

Features of the Sustainability Report 2014

- The content of this report was determined by the Sekisui House CSR Committee, which includes three external members, taking into consideration social conditions and survey responses to the Sustainability Report 2013 received from 2,047 internal and external stakeholders.
- The report explains our CSV strategy, which is based around five selected themes for incorporating CSR into our business activities and thus raising the quality of our CSR efforts.
- This report is designed so as to lead readers to topics of their interest by inserting a section that provides an overall description of the CSR efforts of the Sekisui House Group.
- As an annual report, this brochure also contains a summary of our corporate activities during FY2013 in the section titled "Activity Report." This report also includes self-evaluation of performance towards our goal.
- This report also shows the change in key performance indicators (KPI) on important areas such as the progress of our Eco-First Promise.
- The report also includes comments from stakeholders in various sectors including our customers and external experts to provide objective third-party views of our corporate activities.

Scope of This Report

Areas of Business

This report covers a total of 42 companies: Sekisui House, Ltd. and its consolidated subsidiaries that are principal actors in CSR and environmental management, including Sekiwa Real Estate, Ltd. (7 companies), Sekisui House Remodeling, Ltd., Sekiwa Construction, Ltd. (20 companies), and 13 other companies including Sekiwa Wood, Ltd. (Refer to pp. 3–4 for the overview of the Sekisui House Group.) In total, this report covers 98.2% of the entire Sekisui House Group in terms of number of employees.

Areas of Business Activity

This report covers the business operations of the Sekisui House Group, which include detached housing, rental housing, remodeling, real estate management, sale of properties, condominium development, urban redevelopment, overseas business, and others (e.g. exterior construction work).

● Period Covered

FY2013 (February 1, 2013 to January 31, 2014)

Note: Some activities undertaken in FY2014 are covered in this report.

● Date of Publication

This report is published annually in Japanese in May.

Note: English and Chinese versions are published annually in July.

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About the Cover

Promoting community development projects worldwide leveraging our excellence in housing quality and cutting-edge environmental technology

(Top photo)
An urban rental apartment development project in Los Angeles, U.S. (artist's rendering)

(Bottom photo)
A condominium development project incorporating the latest eco technologies, such as wall greening and a trigeneration system, in Sydney, Australia

Editorial Policy

The purpose of this report is to educate a broad audience of readers about initiatives the Sekisui House Group is engaging in to help build a sustainable society as well as encourage reader feedback as a means to improve these initiatives going forward. In selecting topics to be reported and drawing up an editing policy, we referred to the 2012 Environmental Reporting Guidelines of the Ministry of the Environment of Japan and the Sustainability Reporting Guidelines (Version 3.1) of the Global Reporting Initiative. The selected topics are reported in accordance with ISO 26000, an international standard on social responsibility.

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Providing Comfortable and Eco-Friendly Living Environments and Creating New Value to Meet Contemporary Needs

Since the founding of the Sekisui House Group, we have put customer satisfaction at the core of our corporate activities, and we have remained committed to contributing to the creation of comfortable housing and ecologically sound communities.

Sekisui House's commitment to addressing various social issues is well demonstrated in our efforts to provide safe and comfortable living environments for our customers. These efforts include promoting disaster prevention measures, ensuring a stable energy supply, conserving ecosystems, combating global warming, promoting a recycling-oriented society, offering solutions to the problems of a rapidly aging population, fostering the next generation of citizens, and revitalizing local communities.

Through our efforts, we aim to propose a new sense of value that meets the needs of the times. During FY2013, Sekisui House built a total of 49,752 houses. This brought the cumulative total of houses we have built to 2,185,189.

Detached Housing Business

Design, construction, and contracting of detached houses



Be mode+gent two-story steel-frame detached house



Biena three-story steel-frame detached house



The Gravis SHAWOOD wooden-frame detached house

Main Affiliates | • 20 Sekiwa Construction companies (housing construction, etc.)

Rental Housing Business

Design, construction, and contracting of rental housing and medical and nursing care facilities



CELEBLIO assisted living complex for senior citizens

Main Affiliates |
• 20 Sekiwa Construction companies (housing construction, etc.)

