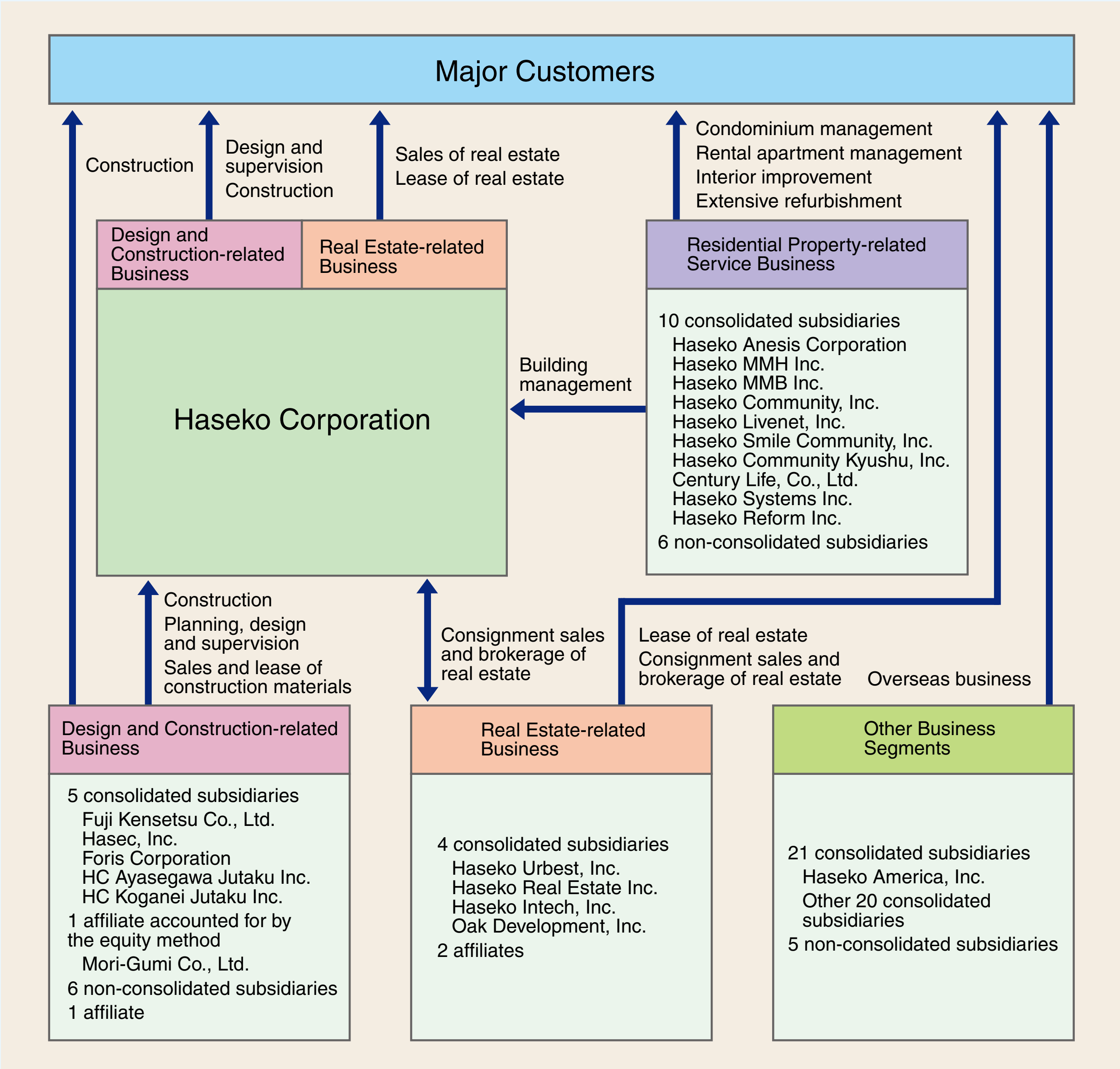
In overseas business, in which Haseko conducts the for-sale housing business in Oahu, Hawaii, the number of contracted units and delivered units as well as sales increased due to the recovery in the U.S. housing market.

In the hotel business, sales increased year-on-year primarily due to the rise in the occupancy rate of guest rooms.

As a result of the above, the overseas business and the hotel business posted sales of 20.8 billion yen, up 12.7% year-on-year, and operating loss of 0.2 billion yen (in contrast to operating loss of 0.6 billion yen in the previous fiscal year).

Furthermore, Brighton Corporation, which was engaged in the hotel business, was excluded from the scope of consolidation as Haseko sold all shares of Brighton Corporation as of March 29, 2013.

Business schematic of Haseko group's reportable segments



(3) Financial Position

Total assets at the end of the consolidated fiscal year under review were 460.9 billion yen, a decrease of 6.2 billion yen from the end of the previous fiscal year. This is due to the decrease in property and equipment despite an increase in cash on hand with the sale of all shares of Brighton Corporation, a consolidated subsidiary, and due to progress in the sale of for-sale real estate aimed primarily at receiving orders for construction.

Total liabilities were 347.1 billion yen, a decrease of 18.0 billion yen from the end of the previous fiscal year. This is primarily due to a decrease in interest-bearing debts.

Consolidated net assets were 113.8 billion yen, an increase of 11.8 billion yen from the end of the previous fiscal year, mainly because of the increase in retained earnings due to the recording of net income, despite a decrease due to acquisition of Class BI Preferred Stock.

As a result, the equity ratio was 24.7% in contrast to 21.8% at the end of the previous fiscal year.

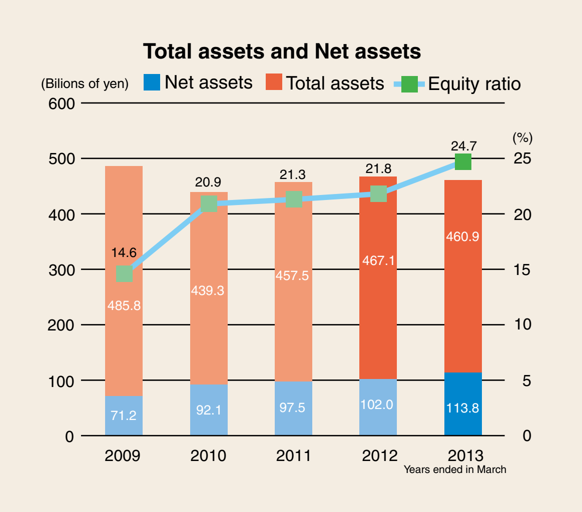
(4) Cash Flows

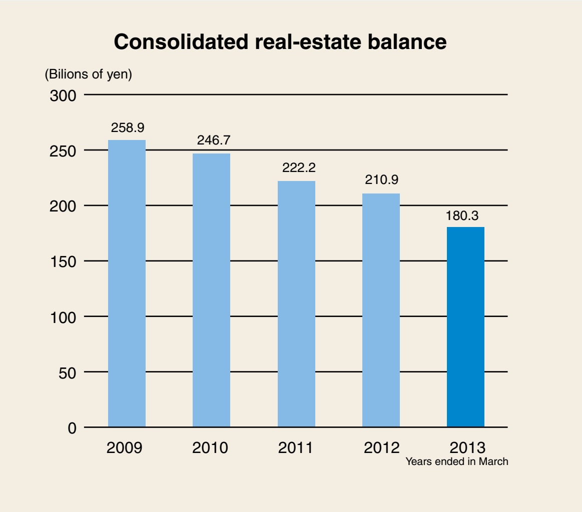
Net cash provided by operating activities was 38.2 billion yen, an increase of 4.5 billion yen in income compared with the net cash provided by operating activities totaling 33.7 billion in the previous fiscal year. The increase was mainly due to the recording of 11.7 billion yen in income before income taxes and minority interests, a net increase of 6 billion yen in proceeds due to a decrease in notes and account receivables, and a net increase of 4.8 billion yen in proceeds due to a decrease in inventories.

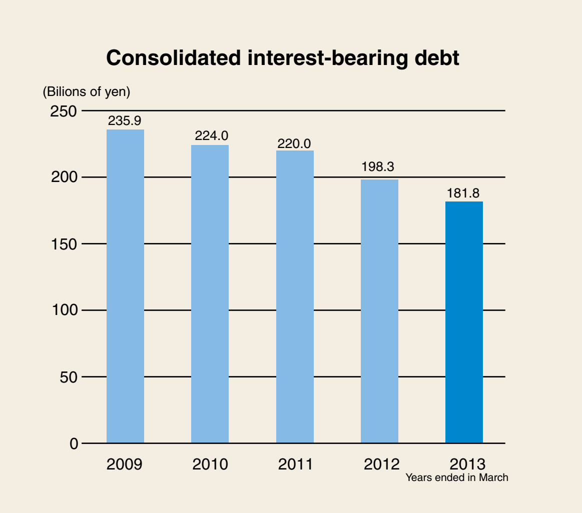
Net cash provided by investing activities was 14.8 billion yen, an increase of 12.5 billion yen in income compared with the net cash provided by investing activities totaling 2.4 billion yen in the previous fiscal year. Major factors included a decrease of 2.1 billion yen in funds from purchases of property and equipment and intangible assets and an increase of 17.4 billion yen in funds from sale of all shares of Brighton Corporation, a consolidated subsidiary.

Net cash used in financing activities was 24.1 billion yen, a decrease of 4.7 billion yen in expenditures compared with the net cash used in financing activities totaling 28.8 billion yen in the previous fiscal year. This was primarily due to a decrease of 14.1 billion yen in funds due to income and repayment of long-term debt and a decrease of 5 billion yen in funds as a result of acquiring Class BI Preferred Stock (redemption of treasury stock) and other factors.

As a result of the above, the balance of cash and cash equivalents at the end of the fiscal year on a consolidated basis totaled 118.2 billion yen, an increase of 29.4 billion yen from 88.9 billion yen at the end of the previous fiscal year on a consolidated basis.







CONSOLIDATED BALANCE SHEETS
AS OF MARCH 31, 2012 AND 2013
ASSETS

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2012	**2013**	**2013**
ASSETS			
Current Assets:			
Cash and bank deposits (Notes 5, 10 and 15)	¥ 89,223	**¥118,589**	**$1,260,914**
Notes and accounts receivable, trade (Notes 5, 8 and 10)	101,669	**95,136**	**1,011,547**
Costs on uncompleted construction contracts	6,525	**7,945**	**84,476**
Inventories (Notes 7, 10 and 13)	116,428	**112,742**	**1,198,745**
Deferred tax assets (Note 18)	7,176	**7,691**	**81,776**
Other current assets (Note 10)	12,785	**10,823**	**115,078**
Allowance for doubtful accounts (Note 5)	(509)	**(302)**	**(3,211)**
Total current assets	333,297	**352,624**	**3,749,325**
Property and Equipment (Notes 8, 10 and 11)	92,744	**66,007**	**701,829**
Intangible Assets (Notes 8 and 10)	6,153	**5,140**	**54,652**
Investments and Other Assets:			
Investment securities (Notes 5, 6 and 10)	6,745	**8,378**	**89,080**
Long-term loans receivable (Notes 5 and 10)	1,383	**1,489**	**15,832**
Long-term deferred tax assets (Note 18)	15,948	**16,656**	**177,097**
Other assets	11,917	**11,665**	**124,030**
Allowance for doubtful accounts	(1,112)	**(1,095)**	**(11,643)**
Total investments and other assets	34,881	**37,093**	**394,396**
Total assets	¥467,075	**¥460,864**	**$4,900,202**

See notes to consolidated financial statements.

CONSOLIDATED BALANCE SHEETS
AS OF MARCH 31, 2012 AND 2013
LIABILITIES AND NET ASSETS

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2012	**2013**	**2013**
LIABILITIES			
Current Liabilities:			
Short-term borrowings (Notes 5 and 9)	¥ 12,900	**¥ 10,380**	**$ 110,367**
Current portion of long-term debt (Notes 5, 9 and 10)	42,404	**47,520**	**505,263**
Notes and accounts payable (Notes 5 and 10)	112,661	**112,888**	**1,200,298**
Income taxes payable (Note 5)	798	**819**	**8,708**
Advances received on uncompleted construction contracts	14,332	**12,498**	**132,887**
Advances received for real estate sales (Note 10)	2,849	**6,520**	**69,325**
Warranty reserve	3,344	**2,581**	**27,443**
Allowance for losses on construction contracts	1,133	**42**	**447**
Accrued bonuses for employees	1,787	**1,887**	**20,064**
Other current liabilities	19,458	**19,909**	**211,684**
Total current liabilities	211,666	**215,044**	**2,286,486**
Long-term Liabilities:			
Long-term debt (Notes 5, 9, 10 and 16)	142,965	**123,944**	**1,317,852**
Reserve for employees' retirement benefits (Note 17)	1,871	**1,966**	**20,904**
Reserve for improvement of TV reception interfered area	138	**–**	**–**
Other long-term liabilities	8,439	**6,105**	**64,912**
Total long-term liabilities	153,413	**132,015**	**1,403,668**
Total liabilities	365,079	**347,059**	**3,690,154**
Commitments and Contingent Liabilities (Notes 11 and 12)			
NET ASSETS (Notes 14 and 19)**:**			
Shareholders' Equity:			
Capital stock	57,500	**57,500**	**611,377**
Capital surplus	7,500	**7,500**	**79,745**
Retained earnings	52,074	**59,605**	**633,759**
Treasury stock, at cost — 802,663 shares in 2012	(122)		
— 814,601 shares in 2013		**(123)**	**(1,308)**
Total shareholders' equity	116,952	**124,482**	**1,323,573**
Accumulated Other Comprehensive Income:			
Net unrealized gain (loss) on other securities	1,101	**2,225**	**23,658**
Translation adjustments	(16,207)	**(13,074)**	**(139,012)**
Total accumulated other comprehensive income (loss)	(15,106)	**(10,849)**	**(115,354)**
Minority Interests	150	**172**	**1,829**
Total net assets	101,996	**113,805**	**1,210,048**
Total liabilities and net assets	¥467,075	**¥460,864**	**$4,900,202**

See notes to consolidated financial statements.

Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF INCOME
FOR THE YEARS ENDED MARCH 31, 2012 AND 2013

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2012	**2013**	**2013**
Net Sales (Note 13)	¥500,929	**¥558,919**	**$5,942,786**
Cost of Sales (Note 13)	451,264	**505,460**	**5,374,376**
Gross profit	49,665	**53,459**	**568,410**
Selling, General and Administrative Expenses (Note 13)	28,050	**29,130**	**309,728**
Operating Income	21,615	**24,329**	**258,682**
Other Income (Expenses):			
Interest and dividend income	785	**592**	**6,295**
Equity in earnings of an affiliate	123	**73**	**776**
Interest expense	(3,966)	**(3,579)**	**(38,054)**
Incidental expense for loan	(1,424)	**(1,955)**	**(20,787)**
Other, net	1,066	**515**	**5,486**
	(3,416)	**(4,353)**	**(46,284)**
Ordinary income	18,199	**19,976**	**212,398**
Special Income (Losses):			
Gain (loss) on disposal or sales of property and equipment, net (Note 8)	589	**(121)**	**(1,287)**
Impairment loss on fixed assets (Note 8)	(184)	**(436)**	**(4,636)**
Loss on liquidation of hotel business	–	**(7,716)**	**(82,041)**
Other, net	69	**–**	**–**
	474	**(8,273)**	**(87,964)**
Income before Income Taxes and Minority Interests	18,673	**11,703**	**124,434**
Income Taxes (Note 18)**:**			
Current	887	**984**	**10,463**
Deferred	6,539	**(2,369)**	**(25,189)**
	7,426	**(1,385)**	**(14,726)**
Income before Minority Interests	11,247	**13,088**	**139,160**
Minority Interests	5	**24**	**255**
Net Income (Note 19)	¥ 11,242	**¥ 13,064**	**$ 138,905**

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED MARCH 31, 2012 AND 2013

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2012	**2013**	**2013**
Income before Minority Interests	¥11,247	**¥13,088**	**$139,160**
Other Comprehensive Income			
Net unrealized gain (loss) on other securities	616	**1,122**	**11,930**
Translation adjustments	(1,593)	**3,134**	**33,323**
Share of other comprehensive income of companies accounted for by the equity method	1	**2**	**21**
Total other comprehensive income (loss)	(976)	**4,258**	**45,274**
Comprehensive Income (Note 22)	10,271	**17,346**	**184,434**
Total Comprehensive Income Attributable to:			
Shareholders of Haseko Corporation	10,266	**17,322**	**184,179**
Minority interests	5	**24**	**255**

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGE IN NET ASSETS
FOR THE YEARS ENDED MARCH 31, 2012 AND 2013

For the year ended March 31, 2012

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
			(Millions of yen)		
Balance at March 31, 2011	**¥57,500**	**¥7,500**	**¥46,582**	**¥(122)**	**¥111,460**
Net income for the year ended March 31, 2012	–	–	11,242	–	11,242
Cash dividend	–	–	(680)	–	(680)
Purchase of treasury stock	–	–	–	(5,070)	(5,070)
Sale of treasury stock	–	(0)	–	0	0
Retirement of treasury stock	–	(5,070)	–	5,070	–
Appropriation of retained earnings for capital surplus	–	5,070	(5,070)	–	–
Net changes in items other than those in shareholders' equity	–	–	–	–	–
Total changes during the year	–	–	5,492	(0)	5,492
Balance at March 31, 2012	**¥57,500**	**¥7,500**	**¥52,074**	**¥(122)**	**¥116,952**

	Accumulated other comprehensive income				
	Net unrealized gain (loss) on other securities	Translation adjustments	Total accumulated other comprehensive income (loss)	Minority interests	Total net assets
			(Millions of yen)		
Balance at March 31, 2011	**¥ 484**	**¥(14,614)**	**¥(14,130)**	**¥148**	**¥ 97,478**
Net income for the year ended March 31, 2012	–	–	–	–	11,242
Cash dividend	–	–	–	–	(680)
Purchase of treasury stock	–	–	–	–	(5,070)
Sale of treasury stock	–	–	–	–	0
Retirement of treasury stock	–	–	–	–	–
Appropriation of retained earnings for capital surplus	–	–	–	–	–
Net changes in items other than those in shareholders' equity	617	(1,593)	(976)	2	(974)
Total changes during the year	617	(1,593)	(976)	2	4,518
Balance at March 31, 2012	**¥1,101**	**¥(16,207)**	**¥(15,106)**	**¥150**	**¥101,996**

See notes to consolidated financial statements.

For the year ended March 31, 2013

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
			(Millions of yen)		
Balance at March 31, 2012	**¥57,500**	**¥7,500**	**¥52,074**	**¥(122)**	**¥116,952**
Net income for the year ended March 31, 2013	–	–	13,064	–	13,064
Cash dividend	–	–	(578)	–	(578)
Sale of subsidiaries	–	–	66	–	66
Purchase of treasury stock	–	–	–	(5,021)	(5,021)
Sale of treasury stock	–	(0)	–	(1)	(1)
Retirement of treasury stock	–	(5,021)	–	5,021	–
Appropriation of retained earnings for capital surplus	–	5,021	(5,021)	–	–
Net changes in items other than those in shareholders' equity	–	–	–	–	–
Total changes during the year	–	–	7,531	(1)	7,530
Balance at March 31, 2013	**¥57,500**	**¥7,500**	**¥59,605**	**¥(123)**	**¥124,482**

	Accumulated other comprehensive income				
	Net unrealized gain (loss) on other securities	Translation adjustments	Total accumulated other comprehensive income (loss)	Minority interests	Total net assets
			(Millions of yen)		
Balance at March 31, 2012	**¥1,101**	**¥(16,207)**	**¥(15,106)**	**¥150**	**¥101,996**
Net income for the year ended March 31, 2013	–	–	–	–	13,064
Cash dividend	–	–	–	–	(578)
Sale of subsidiaries	–	–	–	–	66
Purchase of treasury stock	–	–	–	–	(5,021)
Sale of treasury stock	–	–	–	–	(1)
Retirement of treasury stock	–	–	–	–	–
Appropriation of retained earnings for capital surplus	–	–	–	–	–
Net changes in items other than those in shareholders' equity	1,124	3,133	4,257	22	4,279
Total changes during the year	1,124	3,133	4,257	22	11,809
Balance at March 31, 2013	**¥2,225**	**¥(13,074)**	**¥(10,849)**	**¥172**	**¥113,805**

See notes to consolidated financial statements.

Consolidated Financial Statements

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
	(Thousands of U.S. dollars) (Note 4)				
Balance at March 31, 2012	**$611,377**	**$79,745**	**$553,684**	**$(1,297)**	**$1,243,509**
Net income for the year ended March 31, 2013	–	–	138,905	–	138,905
Cash dividend	–	–	(6,146)	–	(6,146)
Sale of subsidiaries	–	–	702	–	702
Purchase of treasury stock	–	–	–	(53,386)	(53,386)
Sale of treasury stock	–	(0)	–	(11)	(11)
Retirement of treasury stock	–	(53,386)	–	53,386	–
Appropriation of retained earnings for capital surplus	–	53,386	(53,386)	–	–
Net changes in items other than those in shareholders' equity	–	–	–	–	–
Total changes during the year	–	–	80,075	(11)	80,064
Balance at March 31, 2013	**$611,377**	**$79,745**	**$633,759**	**$(1,308)**	**$1,323,573**

	Accumulated other comprehensive income				
	Net unrealized gain (loss) on other securities	Translation adjustments	Total accumulated other comprehensive income (loss)	Minority interests	Total net assets
	(Thousands of U.S. dollars) (Note 4)				
Balance at March 31, 2012	**$11,707**	**$(172,323)**	**$(160,616)**	**$1,595**	**$1,084,488**
Net income for the year ended March 31, 2013	–	–	–	–	138,905
Cash dividend	–	–	–	–	(6,146)
Sale of subsidiaries	–	–	–	–	702
Purchase of treasury stock	–	–	–	–	(53,386)
Sale of treasury stock	–	–	–	–	(11)
Retirement of treasury stock	–	–	–	–	–
Appropriation of retained earnings for capital surplus	–	–	–	–	–
Net changes in items other than those in shareholders' equity	11,951	33,311	45,262	234	45,496
Total changes during the year	11,951	33,311	45,262	234	125,560
Balance at March 31, 2013	**$23,658**	**$(139,012)**	**$(115,354)**	**$1,829**	**$1,210,048**

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED MARCH 31, 2012 AND 2013

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2012	**2013**	**2013**
Cash Flows from Operating Activities:			
Income before income taxes and minority interests	¥18,673	**¥ 11,704**	**$ 124,444**
Depreciation	3,569	**3,275**	**34,822**
Impairment loss on fixed assets	184	**436**	**4,636**
Amortization of goodwill	553	**566**	**6,018**
Reversal of allowance for doubtful accounts	(760)	**(315)**	**(3,349)**
Interest and dividend income	(785)	**(592)**	**(6,295)**
Interest expense	3,966	**3,579**	**38,054**
Equity in earnings of an affiliate	(123)	**(73)**	**(776)**
Loss on liquidation of the hotel business	–	**7,715**	**82,031**
Loss (gain) on disposal or sale of property and equipment, net	(589)	**121**	**1,287**
Valuation loss on inventories	3,892	**2,166**	**23,030**
Changes in operating assets and liabilities			
Notes and accounts receivable	(17,787)	**6,002**	**63,817**
Costs on uncompleted construction contracts	1,109	**(1,475)**	**(15,683)**
Inventories	(313)	**4,756**	**50,569**
Notes, accounts payable and accrued expenses	27,438	**825**	**8,772**
Amounts received for uncompleted construction contracts	1,178	**(1,834)**	**(19,500)**
Other	(2,328)	**5,176**	**55,034**
Subtotal	37,877	**42,032**	**446,911**
Interest and dividends received	782	**669**	**7,113**
Interest paid	(3,856)	**(3,581)**	**(38,075)**
Income taxes paid	(1,092)	**(889)**	**(9,452)**
Net Cash Provided by Operating Activities	33,711	**38,231**	**406,497**
Cash Flows from Investing Activities:			
Purchases of property and equipment and intangible assets	(2,181)	**(2,108)**	**(22,414)**
Proceeds from sales of property and equipment and intangible assets	4,961	**34**	**362**
Purchases of investment securities	(60)	**–**	**–**
Proceeds from sales of investment securities	125	**–**	**–**
Purchase of investments in subsidiaries	(288)	**–**	**–**
Proceeds from sales of subsidiaries	–	**17,366**	**184,646**
Payments for transfer of business	(77)	**–**	**–**
Payment for loans receivable	(1,472)	**(1,652)**	**(17,565)**
Collection of loans receivable	1,303	**1,557**	**16,555**
Payment for lease deposits	(227)	**(310)**	**(3,296)**
Refund of lease deposits	346	**222**	**2,360**
Other	(67)	**(266)**	**(2,828)**
Net Cash Provided by Investing Activities	2,363	**14,843**	**157,820**
Cash Flows from Financing Activities:			
Decrease in short-term borrowings, net	(9,450)	**(2,520)**	**(26,794)**
Increase in long-term debt	32,234	**53,402**	**567,804**
Repayment of long-term debt	(44,340)	**(67,469)**	**(717,374)**
Redemption of treasury stock	(5,070)	**(5,021)**	**(53,386)**
Purchase of treasury stock	(0)	**(1)**	**(11)**
Incidental expenses for loan	(1,420)	**(1,805)**	**(19,192)**
Cash dividends paid	(680)	**(578)**	**(6,146)**
Cash dividends paid to minority shareholders	(2)	**(3)**	**(32)**
Other	(73)	**(120)**	**(1,275)**
Net Cash Used in Financing Activities	(28,801)	**(24,115)**	**(256,406)**
Effect of Exchange Rate Changes on Cash and Cash Equivalents	(44)	**101**	**1,074**
Net Increase in Cash and Cash Equivalents	7,229	**29,060**	**308,985**
Cash and Cash Equivalents at Beginning of the Year (Note 15)	81,656	**88,885**	**945,082**
Increase in Cash and Cash Equivalents Resulting from Merger of Unconsolidated Subsidiaries (Note 15)	–	**294**	**3,126**
Cash and Cash Equivalents at End of the Year (Note 15)	¥88,885	**¥118,239**	**$1,257,193**

See notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Haseko Corporation and its Consolidated Subsidiaries
For the years ended March 31, 2012 and 2013

1. Basis of Presentation

Haseko Corporation (the "Company") and its consolidated domestic subsidiaries maintain their books of account in conformity with the financial accounting standards of Japan, and Haseko America Inc. and its subsidiaries ("Haseko America") maintain their books of account in conformity with the financial accounting standards of the United States of America.

The accompanying consolidated financial statements are prepared in accordance with accounting principles generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards, and are compiled from the consolidated financial statements prepared by the Company as required by the Financial Instruments and Exchange Act of Japan.

Certain amounts in the prior years' financial statements have been reclassified to conform to the current year's presentation.

Certain reclassifications or summaries of accounts have been made to present the consolidated financial statements in a form which is more familiar to readers outside Japan.

2. Summary of Significant Accounting Policies

(1) Scope of consolidation

The accompanying consolidated financial statements include the accounts of the Company and any significant companies controlled directly or indirectly by the Company. Companies over which the Company exercises significant influence in terms of their operating and financial policies have been accounted for by the equity method. As of March 31, 2013, the numbers of consolidated subsidiaries and affiliates accounted for by the equity method were 40 and 1 (38 and 1 in 2012), respectively. Investments in subsidiaries and affiliates which are not consolidated or accounted for by the equity method are carried at cost or less.

The fiscal year of Haseko America Inc. and its subsidiaries ends on December 31. The necessary adjustments for significant transactions that occur during the period from January 1 to March 31 are made in the preparation of the consolidated financial statements. The fiscal year of Haseko MMH Inc. ends on December 31, while the fiscal year of Haseko MMB Inc. ends on September 30. Haseko MMH Inc. and Haseko MMB Inc. have been consolidated by using their financial statements as of the end of the fiscal year (March 31, 2012 and March 31, 2013), which are prepared solely for consolidation purposes and in conformity with the official closing. Consolidated subsidiaries other than those referred to above have the same fiscal year as the Company, which ends on March 31.

Differences between the cost and the underlying net equity at fair value of investments in consolidated subsidiaries and in companies which are accounted for by the equity method have been amortized by the straight-line method.

(2) Cash and cash equivalents

Cash and cash equivalents include cash on hand, bank deposits that may be withdrawn on demand and time deposits that can be easily withdrawn and bear no risk of value fluctuation.

