

## **Report of Summary of Development of the Problems with the Purchase of the Land for Condominiums**

**March 6, 2018** – With respect to the Notice Regarding Problems with the Purchase of the Land for Condominiums announced on August 2, 2017 (“the Problems”), we received the investigation report dated January 24, 2018 produced by the committee for investigation and countermeasures consisting of outside officers. Based on this report, we provide the following report of a summary of the development of the Problems and our actions for preventing recurrence, among others.

To maintain the confidentiality of the criminal investigation, no information other than the following can be provided in the report of the developments of this incident.

\*When stating the date, “2017” is hereinafter omitted.

### 1. Summary of the developments of the incident

In the course of the business of which the Tokyo Condominium Department took charge, Sekisui House, Ltd. (“the Company”) decided to purchase the building and land located in Nishigotanda, Shinagawa-ku, Tokyo (the “Real Estate”) from A, who purported to be the owner (the fact that A was not the owner was discovered later) through a company substantially managed by a broker who was A’s acquaintance (“Company X”). In the said purchase, the Real Estate was intended to be sold on to us by Company X. On April 24, the sale and purchase agreement between A and Company X and the sale and purchase agreement between Company X and the Company were executed concurrently. At the same time, the procedures for the application for the provisional registration of the transfer of ownership were taken, and upon the payment of the earnest money, the provisional registration was completed.

After the execution of the sale and purchase agreements, multiple departments of the Company received multiple pieces of risk information concerning the transaction of the Real Estate by visit, telephone, written notice and other means. At that time, the related departments of the Company considered the said risk information to be a type of harassment in order to hinder the transaction. They therefore considered that this harassment would cease upon the completion of the registration of the transfer of ownership of the Real Estate, and the Company paid the remainder of the price on June 1 and proceeded with the procedures for application for the registration of the transfer of ownership. On June 9, the Company received a notice of dismissal of the application for registration and discovered the misrepresentation of A. The Company immediately took action to offset the retained money with A. The resulting damages actually incurred by the Company amounted to approximately 5,550 million yen.

### 2. Causes of failure to prevent the damage arising from the Problems

#### (1) Problematic issues with the background of the decision of the purchase

Around the end of March, the division in charge that obtained information about the sale of the Real Estate commenced actions for the purchase at once and move forward with the procedures for the execution of the agreement by relying excessively on identification by passport, notarized deed and other documents of A. Ultimately the survey and examination were insufficient.

In addition, in the process of requesting the approval of the purchase of the Real Estate, the Condominium Headquarters failed to fulfill its role of warning the Tokyo Condominium Department, which requested approval of the risk, remaining removed from the process. Moreover, it is assumed that the departments in charge of risk management of the head office were barely able to perform the checking function.

In the examination upon the request for approval, the specifics of the transaction should have been more carefully and thoroughly examined and checked to manage and control risk, and the directions for conducting an additional investigation and other actions should have been provided and taken. It is very difficult for the head office to demand special actions by being aware of fraudulent land brokers. However, given the conditions of the transaction of the Real Estate, the securing of the period of examination and the identification of risk should have been pointed out.

(2) Problematic issues with the background of the payment of the remainder of the price

After the execution of the sale and purchase agreement, multiple departments of the Company received multiple pieces of risk information concerning the transaction of the Real Estate by visit, telephone, written notice and other means. However, the departments in charge of risk management of the head office judged the said risk information to be a form of hindrance to the transaction by following the judgment of the Condominium Headquarters without sharing sufficient information. As a result, the function of checking by the head office did not work, which advanced the process for the execution of the agreement by the operating division. If the individual risk information had been analyzed using a reflective approach, the attitude toward identification would probably have been different. The analysis and sharing of risk information should have been conducted by the operating division and the related departments of the head office as one.

A summary of the developments of the Problems is as stated above. The investigation report provides opinions about the responsibility for the Problems and the proposals for countermeasures from the committee for investigation and countermeasures as well as the results of the investigation of the incident. The summary thereof is stated in 3. below.

3. Opinions about the responsibility for the Problems and proposals for countermeasures from the committee for investigation and countermeasures

The Condominium Headquarters failed to perform its duty of ascertaining an overview of the transaction and making the correct judgment. The Legal Department failed to report important risk information to the related departments and President, and did not perform the checking function that it should have performed. The Real Estate Department failed to exercise the adequate risk control required of the controlling division despite the fact that it should have made a more deliberate judgment considering the amount of the transaction and other conditions.

The committee considers that the Board of Directors including the Directors who received the request for the approval of the transaction of the Real Estate and the Audit & Supervisory Board are responsible for the consequences as the organ for supervising the execution of duties and the audit organ in terms of the imperfect business operations of the respective organizations described above. In addition, the President owes a substantial ethical responsibility as the chief management of the Company's business for his failure to appropriately recognize the overview of the transaction and the material risk relating thereto. The chairman is also ethically responsible for the occurrence of this situation and has a duty to correct the imperfect administration of the personnel affairs and the operational systems in order to prevent recurrence as the person responsible for the personnel affairs and operational systems by promptly taking leadership.

The Problems were caused by the defects in the operational systems, which were taken advantage of. The cause thereof may be exacerbated unknowingly. Under the leadership of the top management, a project team should be established and the personnel affairs and operational systems should be radically reviewed.

#### 4. To prevent recurrence

The direct cause of the failure to prevent the Problems was reliance by the division in charge on identifying the owner of the Real Estate using written documents. However, given the deviousness of the fraudulent land broker as shown by the forged passport, which even the judicial scrivener believed to be authentic, and the notarized deed and other instruments that were authentic, plus the fact that the provisional registration of the right to demand the transfer of ownership was made upon the execution of the sale and purchase agreement, it was difficult to detect fraud by the fraudulent land broker at an early stage.

However, the response to multiple pieces of risk information found later has to be judged as being a considerable blunder. Partly because of the devious, bold criminal act of the fraudulent land broker, the departments in charge of risk management of the head office were also controlled by the preoccupation of the operating division. As a result, the departments in charge of risk management of the head office failed to fully analyze and examine the risk information and ensure adequate information sharing. Under these circumstances, the remainder of the price was paid and we faced this regrettable situation.

Considering the opinions of the committee for investigation and countermeasures stated in 3. above, the Company will address the following issues to prevent recurrence:

- 1) Hold management meetings to deliberate and examine important investment projects in a flexible and agile manner. In addition, establish a project team for each issue regarding the improvement of the organization as necessary.
- 2) Clearly define the reporting line for any unusual situation in the course of conducting a transaction and ensure thorough liaison among the divisions and departments for information sharing to control risk.
- 3) Significantly improve the method of administration of the system for requesting the approval of transactions with the involvement of a broker and transactions of a certain amount or above, among others.

Specific activities to address the issues above are being conducted one by one, and will continue as part of the actions for strengthening the governance system.

For additional information, this report also provides the following: in relation to the Problems, disposition as a result of a reduction in the remuneration for Directors was decided on September 7, 2017 and implemented subsequently; based on the oral report from the committee for investigation and countermeasures of the background of the incident and the problems at the meeting of the Board of Directors held on November 20, 2017, the General Manager of the Condominium Headquarters (Managing Officer) resigned on December 8, 2017; and the Chief Manager of the Legal Department (Managing Officer) and the Chief Manager of the Real Estate Department (Executive Officer) were removed on December 8, 2017.

Senior management will keep the problematic issues of the Problems in mind, ensure enhanced liaison among the divisions and departments and implement reforms to awareness of response to risk robustly throughout the entire corporate group. We greatly appreciate your understanding.

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