Remodeling Business

Expansion and renovation of houses, etc.



Remodeling the exterior-adjacent sections of houses to improve heat insulation and security



Changing room layouts and installing the latest equipment to create more comfortable living spaces

Main Affiliates |
• Sekisui House Remodeling, Ltd. (housing remodeling and extension, etc.)
• 20 Sekiwa Construction companies (housing remodeling and extension, etc.)
• 7 Sekiwa Real Estate companies (remodeling and extension of rental housing, etc.)

Corporate Profile (as of January 31, 2014)

Corporation name: Sekisui House, Ltd.
Head office: 1-1-88 Oyodonaka, Kita-ku, Osaka 531-0076, Japan
Date of establishment: August 1, 1960
Capital stock issued: ¥191,559,190,000
Number of shares outstanding: 686,895,078
Employees: 22,379 (consolidated); 13,417 (non-consolidated)

Sales and Service Offices (as of January 31, 2014)

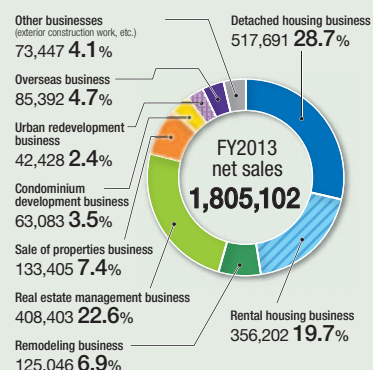
Branch and sales offices: 125	R&D institute: 1
Customer service centers: 30	Consolidated subsidiaries: 174
Model homes: 428	Companies accounted for under the equity method: 19
Factories: 5	

Business Performance Review

Under our medium-term management plan, we focused our efforts in FY2013 on housing as it pertains to three business models—the contract type, the stock type, and the development type. As a result, we were able to achieve record results in both sales and profits. Committed to our SLOW & SMART brand vision, we intend to bring more comfort to living spaces by actively incorporating the latest technologies.

In April 2013, we launched the Green First ZERO home, which is designed to enable energy-neutral living. In so doing, we are pursuing the Japanese government's proposal of creating a sizable market for net zero energy buildings by 2020. While promoting sales of Green First ZERO as a new driving force for the company, we have also been working to boost sales of three- and four-story detached homes and apartment houses, mainly in urban areas. This has resulted in a large increase in the number of orders placed. We intend to continue our progress towards achieving sustainable growth through the concerted efforts of all the Sekisui House Group companies.

Consolidated Sales by Segment (million yen)



Real Estate Management Business

Subleasing, management, operation, and brokerage of real estate



BEREO PLUS multi-purpose condominium

Main Affiliates |

- 7 Sekiwa Real Estate companies (purchase/sale, brokerage, leasing, and management of real estate, etc.)

Subleasing Activities

Sekiwa Real Estate, Ltd., a member of the Sekisui House Group, engages in building sublease activities where fixed monthly lease payments are made to the building owner regardless of occupancy rate. As the building lessee, Sekiwa Real Estate acts as the direct lessor for individual tenants, reducing workload and improving operating efficiencies for the building owner.

Sale of Properties Business

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



Smart Common City Akaishidai, a smart town

Main Affiliates |

- 7 Sekiwa Real Estate companies (purchase/sale of real estate, etc.)
- 20 Sekiwa Construction companies (housing construction, etc.)

Condominium Development Business

Sale of condominiums



Grande Maison Ikeshita The Tower, a condominium project

Main Affiliates |

- 7 Sekiwa Real Estate companies (purchase/sale of real estate, etc.)

Urban Redevelopment Business

Development of office buildings and commercial facilities; management and operation of real estate in possession



Grand Front Osaka, a large-scale project in Osaka

Overseas Business

Contracting of custom-built detached houses; sale of ready-built detached houses and residential land; development and sale of condominiums and commercial facilities in overseas markets



Cinco Ranch in Texas, USA



Central Park in Sydney, Australia

Main Affiliates |

- Sekisui House Australia Holdings Pty Ltd. and 128 other companies

Other Businesses

Exterior construction work, etc.