(3) Investment securities

Marketable securities classified as other securities are stated at fair value. Net unrealized gains or losses on these securities are reported as a separate component of accumulated other comprehensive income at a net-of-tax amount. Non-marketable securities classified as other securities are stated at cost. Cost of securities sold is determined by the moving-average method.

(4) Inventories

Costs on uncompleted construction contracts and real estate for sale are stated at cost determined by the individual cost method. Raw materials are stated at cost determined by the average method. Supplies are stated at cost determined by the individual cost method. The book value of inventories on the balance sheets is written down based on the fall in profitability. However, real estate for sale of Haseko America is stated at the lower of cost or market determined by the individual cost method. Real estate for lease included in inventories is depreciated in a similar manner as property and equipment.

Some consolidated subsidiaries have incorporated the interest paid on funds used for the real-estate development business into the costs of real estate for sale.

(5) Property and equipment

Depreciation of property and equipment is principally computed by declining-balance method while the straight-line method is applied to buildings (excluding structures attached to buildings) acquired on or after April 1, 1998. Certain consolidated domestic subsidiaries depreciate property and equipment by the straight-line method.

(6) Intangible assets

Intangible assets are amortized by the straight-line method over the period estimated to be effective at the time of occurrence, except for land leasehold rights, which are not amortized.

Computer software for internal use is amortized by the straight-line method over the estimated useful period of five years.

(7) Leases

Depreciation is computed based on the straight-line method over the lease period with a residual value of zero.

Finance leases, except for those that transfer the ownership of the leased assets to the lessees, which had been entered into on or before March 31, 2008, as stated in the "Accounting Standard for Lease Transactions" [Accounting Standards Board of Japan ASBJ) Statement No. 13], have been recorded in accordance with the accounting method for operating lease transactions.

(8) Allowance for doubtful accounts

Allowance for doubtful accounts is provided for the estimated future loss on bad debt. It is estimated using the Company's experience of the loss ratio and a specific estimate of known doubtful accounts.

(9) Warranty reserve
Warranty reserve is provided for the estimated repair expense owed by the Company in the event of defects found in the completed constructions after handover.

(10) Allowance for losses on construction contracts
In order to prepare for future losses from construction orders, estimated amounts of losses have been recorded for construction projects prior to delivery as of the end of fiscal year for those that are expected to generate losses and losses can be evaluated rationally.

(11) Accrued bonuses for employees
Accrued bonuses for employees are provided for the estimated amount of bonuses to be paid to employees for the services rendered by the balance sheet date.

(12) Reserve for employees' retirement benefits
The Company and its consolidated domestic subsidiaries have funded and/or unfunded retirement benefit plans covering all of their employees.

The employees' retirement benefits are provided for the liability for retirement benefits at projected benefit obligations minus the fair value of plan assets at the balance sheet date as adjusted for unrecognized amounts.

The net retirement benefit obligation at transition is amortized by the straight-line method over 15 years.

Prior service costs are amortized by the straight-line method over the average remaining service period of the employees (13-16 years) at the time of occurrence.

Actuarial differences are amortized from the next year in which the difference arises by the straight-line method over the average remaining service period of the employees (10-22 years).

(13) Foreign currency translation
Receivables and payables denominated in foreign currencies are translated into Japanese yen at the foreign exchange rates prevailing at the respective balance sheet dates and a net exchange loss/gain is included in net income. Furthermore, the assets/liabilities and earnings/expenses of overseas consolidated subsidiaries are translated at the foreign exchange rates prevailing at the respective balance sheet dates and the resulting translation adjustments are reported as "Translation adjustments" in net assets.

(14) Hedge accounting
The Company and its consolidated subsidiaries use interest rate swap contracts to hedge interest rate fluctuation risk on long-term debt with variable interest rates. Certain interest rate swap contracts which meet certain criteria as qualified hedges are not measured at fair value. The differences between paid and received amounts under such swap agreements are recognized in interest income or expenses as incurred.

The assessment of hedge effectiveness is omitted when the notional amounts, interest rates and contract periods of the hedging instruments and the hedged items are the same.

(15) Recognition on sales and costs of construction contracts
The Company and its consolidated subsidiaries recognize revenues and costs on construction contracts on a percentage-of-completion basis for construction projects that amount to ¥500 million or more and cover construction periods of twelve months or more, and on a completed-contract basis for other construction contracts.

(16) Income taxes
Deferred tax assets and liabilities have been recognized in the consolidated financial statements with respect to the differences between financial reporting and the tax bases of the assets and liabilities, and were measured using the enacted tax rates and laws which will be in effect when the differences are expected to reverse. The Company files tax returns under the consolidated corporate-tax system.

(17) Consumption taxes
Transactions subject to consumption taxes are recorded at amounts exclusive of consumption taxes. One consolidated subsidiary, which is considered a tax-exempt business provider, records its transactions at amounts inclusive of consumption taxes.

(18) Standard issued but not yet effective
On May 17, 2012, the ASBJ issued "Accounting Standard for Retirement Benefits" (ASBJ Statement No.26) and "Guidance on Accounting Standard for Retirement Benefits" (ASBJ Guidance No.25), which replaced the Accounting Standard for Retirement Benefits that had been issued by the Business Accounting Council in 1998 with an effective date of April 1, 2000 and the other related practical guidance, being followed by partial amendments from time to time through 2009. Under this standard and related guidance, actuarial gains and losses and prior service cost that have yet to be recognized in profit or loss shall be prospectively recognized within net assets, after adjusting for tax effects, and the deficit or surplus shall be prospectively recognized as a liability or asset.

In addition, the "benefit formula basis" is allowed as well as the "straight-line basis" in attributing the expected benefit to periods, and the determination of the discount rate was also revised under this standard and related guidance.

This standard and related guidance are effective as of the end of the year beginning on April 1, 2013, except for the provisions related to the method of attributing the expected benefit to periods and the determination of the discount rate, both of which are effective as of the end of the year beginning on April 1, 2014. The Company is currently evaluating the effect these modifications will have on its consolidated results of operations and financial position.

3. Supplemental Information
(1) Accounting change
In accordance with the amendment to the Corporation Tax Law of Japan effective April 1, 2012, the Company and its domestic consolidated subsidiaries have changed their depreciation method for property and equipment acquired on or after April 1, 2012 to reflect the methods prescribed in the amended Corporation Tax Law.

The above change did not have a material impact on the Company's operating income, ordinary income and income before income taxes and minority interests for the fiscal year ended March 31, 2013.

(2) Reclassification in the consolidated statement of income

Effective the fiscal year ended March 31, 2013, "Insurance income," which had been previously included in "Other, net" in Other income (expenses), was presented separately due to increase in its materiality. As a result, ¥162 million of insurance income that had been included in "Other, net" for the year ended March 31, 2012 was separately presented to conform to the current year's presentation.

4. U.S. Dollar Amounts

The U.S. dollar amounts are included solely for convenience of readers outside Japan, at the prevailing exchange rate on March 31, 2013, which was ¥94.05=U.S.$1. The above translation should not be construed as a representation that yen have been, could have been, or could in the future be converted into U.S. dollars at the above or any other rate.

5. Financial Instruments
Overview
(1) Policy for financial instruments

The Company and its consolidated subsidiaries manage surplus funds only through deposits and procure funds through borrowings from financial institutions. The Company and its consolidated subsidiaries use derivative instruments in order to hedge against interest rate fluctuations and do not enter into derivative transactions for trading or speculative purposes, in accordance with internal policy.

(2) Nature and extent of risks arising from financial instruments

Notes and accounts receivable, trade, which are trade receivables of the Company and its consolidated subsidiaries, are exposed to credit risks of customers. As for investment securities, which are primarily stocks of companies with which the Company has business relationships, listed securities are exposed to market risks, and non-listed securities are exposed to risks of fluctuations in the financial conditions of the issuers. In addition, the Company provides loans to its subsidiaries and affiliates.

Notes and accounts payable, which are trade payables, are mostly due within a year. Borrowings and debt are means of fund procurement primarily in connection with business activities, and the Company uses derivative instruments (interest rate swap transactions) for a certain portion of these liabilities as hedging instruments to mitigate interest rate fluctuation risks and to fix its interest payments. With regard to the method of evaluation of hedge effectiveness, the Company omitted the evaluation of the effectiveness as the requirements for the special treatment of interest-rate swaps are satisfied. In addition, financial covenants have been applied to major borrowings and debt.

(3) Risk management for financial instruments
Management of credit risks (risks associated with business partners' default etc.)

With regard to trade receivables, in accordance with its internal rules, the Company checks the creditworthiness of its business partners, manages the balance of accounts receivable and monitors the status of any delay in collection, and works to obtain collateral when it is necessary to protect accounts receivable, in an endeavor to identify and mitigate risks on collections. Credit risk is also managed by its consolidated subsidiaries in accordance with its internal rules. Loans receivable are managed by the Company by conducting credit investigations on a regular basis in accordance with its internal provisions and working to obtain collateral, if necessary. When the Company conducts derivative transactions, it deals exclusively with Japanese financial institutions that have high creditworthiness.

Management of market risks (interest rate fluctuation risks, etc.)

With regard to investment securities, the Company determines their fair values and evaluates the financial position of the issuers regularly. For derivative transactions, the Company operates a system that separates execution and management functions based on the internal rules that stipulate policies, usage/and the range of derivatives, and so forth. Under the system, the balance of derivative transactions and the gains or loss from valuation are regularly reported to the director in charge of finance. Furthermore, derivative transactions by the Company and its consolidated subsidiaries are conducted, in principle, as a means to hedge risks, and should work to reduce market risks that might arise between the targeted assets and the liabilities. As such, the Company believes that market risks are fairly limited.

Management of liquidity risks (risks that the Company may not be able to meet its obligation on scheduled due dates) associated with funds procurement

The Company endeavors to secure liquidity as the finance division prepares funding plans appropriately based on reports from each division and other information and implements fund procurement by utilizing commitment lines in coordination with the scheduled due dates. In addition, the Company confirms the funding status of its consolidated subsidiaries to appropriately manage the funds of the Company and its consolidated subsidiaries as a whole.

(4) Supplementary explanation of the estimated fair value of financial instruments

The fair value of financial instruments is based on their quoted market price, if available. When there is no quoted market price available, fair value is reasonably estimated. Since various assumptions and factors are reflected in estimating the fair value, different assumptions and factors could result in a different fair value. In addition, the notional amounts of derivatives in Note 16. Derivative Transactions are not necessarily indicative of the actual market risk involved in derivative transactions.

Fair values of financial instruments

The carrying value of financial instruments on the consolidated balance sheets as of March 31, 2012 and 2013, and estimated fair value are shown in the following tables. The following tables do not include financial instruments for which it is extremely difficult to determine the fair value (Please refer to Note 2 below).

	Millions of yen		
	2012		
	Carrying value	Fair value	Difference
Cash and bank deposits	¥ 89,223	¥ 89,223	¥ –
Notes and account receivable, trade	101,669	102,554	885
Investment securities	3,292	3,057	(235)
Long-term loans receivable	1,383		
Allowance for doubtful accounts	(18)		
Sub-total	1,365	1,365	(0)
Total	¥195,549	¥196,199	¥ 650
Notes and accounts payable	112,661	112,651	(10)
Short-term borrowings	12,900	12,900	–
Current portion of long-term debt	42,404	42,531	127
Income taxes payable	798	798	–
Long-term debt	142,965	143,880	915
Total	¥311,728	¥312,760	¥1,032
Derivatives	¥ –	¥ –	¥ –

	Millions of yen		
	2013		
	Carrying value	Fair value	Difference
Cash and bank deposits	**¥118,589**	**¥118,589**	**¥ –**
Notes and account receivable, trade	**95,136**	**96,007**	**871**
Investment securities	**5,103**	**4,764**	**(339)**
Long-term loans receivable	**1,489**		
Allowance for doubtful accounts	**(18)**		
Sub-total	**1,471**	**1,471**	**(0)**
Total	**¥220,299**	**¥220,831**	**¥ 532**
Notes and accounts payable	**112,888**	**112,875**	**(13)**
Short-term borrowings	**10,380**	**10,380**	**–**
Current portion of long-term debt	**47,520**	**47,698**	**178**
Income taxes payable	**820**	**820**	**–**
Long-term debt	**123,944**	**124,834**	**890**
Total	**¥295,552**	**¥296,607**	**¥1,055**
Derivatives	**¥ –**	**¥ –**	**¥ –**

	Thousands of U.S. dollars		
	2013		
	Carrying value	Fair value	Difference
Cash and bank deposits	**$1,260,914**	**$1,260,914**	**$ –**
Notes and account receivable, trade	**1,011,547**	**1,020,808**	**9,261**
Investment securities	**54,258**	**50,654**	**(3,604)**
Long-term loans receivable	**15,832**		
Allowance for doubtful accounts	**(191)**		
Sub-total	**15,641**	**15,641**	**(0)**
Total	**$2,342,360**	**$2,348,017**	**$ 5,657**
Notes and accounts payable	**1,200,298**	**1,200,159**	**(139)**
Short-term borrowings	**110,367**	**110,367**	**–**
Current portion of long-term debt	**505,263**	**507,156**	**1,893**
Income taxes payable	**8,719**	**8,719**	**–**
Long-term debt	**1,317,852**	**1,327,315**	**9,463**
Total	**$3,142,499**	**$3,153,716**	**$11,217**
Derivatives	**$ –**	**$ –**	**$ –**

Notes:

1) Methods to determine the fair value of financial instruments and other matters related to investment securities and derivative transactions

Cash and bank deposits
Since these items are settled in a short period of time, their carrying value approximates fair value.

Notes and accounts receivable, trade
The carrying values of notes and accounts receivable that are settled in the short term are used to determine their fair value, as their fair values approximate their carrying values. With regard to notes and accounts receivable that are settled in the long term, they are classified by period and their fair values are then calculated based on the present values discounted by the interest rates determined taking into account the collection periods and credit risks.

Investment securities
Quoted market prices on the stock exchanges are used to determine the fair values of these instruments.
For information on securities classified by holding purposes, please refer to Note 6. Investment Securities.

Long-term loans receivable
Long-term loans receivable are classified by period, and their fair values are calculated based on the present values discounted by the interest rates determined taking into account credit spreads and appropriate market data such as yields of government bonds.
In addition, fair values of doubtful accounts are estimated based on collectable amounts.

Notes and accounts payable
The carrying values of notes and accounts payable that are settled in the short term are used to determine their fair values, as the fair values approximate the carrying values. With regard to notes and accounts payable that are settled in the long term, they are classified by period and their fair values are calculated based on the present values discounted by the interest rates determined taking into account the payment periods and credit risks.

Short-term borrowings and income taxes payable
As these are settled in the short term, their fair values approximate carrying values.

Long-term debt including current portion
Fair values are calculated based on the present value of the total amount of principal and interest discounted by the interest rates to be applied if similar new borrowings were entered into.
The fair values of long-term debt with floating interest rates hedged by interest rate swap transactions subject to the special treatment are calculated based on the present value of the total amount of principal and interest, accounted for together with the interest rate swap transactions, discounted by the interest rates to be applied if similar new borrowings were entered into.

Derivatives
Please refer to Note 16. Derivative Transactions.

2) Financial instruments whose fair values are extremely difficult to determine

	Millions of yen		*Thousands of U.S. dollars*
	2012	**2013**	**2013**
Equity securities of affiliates	¥2,380	**¥2,201**	**$23,402**
Unlisted securities	634	**634**	**6,741**
Preferred subscription certificates	420	**420**	**4,466**
Others	20	**20**	**213**

The above instruments have not been included in the preceding table, "Fair values of financial instruments, Investment securities," as there are no quoted market prices available and it is extremely difficult to determine their fair values.

3) Redemption schedule for monetary receivables and securities with maturity dates at March 31, 2012 and 2013

	Millions of yen				
	2012				
	Due within one year	Due after one year through five years	Due after five years through ten years	Due after ten years	Total
Cash and bank deposits	¥ 89,223	¥ –	¥ –	¥ –	¥ 89,223
Notes and accounts receivable, trade	80,355	21,010	51	253	101,669
Investment securities:					
Other securities with maturity dates					
Japanese government bonds, etc.	–	20	–	–	20
Long-term loans receivable	715	355	281	32	1,383
Total	¥170,293	¥21,385	¥332	¥285	¥192,295

	Millions of yen				
	2013				
	Due within one year	Due after one year through five years	Due after five years through ten years	Due after ten years	Total
Cash and bank deposits	**¥118,589**	**¥ –**	**¥ –**	**¥ –**	**¥118,589**
Notes and accounts receivable, trade	**75,220**	**19,887**	**–**	**29**	**95,136**
Investment securities:					
Other securities with maturity dates					
Japanese government bonds, etc.	**15**	**20**	**–**	**–**	**35**
Long-term loans receivable	**1,046**	**386**	**25**	**13**	**1,470**
Total	**¥194,870**	**¥20,293**	**¥25**	**¥42**	**¥215,230**

	Thousands of U.S. dollars				
	2013				
	Due within one year	Due after one year through five years	Due after five years through ten years	Due after ten years	Total
Cash and bank deposits	**$1,260,914**	**$ –**	**$ –**	**$ –**	**$1,260,914**
Notes and accounts receivable, trade	**799,787**	**211,451**	**–**	**308**	**1,011,546**
Investment securities:					
Other securities with maturity dates					
Japanese government bonds, etc.	**159**	**213**	**–**	**–**	**372**
Long-term loans receivable	**11,123**	**4,104**	**266**	**139**	**15,632**
Total	**$2,071,983**	**$215,768**	**$266**	**$447**	**$2,288,464**

4) Repayment schedule for short-term borrowings and long-term debt at March 31,2012 and 2013

	Millions of yen	
	2012	
	Short-term borrowings	Long-term debt
Due within 1 year	¥12,900	¥42,404
Due after 1 year through 2 years	–	61,881
Due after 2 years through 3 years	–	43,244
Due after 3 years through 4 years	–	24,654
Due after 4 years through 5 years	–	9,754
Due after 5 years	–	3,432

	Millions of yen		Thousands of U.S. dollars	
	2013		**2013**	
	Short-term borrowings	Long-term debt	Short-term borrowings	Long-term debt
Due within 1 year	**¥10,380**	**¥47,520**	**$110,367**	**$505,263**
Due after 1 year through 2 years	**–**	**50,573**	**–**	**537,725**
Due after 2 years through 3 years	**–**	**49,854**	**–**	**530,080**
Due after 3 years through 4 years	**–**	**14,954**	**–**	**159,001**
Due after 4 years through 5 years	**–**	**6,688**	**–**	**71,111**
Due after 5 years	**–**	**1,875**	**–**	**19,935**

6. Investment Securities

(1) Other securities whose fair value is available as of March 31, 2012 and 2013 consisted of the following:

	Millions of yen					
	2012			**2013**		
	Carrying value	Acquisition cost	Unrealized gain/(loss)	Carrying value	Acquisition cost	Unrealized gain/(loss)
(Securities whose carrying value exceeds their acquisition cost)						
Equity securities	¥2,385	¥1,245	¥1,140	**¥4,107**	**¥1,245**	**¥2,862**
Japanese government bonds	21	20	1	**35**	**34**	**1**
Total	2,406	1,265	1,141	**4,142**	**1,279**	**2,863**

	Thousands of U.S. dollars		
	2013		
	Carrying value	Acquisition cost	Unrealized gain/(loss)
(Securities whose carrying value exceeds their acquisition cost)			
Equity securities	**$43,668**	**$13,237**	**$30,431**
Japanese government bonds	**372**	**362**	**10**
Total	**44,040**	**13,599**	**30,441**

(2) Other securities sold for the year ended March 31, 2012 was as follows:

	Millions of yen
	2012
Proceeds:	
Equity securities	¥125
Japanese government bonds	–
Total	¥125
Gain on sale:	
Equity securities	¥ –
Japanese government bonds	–
Total	¥ –
Loss on sale:	
Equity securities	¥ (2)
Japanese government bonds	–
Total	¥ (2)

Note) There were no sales transactions of other securities for the year ended March 31, 2013.

7. Inventories

Inventories as of March 31, 2012 and 2013 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2012	**2013**	**2013**
Real estate for sale	¥ 36,397	**¥ 26,522**	**$ 281,999**
Costs and advances for real estate operations	44,692	**48,620**	**516,959**
Real estate for development projects	35,339	**37,600**	**399,787**
	¥116,428	**¥112,742**	**$1,198,745**

8. Property and Equipment and Intangible Assets

(1) Property and equipment as of March 31, 2012 and 2013 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2012	**2013**	**2013**
Buildings and structures	¥ 80,946	**¥ 46,827**	**$ 497,895**
Machinery, vehicles, equipment and furniture	10,303	**7,295**	**77,565**
Land	41,373	**30,707**	**326,497**
Construction in progress	113	**518**	**5,507**
Sub-total	132,735	**85,347**	**907,464**
Accumulated depreciation	(39,991)	**(19,340)**	**(205,635)**
	¥ 92,744	**¥ 66,007**	**$ 701,829**

(2) Intangible assets as of March 31, 2012 and 2013 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2012	**2013**	**2013**
Land leasehold rights	¥1,695	**¥1,594**	**$16,948**
Goodwill	3,648	**3,082**	**32,770**
Other	810	**464**	**4,934**
	¥6,153	**¥5,140**	**$54,652**

(3) Gain (loss) on disposal or sales of property and equipment and intangible assets for the years ended March 31, 2012 and 2013 consisted of the following:

	Millions of yen		*Thousands of U.S. dollars*
	2012	**2013**	**2013**
Buildings and structures	¥362	**¥ (36)**	**$ (383)**
Machinery, vehicles, equipment and furniture	(14)	**(66)**	**(702)**
Land	44	**0**	**0**
Land leasehold rights	205	**–**	**–**
Other	(8)	**(19)**	**(202)**
	¥589	**¥(121)**	**$(1,287)**

(4) Impairment loss on fixed assets

The Company and its consolidated domestic subsidiaries recognized impairment losses on the following fixed assets for the years ended March 31, 2012 and 2013:

2012

Use	Type	Location	No.of Cases
Real estate for design and construction related business	Equipment and furniture	Minato-ku Tokyo	1
Real estate for its own business	Land and buildings	Taito-ku, Tokyo etc.	2
Real estate for residential property related business	Land etc.	Ota-ku, Tokyo etc.	2

2013

Use	Type	Location	No.of Cases
Real estate for residential property related business	Land and buildings	Sagamihara-shi Kanagawa	3
Asset for residential property related business	Intangible asset	Minato-ku, Tokyo	1

The Company and its consolidated domestic subsidiaries recognized impairment loss on certain real estate *(business use, leasing, hotel and idle assets)*, which are grouped separately for the assessment of impairment.

Due to the recent decline in real estate value, fall in profitability and changes in holding purposes, the carrying values of the above assets have been written down to their recoverable amounts by ¥184 million and¥436 million ($4,636 thousand) for the years ended March 31, 2012 and 2013, which were recorded as impairment losses on fixed assets in “Special Losses.” The details of impairment losses on fixed assets were as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2012	**2013**	**2013**
Buildings and structures	¥83	**¥ 6**	**$ 64**
Equipment and furniture	2	**–**	**–**
Land	99	**1**	**11**
Intangible assets	–	**429**	**4,561**
	¥184	**¥436**	**$4,636**

The recoverable amount was the higher of the net selling price or value in use. The net selling price for real estate is the appraisal value less the cost of disposal, and the comparison approach value for other assets. Value in use is the sum of the net future cash flows discounted at a rate of 5.0% for the years ended March 31, 2012 and 2013.

The Company recorded an impairment loss on intangible assets due to decrease in the expected earnings, from those assets.

(5) Rental properties

The Company and some of its consolidated subsidiaries own residences for lease, office buildings for lease (including land) and retail facilities for lease in the Tokyo metropolitan and Kinki areas. Net income from leasing these properties for the years ended March 31, 2012 and 2013 was ¥667 million and ¥1,362 million ($14,482 thousand), and impairment losses on these properties (recorded as “Special Losses”) were ¥183 million and ¥1 million ($11 thousand), respectively.

In addition, the carrying value of these rental properties recorded in the consolidated balance sheets, the changes during the years ended March 31, 2012 and 2013 and corresponding fair values as of March 31, 2012 and 2013 were as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2012	**2013**	**2013**
Carrying value at beginning of year	¥49,081	**¥43,906**	**$466,837**
Changes during the year	(5,175)	**(828)**	**(8,804)**
Balance at end of year	¥43,906	**¥43,078**	**$458,033**
Fair value at end of year	¥45,554	**¥47,047**	**$500,234**

Notes:
1) The carrying value represents the acquisition cost deducting accumulated depreciation and accumulated impairment losses.
2) The components of net change in carrying value during the year ended March 31, 2012 included a decrease mainly due to sale of real estate (¥4,292 million), depreciation (¥1,096 million) and impairment losses (¥183 million).
The changes during the year ended March 31, 2013 mainly included an increase due to the purchase of real estate of ¥256 million, $2,722 thousand, and a decrease due to depreciation of ¥1,054 million, $11,207 thousand.
3) The fair values of primary properties at end of the year are based on the real estate appraisal reports and the fair values of other properties are based on the amounts estimated by the Company in accordance with the real estate appraisal standards.
When a slight fluctuation occurs in appraisal values or in the indicators that are believed to appropriately reflect market prices since the acquisition from third parties or the reporting dates of the most recent appraisals, the acquisition cost or the most recent fair values based on standard estimation methods for determining fair value are recorded as the fair values as of the year end.

9. Short-term Borrowings, Long-term Debt and Lease Obligations

(1) The following is a summary of the interest bearing debt as of March 31, 2012 and 2013:

	Average interest rate	*Millions of yen*		*Thousands of U.S. dollars*
		2012	**2013**	**2013**
Short-term borrowings	1.13%	¥ 12,900	**¥ 10,380**	**$ 110,367**
Current portion of long-term debt	2.15%	42,404	**47,520**	**505,263**
Current portion of lease obligations	1.76%	82	**144**	**1,531**
Long-term debt due from December 2014 to September 2019	1.83%	142,965	**123,944**	**1,317,852**
Lease obligations due from 2014 to 2023	2.19%	134	**442**	**4,700**
Total		¥198,485	**¥182,430**	**$1,939,713**

Note) The weighted average interest rate for the end-of-year balance of outstanding debt is shown as the “average interest rate.”
The weighted average interest rates on lease obligations have not been presented as amounts equivalent to the interest included in total lease payments are allocated to each fiscal year using the straight-line method.

(2) The annual maturities of long-term debt and lease obligations (excluding the current portion) as of March 31, 2013 were as follows:

	Millions of yen			*Thousands of U.S. dollars*
Year ending March, 31	Long-term debt	Lease obligations	Total	Total
2015	**¥ 50,573**	**¥115**	**¥ 50,688**	**$ 538,947**
2016	**49,854**	**100**	**49,954**	**531,143**
2017	**14,954**	**82**	**15,036**	**159,872**
2018	**6,688**	**53**	**6,741**	**71,675**
2019 and thereafter	**1,875**	**92**	**1,967**	**20,915**
Total	**¥123,944**	**¥442**	**¥124,386**	**$1,322,552**

(3) The Company has committed lines of credit available for immediate and stable borrowings with certain five financial institutions as of March 31, 2012 and 2013. The lines of credit and unused lines of credit as of March 31, 2012 and 2013 were as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2012	**2013**	**2013**
Line of credit	¥63,000	**¥63,000**	**$669,856**
Amount utilized	12,600	**10,080**	**107,177**
Unused line of credit	¥50,400	**¥52,920**	**$562,679**

(4) In order to repurchase the Class B I preferred stock, the Company entered into a commitment line agreement with its three major banks, which are the preferred shareholders, to secure funds for maintaining the Company's financial condition. The commitment line agreement limits the use of funds to the repurchase of the preferred stock

Information on the commitment line agreement and unutilized amount as of March 31, 2013 was as follows:

	Millions of yen	*Thousands of U.S. dollars*
	2013	**2013**
Line of credit	**¥20,000**	**$212,653**
Amount utilized	**–**	**–**
Unused line of credit	**¥20,000**	**$212,653**

(5) One consolidated subsidiary has concluded an overdraft agreement with a financial institution in order to secure stable and flexible procurement of operating funds. The balance of the unexecuted portion as of March 31, 2012 and 2013 based on this agreement were as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2012	**2013**	**2013**
Overdraft limit	¥1,300	**¥1,300**	**$13,822**
Amount utilized	–	**–**	**–**
Amount unused	¥1,300	**¥1,300**	**$13,822**

10. Collateral

(1) Assets provided as collateral as of March 31, 2012 and 2013 consisted of the following:

	Millions of yen		*Thousands of U.S. dollars*
	2012	**2013**	**2013**
Cash and bank deposits	¥ 811	**¥ 991**	**$ 10,537**
Real estate for development projects	26,002	**28,752**	**305,710**
Other current assets	29	**61**	**649**
Buildings and structures	14,652	**14,168**	**150,643**
Machinery, vehicles, equipment and furniture	392	**330**	**3,509**
Land	5,683	**5,683**	**60,425**
Construction in progress	102	**263**	**2,796**
Intangible assets	2	**2**	**21**
	¥47,673	**¥50,250**	**$534,290**

Other than the above assets provided as collateral, other current assets of ¥311 million and ¥350 million ($3,721 thousand) as of March 31, 2012 and 2013, respectively, in the consolidated subsidiaries of Haseko America Inc., which have been eliminated on the consolidated balance sheets, have been provided as collateral for the borrowings related to the real estate development and sale business in Hawaii, U.S.A.