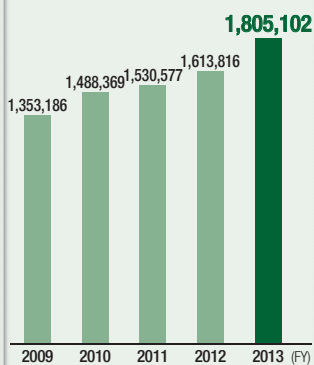


Example of exterior construction and landscaping

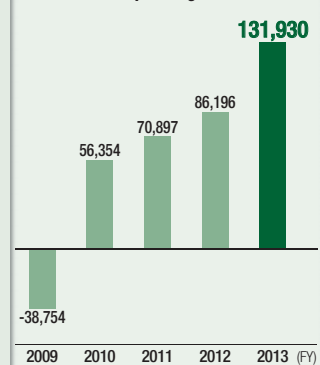
Main Affiliates |

- 20 Sekiwa Construction companies (exterior construction, landscaping, etc.)

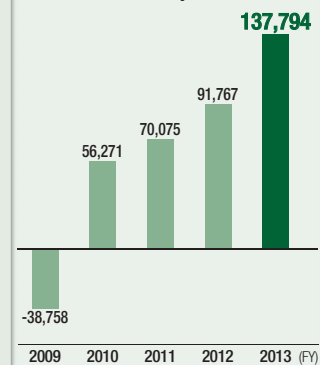
Consolidated Net Sales (million yen)



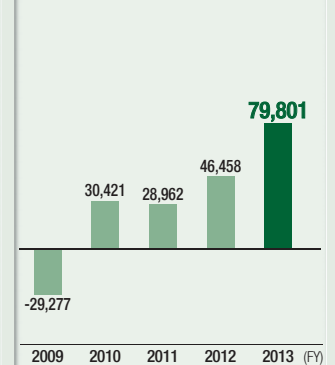
Consolidated Operating Income (million yen)



Consolidated Ordinary Income (million yen)



Consolidated Net Income (million yen)



Creating Homes from the Homeowner's Perspective

1

Before embarking on a homebuilding project

Maintaining Contact Points with Customers Nationwide

Attaching importance to being a community-based company, we believe that homebuilding sites should be as open to society as possible. Accordingly, we strive to offer information on housing and living and to make our sites as open to the public as possible. These activities are mainly undertaken at our housing construction sites across Japan, at our model homes, and at our hands-on learning centers, such as *Sumai no yume kojo*. All of these are important venues where we can connect with customers.

Through our activities, we ensure that visitors will be convinced of the superior quality of Sekisui House homes built under our "customer-specific design flexibility" concept. Before starting a homebuilding project, we communicate our ability to cater to customer needs with a wide range of attractive proposals and technical excellence.



All workers involved in a homebuilding project act from the customer's perspective

Construction sites

Making Homebuilding Sites Open to the Public through Cooperation from Homeowners

Our construction sites are the clear embodiment of our homebuilding policy. With the cooperation of homeowners, we offer our construction sites and completed homes for public viewing as ideal contact points for new customers. Under our accountability system, we take full responsibility for the entire homebuilding process from start to completion. We carry out each homebuilding project as a team, in cooperation with our wholly owned group company, Sekiwa Construction, and other partner building contractors. By strengthening our on-site competencies, we assure improved quality, maximize the effectiveness of our safety measures, ensure thorough site cleanup, and minimize impacts on neighborhoods.



We have been holding nationwide Sekisui House Visiting Day events for 25 years since 1989, with the cooperation of homeowners. In 2013, events at 1,261 locations drew 57,815 groups of visitors.

Model homes

Offering Concrete Images of Lifestyles and Ideal Solutions while Hosting Community Events

Model homes embody the ideals of housing suited to individual regional characteristics and geographical conditions, while showcasing future lifestyles. We have a wide variety of model homes throughout Japan. They offer solutions to meet specific site conditions and other requirements, thus providing visitors with useful ideas for their homebuilding projects. We also use our model homes as venues for community events to deepen personal bonds with our customers and local residents.