Liabilities with collateral as of March 31, 2012 and 2013 were as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2012	**2013**	**2013**
Current portion of long-term debt	¥ 3,602	**¥ 3,518**	**$ 37,406**
Long-term debt	9,954	**9,003**	**95,725**
	¥13,556	**¥12,521**	**$133,131**

(2) The following assets have been provided as collateral for borrowings by Haseko MMB Inc. and are backed by the cash flows generated from the condominium management business and other operations:

	Millions of yen		*Thousands of U.S. dollars*
	2012	**2013**	**2013**
Other current assets	¥ 58	**¥ 58**	**$ 617**
Building and structure	1,919	**1,833**	**19,490**
Land	11,484	**11,484**	**122,105**
Land leasehold rights	48	**48**	**510**
Investment securities	332	**332**	**3,530**
Long-term loans receivable	360	**302**	**3,211**
	¥14,201	**¥14,057**	**$149,463**

Liabilities with collateral as of March 31, 2012 and 2013 were as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2012	**2013**	**2013**
Current portion of long-term debt	¥ 2,938	**¥ 2,938**	**$ 31,239**
Long-term debt	14,687	**11,750**	**124,933**
	¥17,625	**¥14,688**	**$156,172**

In addition to the above, the following assets have been provided as collateral, all of which have been eliminated on the consolidated balance sheets:

(2012)
Shares of Haseko MMH Inc. (¥14,680 million) owned by Haseko Anesis Corporation
Shares of Haseko MMB Inc. (¥14,679 million) owned by Haseko MMH Inc.
Shares of Haseko Community Inc., Haseko Livenet Inc., Haseko Smile Community Co., Ltd., and Haseko Reform Inc. (¥14,299 million) owned by Haseko MMB Inc.
Shares of Haseko Community Kyushu Inc. (¥580 million) owned by Haseko Community Inc.
Loans receivable (¥20,160 million) lent by Haseko MMB Inc. to its consolidated subsidiaries.
Loans receivable (¥13,578 million) lent by those consolidated subsidiaries to Haseko Corporation.
Loans receivable (¥3,072 million) lent by those consolidated subsidiaries to Haseko MMB Inc.

(2013)
Shares of Haseko MMH Inc. (¥14,680 million, $156,087 thousand) owned by Haseko Anesis Corporation
Shares of Haseko MMB Inc. (¥14,679 million, $156,077 thousand) owned by Haseko MMH Inc.
Shares of Haseko Community Inc., Haseko Livenet Inc., Haseko Smile Community Co., Ltd., and Haseko Reform Inc. (¥14,299 million, $152,036 thousand) owned by Haseko MMB Inc.
Shares of Haseko Community Kyushu Inc. (¥780 million, $8,293 thousand) owned by Haseko Community Inc.
Loans receivable (¥18,080 million, $192,238 thousand) lent by Haseko MMB Inc. to its consolidated subsidiaries.
Loans receivable (¥12,203 million, $129,750 thousand) lent by those consolidated subsidiaries to Haseko Corporation.
Loans receivable (¥3,472 million, $36,917 thousand) lent by those consolidated subsidiaries to Haseko MMB Inc.

(3) The following assets have been provided as collateral for borrowings by HC Ayasegawa Jutaku Inc. and HC Koganei Jutaku Inc. related to PFI projects:

	Millions of yen		*Thousands of U.S. dollars*
	2012	**2013**	**2013**
Notes and accounts receivable, trade	¥17,213	**¥13,770**	**$146,411**
Buildings and structures	24	**23**	**245**
	¥17,237	**¥13,793**	**$146,656**

Liabilities with collateral as of March 31, 2012 and 2013 were as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2012	**2013**	**2013**
Current portion of long-term debt	¥ 3,232	**¥ 3,232**	**$ 34,365**
Long-term debt	12,930	**9,698**	**103,115**
	¥16,162	**¥12,930**	**$137,480**

In addition to the above, the following assets have been provided as collateral, all of which have been eliminated on the consolidated balance sheets:

(2012)
Shares of HC Ayasegawa Jutaku Inc. and HC Koganei Jutaku Inc. (¥18 million) owned by Haseko Corporation and Haseko Community Inc.
Loans receivable (¥438 million) lent by Haseko Corporation to HC Ayasegawa Jutaku Inc. and HC Koganei Jutaku Inc.

(2013)
Shares of HC Ayasegawa Jutaku Inc. and HC Koganei Jutaku Inc. (¥18 million, $191 thousand) owned by Haseko Corporation and Haseko Community Inc.
Loans receivable (¥373 million, $3,966 thousand) lent by Haseko Corporation to HC Ayasegawa Jutaku Inc. and HC Koganei Jutaku Inc.

11. Contingent Liabilities

(1) The Company was contingently liable for guarantees on bank loans and other guarantees as of March 31, 2012 and 2013 as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2012	**2013**	**2013**
Customers using housing loans and other loans to purchase real estate	¥13,744	**¥9,365**	**$99,575**

(2) Guarantee obligations on repayment of deposits, etc. to credit guarantee companies as of March 31, 2012 and 2013 were as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2012	**2013**	**2013**
Nissho Estem Co., Ltd. etc.	¥ 459	**¥483**	**$5,136**

(3) Commitments to provide guarantees of indebtedness at the request of lending banks as of March 31, 2012 and 2013 were as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2012	**2013**	**2013**
Mori-Gumi Co., Ltd.	¥3,150	**¥ –**	**$ –**
Tateshina Brighton Hotel Co., Ltd.	¥ –	**¥763**	**$8,113**

(4) The Company was contingently liable for notes receivable discounted with banks, endorsed and transferred as of March 31, 2012 and 2013 as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2012	**2013**	**2013**
Notes receivable discounted	¥230	**¥–**	**$ –**
Notes receivable endorsed and transferred	¥ 1	**¥1**	**$11**

(5) Notes that mature at the end of the fiscal year are settled on the clearance dates. The following notes are outstanding at the end of the fiscal year as the maturity date fell on a business holiday for financial institutions.

	Millions of yen		*Thousands of U.S. dollars*
	2012	**2013**	**2013**
Notes receivable	¥ 636	**¥ 735**	**$ 7,815**
Notes payable	¥12,492	**¥11,909**	**$126,624**

12. Lease Transactions

(1) Finance lease transactions that do not transfer the ownership of leased assets to the lessee as of and for the years ended March 31, 2012 and 2013 were as follows. Finance leases that do not transfer the ownership of the leased assets to the lessees, entered into on or before March 31, 2008, are accounted for as operating leases:

(As lessee)

The equivalents of acquisition cost, accumulated depreciation and net book value of the leased assets (machinery and equipment) were summarized as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2012	**2013**	**2013**
Acquisition cost	¥40	**¥–**	**$–**
Accumulated depreciation	36	**–**	**–**
Net book value	¥ 4	**¥–**	**$–**

The equivalent of acquisition cost includes the interest portion because the total amount of future lease payments is not significant compared with the total amount of property and equipment.

Outstanding future lease payments as of March 31, 2012 and 2013 were summarized as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2012	**2013**	**2013**
Within one year	¥5	**¥–**	**$–**
Over one year	–	**–**	**–**
Total	¥5	**¥–**	**$–**

Note) The above amount includes future lease payments for sub-leases.

Outstanding future lease payments include the interest portion because the total amount of future lease payments is not significant compared with the total amount of property and equipment.

Lease payments and depreciation for the years ended March 31, 2012 and 2013 were as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2012	**2013**	**2013**
Lease payments	¥12	**¥4**	**$43**
Depreciation	12	**4**	**43**

Note) Depreciation is computed based on the straight-line method assuming that the lease period corresponds to the useful life of the asset and the residual value is zero.

(As lessor)

The acquisition cost, accumulated depreciation and net book value of the rental assets (machinery and equipment, buildings and structures, and intangible assets) as of March 31, 2012 and 2013 were summarized as follows. Finance lease transactions entered into on or before March 31, 2008, except for those that transfer ownership of the leased assets to the lessees, continue to be accounted for as operating leases:

	Millions of yen		*Thousands of U.S. dollars*
	2012	**2013**	**2013**
Acquisition cost	¥42	**¥17**	**$181**
Accumulated depreciation	31	**13**	**138**
Net book value	¥11	**¥ 4**	**$ 43**

Outstanding future lease income as of March 31, 2012 and 2013 were summarized as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2012	**2013**	**2013**
Within one year	¥9	**¥3**	**$32**
Over one year	6	**3**	**32**
Total	¥15	**¥6**	**$64**

Note) The above amounts include future lease income from sub-leases.

Outstanding future lease income includes the interest portion because the total amount of future lease payments is not significant compared with the total amount of accounts receivable, trade.

Lease income and depreciation for the years ended March 31, 2012 and 2013 were as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2012	**2013**	**2013**
Lease income	¥17	**¥8**	**$85**
Depreciation	12	**6**	**64**

(2) Operating lease transactions

(As lessee)

Outstanding future minimum lease payments under noncancelable operating leases as of March 31, 2012 and 2013 were summarized as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2012	**2013**	**2013**
Within one year	¥ 2,662	**¥2,143**	**$22,786**
Over one year	8,087	**6,046**	**64,285**
Total	¥10,749	**¥8,189**	**$87,071**

(As lessor)

Outstanding future minimum lease income under noncancelable operating leases as of March 31, 2012 and 2013 were summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	**2013**	**2013**
Within one year	¥ 374	**¥ 376**	**$ 3,998**
Over one year	1,102	**1,107**	**11,770**
Total	¥1,476	**¥1,483**	**$15,768**

13. Supplementary Profit and Loss Information

(1) Sales from construction contracts calculated according to the percentage-of-completion method were ¥286,800 million and ¥289,958 million ($3,083,020 thousand) for the years ended March 31, 2012 and 2013, respectively.

(2) Allowance for losses on construction contracts of ¥1,133 million and ¥15 million ($159 thousand) were included in cost of sales for the years ended March 31, 2012 and 2013, respectively.

(3) Valuation losses on inventories that were included in cost of sales for the years ended March 31, 2012 and 2013 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	**2013**	**2013**
Construction contract	¥ 1	**¥ –**	**$ –**
Real estate	3,891	**2,166**	**23,030**
	¥3,892	**¥2,166**	**$23,030**

(4) Selling, general and administrative expenses for the years ended March 31, 2012 and 2013 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2012	**2013**	**2013**
Salaries and allowances	¥11,836	**¥12,497**	**$132,876**
Provision for bonuses for employees	676	**733**	**7,794**
Retirement benefit expenses	883	**901**	**9,580**
Provision for doubtful accounts	(295)	**(335)**	**(3,562)**
Rent	2,254	**2,212**	**23,519**
Depreciation	863	**651**	**6,922**
Other	11,833	**12,471**	**132,599**
	¥28,050	**¥29,130**	**$309,728**

(5) Research and development costs included in selling, general and administrative expenses for the years ended March 31, 2012 and 2013 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	**2013**	**2013**
Research and development costs	¥754	**¥705**	**$7,496**

(6) The loss on liquidation of the hotel business for the year ended March 31, 2013 includes ¥7,176 million ($76,300 thousand) in loss from sale of all shares of Brighton Corporation, a subsidiary that managed the hotel business, and ¥540 million ($5,742 thousand) in loss due to the closure of some hotels.

14. Net Assets

(1) Shares issued and treasury stock

Changes in number of shares issued and treasury stock for the year ended March 31, 2012 were as follows:

	Number of shares			
	2011	Increase	Decrease	2012
Shares issued:				
Common stock	1,503,971,989	–	–	1,503,971,989
Preferred stock:				
Class B I (Note 1)	90,000,000	–	10,000,000	80,000,000
Total	1,593,971,989	–	–	1,583,971,989
Treasury stock:				
Common stock (Notes 2 and 3)	796,229	8,234	1,800	802,663
Preferred stock:				
Class B I (Note 1)	–	10,000,000	10,000,000	–
Total	796,229	10,008,234	10,001,800	802,663

Notes:
1) Decrease in Class B I preferred stock of 10,000,000 shares due to retirement
2) Increase in treasury stock (common stock) of 8,234 shares due to the request by shareholders for purchase of shares less than one standard unit
3) Decrease in treasury stock (common stock) of 1,800 shares due to the request by shareholders for sale of shares less than one standard unit
4) Increase in and decrease in treasury stock (Class B I preferred stock) of 10,000,000 shares due to repurchase and retirement.
Details on repurchase and retirement of a portion of Class B I preferred stock during the year ended March 31, 2012:

Date of repurchase: March 23, 2012
Date of retirement: March 23, 2012
Number of shares: 10,000,000 shares
Redemption price per share: ¥507.07
Aggregate amount: ¥5,070,700,000

Changes in number of shares issued and treasury stock for the year ended March 31, 2013 were as follows:

	Number of shares			
	2012	Increase	Decrease	**2013**
Shares issued:				
Common stock	1,503,971,989	–	–	**1,503,971,989**
Preferred stock:				
Class B I (Note 1)	80,000,000	–	10,000,000	**70,000,000**
Total	1,583,971,989	–	–	**1,573,971,989**
Treasury stock:				
Common stock (Notes 2 and 3)	802,663	14,496	2,558	**814,601**
Preferred stock:				
Class B I (Note 1)	–	10,000,000	10,000,000	**–**
Total	802,663	10,014,496	10,002,558	**814,601**

Notes:
1) Decrease in Class B I preferred stock of 10,000,000 shares due to retirement
2) Increase in treasury stock (common stock) of 14,496 shares due to the request by shareholders for purchase of shares less than one standard unit
3) Decrease in treasury stock (common stock) of 2,558 shares due to the request by shareholders for sale of shares less than one standard unit
4) Increase in and decrease in treasury stock (Class B I preferred stock) of 10,000,000 shares due to repurchase and retirement.
Details on repurchase and retirement of a portion of Class B I preferred stock during the year ended March 31, 2013:

Date of repurchase: July 13, 2012
Date of retirement: July 13, 2012
Number of shares: 10,000,000 shares
Redemption price per share: ¥502.05 ($5.34)
Aggregate amount: ¥5,020,500,000 ($53,381,180.22)

(2) Dividends

(a) Dividends paid in the year ended March 31, 2013

Resolution	Type of shares	Total amount of dividend (Millions of yen)	Dividend per share (Yen)	Record date	Effective date
Annual meeting of shareholders on June 28, 2012	Preferred stock: Class B I	**¥578**	**¥7.23**	March 31, 2012	June 29, 2012

(b) Dividends with the cut-off date in the year ended March 31, 2013, and the effective date in the year ending March 31, 2014

Resolution	Type of shares	Total amount of dividend (Millions of yen)	(Thousands of U.S. dollars)	Dividend per share (Yen)	(U.S. dollars)	Record date	Effective date
Annual meeting of shareholders on June 27, 2013	Preferred stock: Class B I	**¥502**	**$5,337**	**¥7.17**	**$0.08**	March 31, 2013	June 28, 2013

15. Cash and Cash Equivalents

(1) A reconciliation between cash and cash equivalents on the consolidated statements of cash flows and the cash and bank deposits on the consolidated balance sheets as of March 31, 2012 and 2013 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	**2013**	**2013**
Cash and bank deposits	¥89,223	**¥118,589**	**$1,260,914**
Saving accounts for insurance agency	(338)	**(350)**	**(3,721)**
Cash and cash equivalents	¥88,885	**¥118,239**	**$1,257,193**

(2) Assets and liabilities of Brighton Corporation, which the Company sold on March 29, 2013 and excluded from consolidation of that date, were as follows:

	Millions of yen	Thousands of U.S. dollars
	2013	**2013**
Current assets	**¥ 1,251**	**$ 13,301**
Fixed assets	**26,018**	**276,641**
	27,269	**289,942**
Current liabilities	**1,875**	**19,936**
Fixed liabilities	**18,589**	**197,650**
	¥20,464	**$217,586**

16. Derivative Transactions

Derivative transactions for which hedge accounting is applied are as follows:

Hedge accounting method	Hedging instrument	Hedged item	As of March 31, 2012 Notional amount	 Of which, maturing after one year	 Fair value
			(Millions of yen)		
Special treatment of interest rate swaps	Interest rate swap transaction Pay fixed / Receive floating	Long-term debt	¥111,007	¥83,370	(Note)

Hedge accounting method	Hedging instrument	Hedged item	**As of March 31, 2013** Notional amount	 Of which, maturing after one year	 Fair value
			(Millions of yen)		
Special treatment of interest rate swaps	Interest rate swap transaction Pay fixed / Receive floating	Long-term debt	**¥107,870**	**¥75,334**	(Note)
			(Thousands of U.S. dollars)		
			$1,146,943	**$800,999**	

Note) The fair value of interest rate swaps accounted for by special treatment is included in the fair value of the applicable long-term debt as such swaps are accounted for together with the hedged long-term debt.

There were no derivative transactions for which hedge accounting was not applied as of March 31, 2012 and 2013.

17. Retirement Benefit Plan

The Company and its consolidated subsidiaries have established a lump-sum retirement allowance plan, funded defined benefit plan, multi-employer pension plan or smaller enterprise retirement allowance plan.

(1) The funded status of the multi-employer pension plans as of March 31, 2011 and 2012 (latest available information as of March 31, 2013) to which contributions are recognized as retirement benefit expenses were as follows:

	Millions of yen	
	2011	2012
Pension assets	¥ 40,796	¥ 39,662
Retirement benefit obligations under pension funding programs	54,799	52,090
Difference	¥(14,003)	¥(12,428)

The average contribution ratios to total contributions made to all plans were 2.45% and 2.49% for the years ended March 31, 2012 and 2013, respectively.

(2) The funded status of the defined benefit pension plans and the amounts recognized in the consolidated balance sheets as of March 31, 2012 and 2013 were as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2012	**2013**	**2013**
Projected benefit obligations	¥(42,933)	**¥(46,980)**	**$(499,522)**
Plan assets	31,460	**35,840**	**381,074**
Unfunded pension obligation	(11,473)	**(11,140)**	**(118,448)**
Unrecognized transition amount	647	**432**	**4,593**
Unrecognized actuarial differences	12,499	**11,912**	**126,656**
Unrecognized prior service cost	(3,544)	**(3,104)**	**(33,003)**
Net retirement benefit obligations	(1,871)	**(1,900)**	**(20,202)**
Prepaid pension cost	–	**66**	**702**
Reserve for employees' retirement benefits	¥ (1,871)	**¥ (1,966)**	**$ (20,904)**

Note) Certain consolidated subsidiaries apply a simplified method to compute their projected benefit obligations.

(3) The components of net retirement benefit expenses for the years ended March 31, 2012 and 2013 were as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2012	**2013**	**2013**
Service costs	¥1,153	**¥1,373**	**$14,599**
Interest costs	930	**762**	**8,102**
Expected return on plan assets	(918)	**(933)**	**(9,920)**
Amortization of transition amount	216	**216**	**2,297**
Amortization of actuarial differences	1,284	**1,168**	**12,419**
Amortization of prior service cost	(441)	**(441)**	**(4,689)**
Net retirement benefit expenses	¥2,224	**¥2,145**	**$22,808**

Notes:
1) Contributions by employees for corporate pension fund were deducted.
2) The retirement benefit expenses of consolidated subsidiaries applying a simplified method and the contributions as smaller enterprise retirement allowance expense are included in "Service costs."

(4) Assumptions used in accounting for the above plans for the years ended March 31, 2012 and 2013 were as follows:

	2012	**2013**
Method of attributing the projected benefits to period of service	Straight-line method	**Straight-line method**
Discount rate	1.8%	**1.4%**
Expected rate of return on plan assets	3.0%	**3.0%**

18. Income Taxes

(1) The significant components of deferred tax assets and liabilities as of March 31, 2012 and 2013 were as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2012	**2013**	**2013**
Deferred tax assets:			
Allowance for doubtful accounts	¥ 377	**¥ 388**	**$ 4,125**
Warranty reserve	1,256	**970**	**10,314**
Accrued bonuses for employees	760	**808**	**8,591**
Reserve for employees' retirement benefits	687	**637**	**6,773**
Valuation loss on real estate for sale	21,217	**20,964**	**222,903**
Impairment loss on fixed assets	10,760	**1,244**	**13,227**
Valuation loss on investment securities	12,948	**3,011**	**32,015**
Tax loss carry forwards	27,160	**31,373**	**333,578**
Other	3,207	**2,680**	**28,495**
Sub-total	78,372	**62,075**	**660,021**
Loss: Valuation allowance	(54,848)	**(36,674)**	**(389,941)**
Total deferred tax assets	23,524	**25,401**	**270,080**
Deferred tax liabilities:			
Unrealized gain on other securities	(80)	**(683)**	**(7,262)**
Other	(320)	**(371)**	**(3,945)**
Total deferred tax liabilities	(400)	**(1,054)**	**(11,207)**
Net deferred tax assets	¥ 23,124	**¥ 24,347**	**$ 258,873**

Notes:
1) Valuation loss on real estate for sale includes ¥675 million and ¥693 million ($7,368 thousand) for the years ended March 31, 2012 and 2013, respectively, for properties that were reclassified from "Current Assets" to "Property and Equipment" following a change in holding purpose.
2) The net deferred tax as of March 31, 2012 and 2013 were classified as follows in the consolidated balance sheets:

	Millions of yen		*Thousands of U.S. dollars*
	2012	**2013**	**2013**
Current assets – Deferred tax assets	¥ 7,176	**¥ 7,691**	**$ 81,776**
Investments and other assets – Long-term deferred tax assets	16,347	**17,710**	**188,304**
Long-term liabilities – Other long-term liabilities	(400)	**(1,054)**	**(11,207)**

(2) The reconciliation of the statutory tax rate to the effective income tax rate for the year ended March 31, 2013 was as follows:

	2013
Statutory tax rate	**38.0 %**
(Adjustment)	
Non-deductible expenses	**3.0**
Permanent non-taxable items	**(0.3)**
Per capita inhabitant tax	**1.0**
Change in valuation allowances	**(51.8)**
Other	**(1.9)**
Effective income tax rate	**(11.8)%**

Note) A reconciliation for the year ended March 31, 2012 has been omitted because the difference between the statutory tax rate and the effective income tax rate was 5% or less.

19. Per Share Information

(1) Per share information as of and for the years ended March 31, 2012 and 2013 were as follows:

	Yen		U.S. dollars
	2012	**2013**	**2013**
Net assets per share	¥40.76	**¥51.98**	**$0.55**
Net income per share			
Basic	7.05	**8.34**	**0.09**
Diluted	5.29	**6.50**	**0.07**

(2) The following is the basis for calculating the basic and diluted net income per share:

(a) Basic net income per share

	Millions of yen		Thousands of U.S. dollars
	2012	**2013**	**2013**
Net income	¥11,242	**¥13,064**	**$138,905**
Net income not attributable to common shareholders			
Preferred stock (Class B I)			
Preferred dividend	578	**502**	**5,338**
Difference between the redemption amount and the issued amount of preferred stock	71	**21**	**223**
Net income attributable to common shareholders	¥10,593	**¥12,541**	**$133,344**
Weighted average number of shares outstanding (thousands of shares)	1,503,173	**1,503,165**	

(b) Diluted net income per share

Diluted net income per share is computed assuming preferred dividend and full dilution of the following common stock equivalents:

	Millions of yen		Thousands of U.S. dollars
	2012	**2013**	**2013**
Preferred dividend:			
Preferred stock (Class B I)	¥578	**¥502**	**$5,338**
Difference between redemption amount and the issued amount of preferred stock			
Preferred stock (Class B I)	71	**21**	**223**
Diluted net income	¥649	**¥523**	**$5,561**
Increase in common stock: (thousands of shares)			
Preferred stock (Class B I)	623,292	**505,708**	

(3) The following is the basis for calculating the net assets per share:

	Millions of yen		Thousands of U.S. dollars
	2012	**2013**	**2013**
Net assets	¥101,996	**¥113,805**	**$1,210,048**
Amount not attributable to common shareholders:			
Preferential distribution of residual property	40,000	**35,000**	**372,142**
Preferred dividend	578	**502**	**5,338**
Minority interests	150	**172**	**1,829**
Net assets attributable to common shareholders	¥ 61,268	**¥ 78,131**	**$ 830,739**

20. Sale of Subsidiary

The Company entered into a stock transfer agreement with Milial Resort Hotels Co., Ltd., a wholly owned subsidiary of Oriental Land Co., Ltd. on February 26, 2013 based on the approval by the Board of Directors as of the same day, and subsequently sold all the shares of Brighton Corporation, a wholly owned subsidiary of the Company, on March 29, 2013. An outline of the transaction is as follows:

1. Overview of sale

(1) Names and business descriptions of the subsidiary and counterparty

Subsidiary: Brighton Corporation (business description: hotel management and operations, etc.)

Counterparty: Milial Resort Hotels Co., Ltd. (business description, hotel management and operations, etc.)

(2) Purpose of sale

Milial Resort Hotels Co., Ltd., has earned a good reputation and accumulated a track record in the hotel management business in and around Tokyo Disney Resort, and the Company determined it would be more appropriate for Brighton Corporation to pursue further improvement in its services and brand values, while taking advantage of the hotel management know-how it has nourished, under the control of Milial Resort Hotels Co., Ltd. In addition, the transaction should also contribute to strengthening the Company's financial condition.

(3) Date of share sale

March 29, 2013

(4) Legal form

Sale of business through sale of share

2. Impact on operating results

Under the "Accounting Standard for Business Divestitures" (ASBJ Statement No. 7 issued on December 26, 2008), the "Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures" (ASBJ Guidance No. 10 issued on December 26, 2008) and the "Accounting Standard for Consolidated Financial Statements" (ASBJ Statement No. 22 issued on December 26, 2008), the Company recorded ¥7,176 million (US$76,300 thousand) in loss on sale of hotel business in Special Losses in the consolidated statement of income for the fiscal year ended March 31, 2013.

3. Reportable segment corresponding to the transferred subsidiary Brighton Corporation was included in the category of "Other business." segment.

4. Approximate amount of operating results applicable to the relevant business recorded in the consolidated statement of income for the fiscal year ended March 31, 2013

Net sales: ¥10,378 million (US$110,346 thousand)
Operating income: ¥139 million (US$1,478 thousand)

21. Segment Information

The reportable segments of the Company are components for which discrete financial information is available and which are subject to periodical review in order for the Board of Directors to decide resource allocation and to assess performance.

The Company and its consolidated subsidiaries carry out business activities focusing on all types of businesses pertaining to condominiums. The Company operates the "Design and Construction-Related Business," which involves designing and constructing condominiums, etc., and the "Real Estate-Related Business," which sells condominium units, and undertakes commissioned sales of for-sale condominiums, etc. The Company operates these businesses by cooperating with consolidated subsidiaries that are all independent management units.

Furthermore, the subsidiary group led by the consolidated subsidiary, Haseko Anesis Corporation, is responsible for the "Residential Property-Related Service Business," which controls a service business catering to the inventory market for existing condominiums, etc.

Therefore, the Company and its consolidated subsidiaries are divided into three reportable segments—the "Design and Construction-Related Business," the "Real Estate-Related Business" and the "Residential Property-Related Service Business"—in view of the business structure of condominium-related businesses.

In accordance with the change in the organization of the Haseko Group, the Company partially changed the segment of classification part of the "Residential Property-Related Business" to the "Real Estate-Related Business", effective the year ended March 31, 2013. The segment information for the year ended March 31, 2012 was restated to conform to the change in the segmentation in the current year.

The accounting policies of the segments are substantially the same as those described in Note 2, "Summary of significant accounting policies." Segment performance is evaluated based on operating income or loss. Intersegment sales are recorded at the same prices used in transactions with third parties.

1. Reportable segment information for the years ended March 31, 2011 and 2012 were as follows:

	Millions of yen							
	2012							
	Reportable segments							
Sales, income or loss and assets by reportable segments	Design and Construction-Related Business	Real Estate-Related Business	Residential Property-Related Service Business	Total	Other business (Note 1)	Total	Adjustments and eliminations (Note 2)	Consolidated (Note 3)
Sales to third parties	¥307,642	¥ 86,309	¥88,645	¥482,596	¥18,333	¥500,929	¥ –	¥500,929
Inter-segment sales and transfers	1,862	254	4,421	6,537	78	6,615	(6,615)	–
Net sales	309,504	86,563	93,066	489,133	18,411	507,544	(6,615)	500,929
Segment income (loss)	22,521	(1,114)	5,549	26,956	(587)	26,369	(4,754)	21,615
Segment assets	¥116,658	¥144,152	¥61,782	¥322,592	¥57,428	¥380,020	¥87,055	¥467,075
Other items								
Depreciation and amortization	¥353	¥1,265	¥909	¥2,527	¥1,059	¥3,586	¥(17)	¥3,569
Investment in equity-method affiliates	886	–	–	886	–	886	–	886
Capital expenditures	118	213	1,389	1,720	570	2,290	5	2,295

	Millions of yen							
	2013							
	Reportable segments							
Sales, income or loss and assets by reportable segments	Design and Construction-Related Business	Real Estate-Related Business	Residential Property-Related Service Business	Total	Other business (Note 1)	Total	Adjustments and eliminations (Note 2)	Consolidated (Note 3)
Sales to third parties	**¥313,096**	**¥135,218**	**¥89,935**	**¥538,249**	**¥20,670**	**¥558,919**	**¥ –**	**¥558,919**
Inter-segment sales and transfers	**1,318**	**1,685**	**3,566**	**6,569**	**81**	**6,650**	**(6,650)**	**–**
Net sales	**314,414**	**136,903**	**93,501**	**544,818**	**20,751**	**565,569**	**(6,650)**	**558,919**
Segment income (loss)	**21,207**	**3,122**	**5,194**	**29,523**	**(201)**	**29,322**	**(4,993)**	**24,329**
Segment assets	**¥114,168**	**¥144,974**	**¥58,092**	**¥317,234**	**¥32,302**	**¥349,536**	**¥111,328**	**¥460,864**
Other items								
Depreciation and amortization	**¥205**	**¥1,189**	**¥861**	**¥2,255**	**¥1,080**	**¥3,335**	**¥(60)**	**¥3,275**
Investment in equity-method affiliates	**961**	**–**	**–**	**961**	**–**	**961**	**–**	**961**
Capital expenditures	**375**	**448**	**1,115**	**1,938**	**685**	**2,623**	**9**	**2,632**

	Thousands of U.S. dollars							
	2013							
	Reportable segments							
Sales, income or loss and assets by reportable segments	Design and Construction-Related Business	Real Estate-Related Business	Residential Property-Related Service Business	Total	Other business (Note 1)	Total	Adjustments and eliminations (Note 2)	Consolidated (Note 3)
Sales to third parties	**$3,329,038**	**$1,437,725**	**$956,246**	**$5,723,009**	**$219,777**	**$5,942,786**	**$ –**	**$5,942,786**
Inter-segment sales and transfers	**14,014**	**17,916**	**37,916**	**69,846**	**861**	**70,707**	**(70,707)**	**–**
Net sales	**3,343,052**	**1,455,641**	**994,162**	**5,792,855**	**220,638**	**6,013,493**	**(70,707)**	**5,942,786**
Segment income (loss)	**225,486**	**(33,195)**	**55,226**	**313,907**	**(2,137)**	**311,770**	**(53,088)**	**258,682**
Segment assets	**$1,213,907**	**$1,541,457**	**$617,672**	**$3,373,036**	**$343,455**	**$3,716,491**	**$1,183,711**	**$4,900,202**
Other items								
Depreciation and amortization	**$ 2,180**	**$12,642**	**$9,155**	**$23,977**	**$11,483**	**$35,460**	**$(638)**	**$34,822**
Investment in equity-method affiliates	**10,218**	**–**	**–**	**10,218**	**–**	**10,218**	**–**	**10,218**
Capital expenditures	**3,987**	**4,763**	**11,856**	**20,606**	**7,283**	**27,889**	**96**	**27,985**

Notes:

1) "Other business" refers to businesses segments that are not included in the reportable segments and includes the overseas business and hotel business.

2) Adjustments and eliminations are as follows:

(2012)

(1) Adjustments and eliminations for segment income (loss) include ¥71 million of elimination of inter-segment transactions and ¥4,826 million of corporate expenses, which are not allocable to the reportable segments.

(2) Adjustment and eliminations for segment assets include ¥3,382 million of elimination of receivables stemming from inter-segment transactions and ¥90,437 million of corporate assets. Corporate assets are primarily comprised of surplus funds (cash), deferred tax assets and assets related to the administration divisions of the Company.

(3) Adjustment and eliminations for capital expenditures include ¥5 million of elimination of inter-segment transactions and ¥10 million of investment in corporate assets.

(2013)

(1) Adjustments and eliminations for segment income (loss) include ¥58 million ($617 thousand) of elimination of inter-segment transactions and ¥5,051 million ($53,705 thousand) of corporate expenses, which are not allocable to the reportable segments.

(2) Adjustment and eliminations for segment assets include ¥3,544 million ($37,682 thousand) of elimination of receivables stemming from inter-segment transactions and ¥114,873 million ($1,221,404 thousand) of corporate assets. Corporate assets are primarily comprised of surplus funds (cash), deferred tax assets and assets related to the administration divisions of the Company.

(3) Adjustment and eliminations for capital expenditures include ¥26 million ($276 thousand) of elimination of inter-segment transactions and ¥35 million ($372 thousand) of investment in corporate assets.

(4) Segment assets in "Other business" as of March 31, 2013 decreased ¥28,270 million (US$300,585 thousand) due to the sale of all shares of Brighton Corporation, which managed the hotel business, on March 29, 2013.

3) Segment income has been adjusted with operating income in the consolidated statements of income.

2. Impairment loss on fixed assets by reportable segments for the years ended March 31, 2012 and 2013 were summarized as follows:

	Millions of yen					
	2012					
	Design and Construction-Related Business	Real Estate-Related Business	Residential Property-Related Service Business	Other business	Adjustments and eliminations	Consolidated
Impairment loss on fixed assets	¥2	¥181	¥1	¥–	¥–	¥184

	Millions of yen					
	2013					
	Design and Construction-Related Business	Real Estate-Related Business	Residential Property-Related Service Business	Other business	Adjustments and eliminations	Consolidated
Impairment loss on fixed assets	**¥–**	**¥–**	**¥437**	**¥–**	**¥(1)**	**¥436**

	Thousands of U.S. dollars					
	2013					
	Design and Construction-Related Business	Real Estate-Related Business	Residential Property-Related Service Business	Other business	Adjustments and eliminations	Consolidated
Impairment loss on fixed assets	**$–**	**$–**	**$4,646**	**$–**	**$(11)**	**$4,635**

3. The following table presents the amortization and balance of goodwill as of and for the years ended March 31, 2012 and 2013 by reportable segment:

	Millions of yen					
	2012					
	Design and Construction- Related Business	Real Estate -Related Business	Residential Property- Related Service Business	Other business	Adjustments and eliminations	Consolidated
Amortization	¥–	¥–	¥ 553	¥–	¥–	¥ 553
Balance as of March 31	¥–	¥–	¥3,648	¥–	¥–	¥3,648

	Millions of yen					
	2013					
	Design and Construction- Related Business	Real Estate -Related Business	Residential Property- Related Service Business	Other business	Adjustments and eliminations	Consolidated
Amortization	**¥–**	**¥–**	**¥ 566**	**¥–**	**¥–**	**¥ 566**
Balance as of March 31	**¥–**	**¥–**	**¥3,082**	**¥–**	**¥–**	**¥3,082**

	Thousands of U.S .dollars					
	2013					
	Design and Construction- Related Business	Real Estate -Related Business	Residential Property- Related Service Business	Other business	Adjustments and eliminations	Consolidated
Amortization	**$–**	**$–**	**$ 6,018**	**$–**	**$–**	**$ 6,018**
Balance as of March 31	**$–**	**$–**	**$32,770**	**$–**	**$–**	**$32,770**

4. Information by product and service
Information by product and service is omitted as similar information has already been disclosed in this section.

5. Geographical information
(1) Net sales
Net sales information is omitted since net sales to external customers in Japan exceeds 90% of net sales recorded in the consolidated statements of income for the years ended March 31, 2012 and 2013.

(2) Property and equipment
Property and equipment information is omitted, since the amount of property and equipment located in Japan exceeds 90% of the amount of property and equipment recorded in the consolidated balance sheets as of March 31, 2012 and 2013.

6. Information by major customers
Information by major customers is omitted, as net sales to any one specific customer were less than 10% of net sales recorded in the consolidated statements of income for the years ended March 31, 2012 and 2013.

22. Other Comprehensive Income

Reclassification adjustments and tax effects on components of other comprehensive income for the year ended March 31, 2012 and 2013 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	**2013**	**2013**
Net unrealized gain on other securities:	¥381	**¥1,725**	**$18,341**
Amount arising during the year			
Reclassification adjustments for gains (losses) recognized in net income	(1)	**–**	**–**
Amount before tax effect	380	**1,725**	**18,341**
Tax effect	236	**(603)**	**(6,411)**
Net unrealized gain on other securities	616	**1,122**	**11,930**
Translation adjustments:			
Amount arising during the year	(1,593)	**3,134**	**33,323**
Share of other comprehensive income of affiliates accounted for by the equity method:			
Amount arising during the year	1	**1**	**11**
Total other comprehensive income (loss)	¥(976)	**¥4,257**	**$45,264**

23. Subsequent Event

1. Repurchase and Retirement of Class B I preferred stock

The Board of Directors approved the partial repurchase and retirement of its Class B I preferred stock for their redemption at the meeting held on June 27, 2013. An outline of the repurchase and retirement is as follows:

(1) Purpose of the transactions

Based on the capital policies in the Company's the Company' s "PLAN for NEXT" (PLAN 4N), its medium-term business plan established in February 2012, the Company decided to repurchase and retire a portion of the outstanding preferred stock in order to avoid stock dilution resulting from the conversion of the preferred stock to common shares.

(2) Shares repurchased and retired

Preferred Stock Class B I
Number of shares: 20,000,000 shares
Purchase price: ¥10,038,000,000

(3) Date of repurchase

July 12, 2013

(4) Retirement date

July 12, 2013

2. Share Consolidation

The Board of Directors approved the decision at its meeting held on May 9, 2013 to submit a proposal of partial amendments to its Articles of Incorporation, related to consolidating the number of its shares and changing the share trading unit, to the 96th Ordinary General Meeting of Shareholders, the Class Meeting of Ordinary Shareholders and the Class Meeting of Preferred Shareholders to be held on June 27, 2013, respectively. All the corresponding Meetings authorized the partial amendments on the same day. An outline of the share consolidation is as follows:

(1) Purpose of share consolidation

The Japanese Stock Exchanges have announced the "Action Plan for Consolidating Trading Units," which aims to eventually unify the minimum trading units of shares of all listed domestic corporations to 100 shares. In order to implement the Plan, the Stock Exchanges have decided to unify the minimum trading units of corporations currently traded using lots of other than 1,000 shares to 100 shares by April 1, 2014 as the first step.

In accordance with this decision, the Company, as a listed corporation, decided to change its share trading unit (which constitutes a voting right) from 500 shares to 100 shares.

In addition, along with the change in the share trading unit, the Company also decided to consolidate its shares at ratio of five common shares to one share in order to keep the share price within a certain level set forth by the Tokyo Stock Exchange in the Securities Listing Regulations (¥50,000 or more and less than ¥500,000) as a desirable level for an investment unit, so that the current shareholders of share units can maintain the number of their share units even after the change. With regard to the Class B I preferred stock, the Company also decided to change the share unit from 500 shares to 100 shares and consolidate its shares at ratio of five shares to one share in order to ensure no changes in the rights they represent.

(2) Overview of share consolidation

a) Type of shares:
Common shares and Class BI preferred stock

b) Consolidation ratio
5 shares to 1 share

c) Decrease in number of shares
(Common shares)
Number of outstanding shares before consolidation: 1,503,971,989
Decrease in number of shares due to consolidation: 1,203,177,592
Number of outstanding shares after consolidation: 300,794,397
(Preferred stock)
Number of outstanding shares before consolidation: 70,000,000
Decrease in number of shares due to consolidation: 56,000,000
Number of outstanding shares after consolidation: 14,000,000

(3) Effective date of the share consolidation

October 1, 2013

(4) Impact on per unit information

Assuming that the share consolidation took place at the beginning of the previous fiscal year ended March 2012, the impact on net assets per share, net income per share and diluted net income per share is as follows:

	Yen		*U.S. dollars*
	2012	**2013**	**2013**
Net assets per share	¥203.79	**¥259.89**	**$2.76**
Net income	35.24	**41.72**	**0.44**
Diluted net income	26.43	**32.53**	**0.35**

Independent Auditor's Report

The Board of Directors
HASEKO Corporation

We have audited the accompanying consolidated financial statements of HASEKO Corporation and its consolidated subsidiaries, which comprise the consolidated balance sheet as at March 31, 2013, 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 HASEKO Corporation and its consolidated subsidiaries as at March 31, 2013, and their consolidated financial performance and cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

Emphasis of Matter

We draw attention to Note 23 to the consolidated financial statements, which describe the Board of Directors of the company approved the partial repurchase and retirement of its Class B I preferred stock for their redemption at the meeting held on June 27, 2013. Our opinion is not qualified in respect of this matter.

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 4.

Ernst & Young ShinNihon LLC

June 27, 2013
Tokyo, Japan

History

Dec. 1974
Completed construction of headquarters building, “Akasaka Long Beach Bldg.,” in Akasaka, Minato-ku Tokyo and transferred headquarters there

Dec. 1973
Achieved number one of accumulated condominium construction in Japan (35,000 units)

Dec. 1970
Transferred headquarters to Hasegawa Building No. 8 in Dogenzaka, Shibuya-ku, Tokyo

Jul. 1970
Completed construction of “Nissho Iwai Shiroganedai Condominium,” the first condominium Haseko constructed in Tokyo Metropolitan Area

Feb. 1969
Completed construction of “Ashiya Matsuhama Heights,” the first condominium Haseko constructed

Apr. 1965
Listed on the 1st Sections of Tokyo Stock Exchange, Osaka Securities Exchange and Nagoya Stock Exchange

Aug. 1953
Transferred headquarters to Osaka

Feb. 1951
Opened Tokyo branch Office

Aug. 1946
Incorporated Hasegawa Komuten Co., Ltd., headquartered in Himeji-shi, Hyogo

Feb. 1937
Established Hasegawa Komuten in Amagasaki-shi, Hyogo

1969 Ashiya Matsuhama Heights
● The first condominium constructed by Haseko

Note: The year number of photograph caption is a completion year.

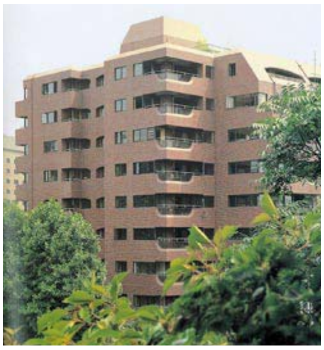
Oct. 1992
Completed construction of “Acro City Towers,” a 32-storied skyscraper condominium

Jan. 1989
Completed “Century City Omiya Koen,” a condominium with services for elder people

Oct. 1988
Changed corporate name to HASEKO Corporation

Jan. 1981
Completed construction of “ Shiba Head Office Building” in Shiba, Minato-ku, Tokyo and transferred headquarters there

1984 Palais Royal Ashiya-Midorigaoka
● The first rebuilt condominium



1977 Palais Royal Nagatacho
● High-grade condominium

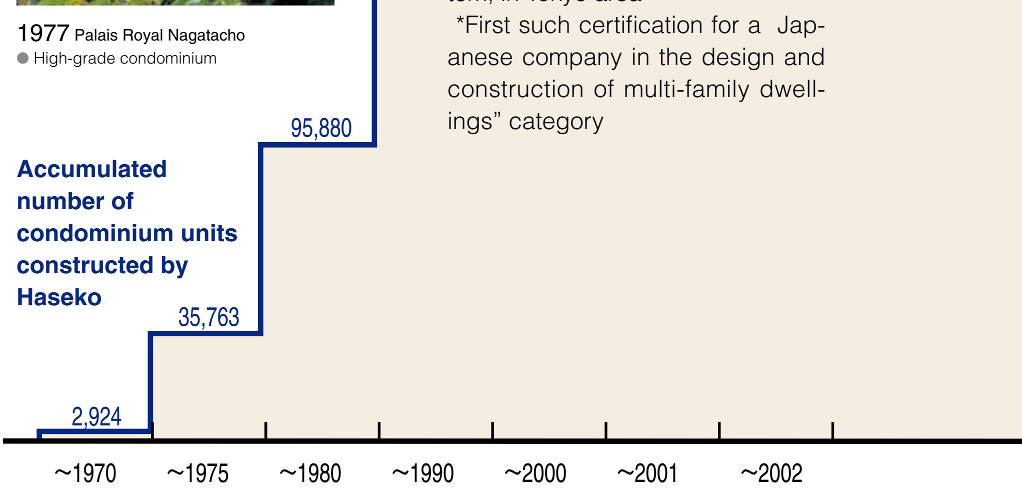
Mar. 1999
Finished “Hills Kugahara,” a large-scale replacement project

Dec. 1998
Achieved construction of accumulated 300,000 units of condominiums

Jul. 1997
Obtained ISO 9001 certification, an international standard for quality control and quality assurance system, in Kansai area for design and construction of multi-family dwellings

1992 Acrocity Towers
● The first ultra-skyscraper condominium

Mar. 1997
Obtained ISO 9001 certification, an international standard for quality control and quality assurance system, in Tokyo area
*First such certification for a Japanese company in the design and construction of multi-family dwellings” category



Accumulated number of condominium units constructed by Haseko

History

~2003	~2004	~2005	~2006	~2007	~2008	~2009	~2010	~2011	~2012	~June 2013
379,328	400,419	420,594	438,750	456,400	469,656	480,373	495,268	510,432	528,966	537,085

Mar. 2005
Participated in the reuse business and opened the first "KASIKOSH" store, a recycle shop

Sep. 2003
Completed the "Urayasu AMC Project," an advanced multi-purpose urban development project

Apr. 2003
Established "Haseko Anesis Corporation," a service-related new subsidiary

Mar. 2003
Started operation of "Century City Kita Urawa," a paid care house for elderly people

Oct. 2001
Obtained ISO 14001 certification, a international standard for environmental management, in Tokyo area

Jul. 2001
Obtained ISO 14001 certification, a international standard for environmental management,in Kansai area

Dec. 2000
Completed construction of "House Solana,"Haseko's first skeleton-infill housing

2004 Fukasawa House
● The first introduction of disaster prevention sets

July 2011
Completed construction of "RANCHERA Suitakatayamakoen," a 10-storied condominium with 114 units, that was certified as "long-life, high-quality housing"

Jun. 2009
Obtained certification as "long-life, high-quality housing" for the two projects of "BRANCHERA Urawa" and "BRAN-CHERA Suita-katayamakoen"-the first such certification in Japan for for-sale condominiums

Mar. 2009
Completed construction of "The Kitahama," a 54-storied condominium with 465 units built on the former site of a depart ment store in Kitahama, Osaka

Nov. 2006
Created "Sakura no Sato," a large-scale new town

Mar. 2006
Completed "Obel Grandio Haginaka," Japan's first rebuilding of a condominium applying the Revised Condominium Unit Ownership Act

Nov. 2005
Completed the "Shirokane Urban Renewal Project" in Shirokane, Minato-ku, Tokyo, that harmonized living, commercial and industrial settings

2009 The Kitahama
● 54-storied ultra-skyscraper condominium

Jul. 2012
Established "Haseko Real Estate Inc.," a comprehensive real estate brokerage subsidiary

July 2011
Completed construction of "RANCHERA Suitakatayamakoen," a 10-storied condominium with 114 units, that was certified as "long-life, high-quality housing"

Jun. 2011
Achieved construction of a cumulative total of 500,000 condominium units

2011 BRANCHERA Suitakatayamakoen
● Long-life, high-quality housing

2011 BRANCHERA Urawa
● Long-life, high-quality housing

Share Information

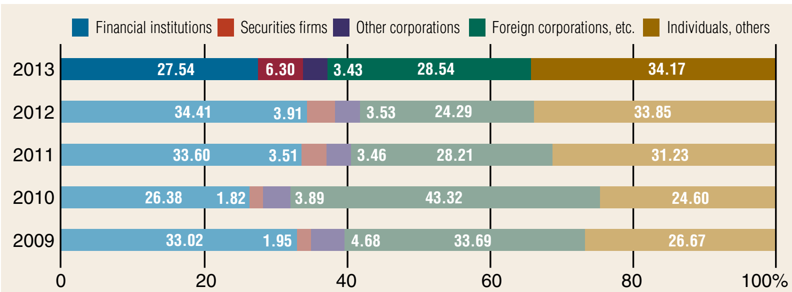
Share overview

		Fiscal year end *(As of March 31, 2013)*	Before consolidation *(As of July 12, 2013)*	After consolidation *(As of October 1, 2013)*
Total shares authorized to issue:	Common stock	2,100 million shares	2,100 million shares	420 million shares
	Preferred stock	246 million shares	246 million shares	18 million shares
	(Class A)	156 million shares	156 million shares	–
	(Class B)	90 million shares	90 million shares	18 million shares
Outstanding shares:	Common stock	1,503 million shares	1,503 million shares	300 million shares
	Class B I preferred stock (Note 2)	70 million shares	50 million shares	10 million shares
Shareholders:	Common stock	76,824 parties		
	Class B I preferred stock	3 parties		

Note 1. Shares of less than million shares have been cut off prior to being displayed.
2. The Company repurchased and retired 20 million shares on July 12, 2013.
3. On October 1, 2013, the Company consolidate its common shares and Class B I Preferred Shares (at a consolidation rate of 1 share for every 5 shares).
4. The Company modified Articles of Incorporation to delete the descriptions on the Class A Preferred Shares that have already been converted to common shares and redeemed. The Company executes this amendment on October 1, 2013.

Composition of shareholders

(As of March 31, 2013)



Preferred stock shareholders

(As of March 31, 2013)

Shareholder	Shares (1,000 shares)
Class B I	
Resona Bank, Limited	25,574
The Chuo Mitsui Trust and Banking Company, Limited	24,640
Mizuho Corporate Bank, Ltd.	19,786

Note 1. Preferred stocks Class B are shares with no voting rights.
2. All owned shares of less than 1,000 shares have been cut off prior to being displayed.

Overview of preferred stocks *(As of July 12, 2013)*

Class	Class BI	
Issued amount	25 billion yen	
Number of issued shares	50,000,000 shares	
Issued price	500 yen per share	
Voting rights	No	
Preferred dividends	Rate	Until March 31, 2014: Japanese yen TIBOR (6-month) +1.00% Since April 1, 2014: Japanese yen TIBOR (6-month) +1.80%
	Participation	Simple participation
	Cumulative	Cumulative for next fiscal year alone
Distribution of residual property	500 yen per share	
Mandatory redemption right	Period	Until September 30, 2015
	Redemption price	A price per share equal to ¥500 plus Class B accumulated unpaid dividend and accrued dividend equivalent.
Redemption requesting right	Period	From July 1 to July 31 of each fiscal year from FY2009 up to FY2032
	Regulation	The right can be executed when the Company's retained earnings carried forward at the end of the immediately preceding fiscal year exceed ¥10 billion. Shareholders can request for redemption up to the amount obtained by deducting double the amount of the total dividends for the immediately preceding fiscal year or ¥9 billion yen, whichever is greater, from the combined amount of retained earnings carried forward and other capital surplus.
	Redemption price	A price per share equal to ¥500 plus Class B accumulated unpaid dividend and accrued dividend equivalent.
Conversion requesting right	Period	From October 1, 2015 to September 30, 2032
	Conversion price	Initial price: Market price 1 year before conversion start date (however, not below @72 yen) Ceiling price: 300% of initial conversion price Floor price: 50% of initial conversion price
Mandatory conversion	Execution date	A date on or after October 1, 2032 to be determined by the Board of Directors.

Corporate Information

Overview *(As of March 31, 2013)*

Name:
Haseko Corporation

Founded:
February 1937

Established:
August 1946

Paid-in capital:
57,500 million yen

Number of employees:
2,005 (Non-consolidated)
4,640 (Consolidated)

Stock exchange listing:
Tokyo Stock Exchange 1st section,
Osaka Securities Exchange 1st section

Ticker code:
1808

Shares per trading units:
500 shares

Head office:
32-1 Shiba 2-chome, Minato-ku, Toky 105-8507
Tel: 813-3456-5451

Kansai office:
5-7 Hiranomachi 1-chome, Chuo-ku, Osaka 541-0046
Tel: 816-6203-5661

Saitama branch:
8-1 Shimocho 1-chome, Omiya-ku, Sitama-shi

Yokohama branch:
4-2 Minatomirai 4-chome, Nishi-ku, Yokohama

Nagoya branch:
7-20 Sakae 3-chome, Naka-ku, Nagoya

Kyoto branch:
734 Higashishiokouji-cho, Karasuma-dori,
Shichijou-kudaru, Shimogyou-ku, Kyoto-shi

Hanoi Representative Office:
1 floor, 1C, Ngo Quyen Street, Hoan Kiem District,
Hanoi, Vietnam

Technical research institute:
2968 Nishikata, Koshigaya-shi, Saitama

Number of consolidated subsidiaries:
40

Number of companies accounted for by the equity method:
1

Transfer agent and registrar:
Mitsubishi UFJ Trust and Banking Corporation

Independent auditor:
ERNST & YOUNG SHIN NIHON

Principal consolidated subsidiaries

Haseko Anesis Corporation
Main business: Supervision of service related business
32-1 Shiba 2-chome, Minato-ku, Tokyo

Haseko Community, Inc.
Main business: Condominium management and maintenance
6-6 Shiba 4-chome, Minato-ku, Tokyo

Haseko Livenet, Inc.
Main business: Rental apartment management and operation
31-19 Shiba 2-chome, Minato-ku, Tokyo

Haseko Reform Inc.
Main business: Extensive refurbishment and Interior improvement
29-14 Shiba 2-chome, Minato-ku, Tokyo

Century Life, Co., Ltd.
Main business: Management of paid care housing for the elderly and consulting service
31-15 Shiba 2-chome, Minato-ku, Tokyo

Haseko Systems Inc.
Main business: Information processing service, printing, DM shipment agent, insurance against loss agent
15-14 Shiba 1-chome, Minato-ku, Tokyo

Haseko Intech, Inc.
Main business: Sale of furniture for houses and consulting service
29-14 Shiba 2-chome, Minato-ku, Tokyo

Haseko Urbest, Inc.
Main business: Commissioned selling of new for-sale condominiums
32-1 Shiba 2-chome. Minato-ku, Tokyo

Haseko Real Estate, Inc.
Main business: Brokering of real estate
32-19 Shiba 2-chome. Minato-ku, Tokyo

Hasec, Inc.
Main business: Sale and agency service of construction material and the temporary material
15-14 Shiba 1-chome, Minato-ku, Tokyo

Foris Corporation
Main business: Production, supply, sale and lease of the interior article
20-2 Nishikamata 8-chome, Ota-ku, Tokyo

Fuji Kensetsu Co., Ltd.
Main business: General construction
5-5 Shiba 3-chome, Minato-ku, Tokyo

Haseko America, Inc.
Main business: Real estate development and housing construction
91-1001 Kaimalie Street, #205 Ewa Beach, Hawaii 96706, U.S.A.

HASEKO

Printed in Japan