We have a total of 428 model homes in various parts of Japan (as of January 31, 2014)



The double-height balcony and fashionable dining room add to the sense of spaciousness

Hands-on learning centers

Housing Theme Parks Facilitate a More Detailed Understanding than Model Homes



Sumai no yume kojo received 93,116 visitors in FY2013

When people decide to have a house built, they naturally have many questions and concerns. This is why we operate six hands-on learning centers across the country called *Sumai no yume kojo* ("dream house factories"). Here, prospective customers can experience firsthand what their finished home will look like. Unlike conventional model homes, these facilities include exhibits where some parts of the structural frames are shown at full scale, so that visitors can—with the help of experimental equipment—actually feel the robustness and comfort of the



Visitors can experience firsthand the effectiveness of our SHEQAS seismic control system



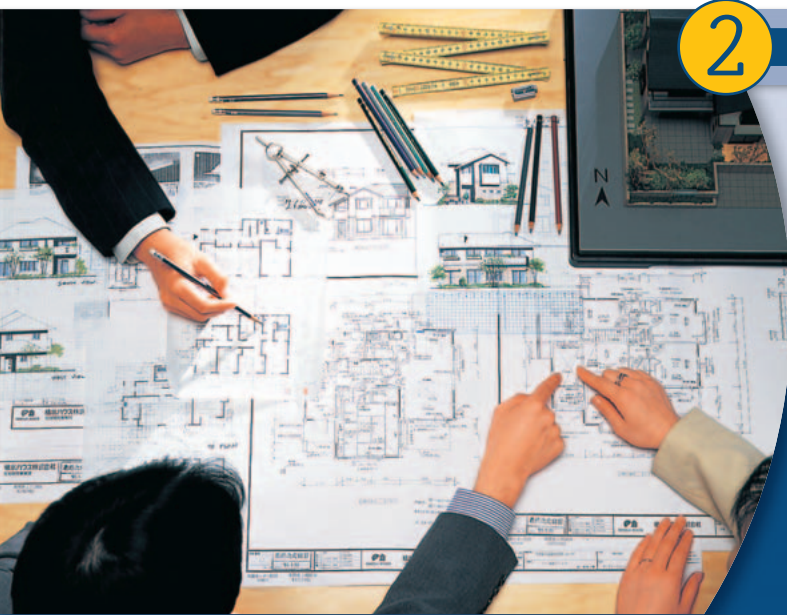
These facilities allow visitors to verify disaster-prevention features incorporated into our houses

houses. These facilities effectively serve as "housing theme parks" where visitors can enjoy learning about the houses we build.

Essentially, homes should be built one by one in a manner specifically tailored to local conditions such as climate, geographical features, and site conditions, as well as to the customer's family structure, lifestyle, and life stage.

Since the founding of Sekisui House, we have remained true to our policy of "customer-specific design flexibility." We strive to maximize customer satisfaction by addressing the different conditions and needs of our customers, by using our proprietary construction methods and production systems, and by offering the best solutions in terms of both physical structure and comfortable living environments.

At Sekisui House, customers are never asked to choose from among a limited number of pre-designed housing plans. Instead, we take time to discuss housing plans with customers face-to-face through our housing consultation service. We then consider the customer's perspective throughout the entire homebuilding process, from initial contact, design, production, and construction to after-sales support.



2 Up to completion of a home

Creating Personalized Homes Supported by Our People and Technology

Our ongoing research pursues perfection in both physical housing structures and comfortable living standards, as we seek to ensure higher quality at each step of the homebuilding process. We have developed proprietary construction methods and production and construction systems, and we have brought them to a higher level of sophistication. In so doing, we increase the degree of freedom in design to better meet diversified customer requirements, while ensuring the safety of housing structures by leveraging the advantages of industrialized housing.

Sekisui House adheres to a concept of customer-specific design flexibility through its housing consultation approach

Customer-specific design

Design Flexibility to Meet Different Customer Needs

When discussing housing plans with customers, our salespersons serve as direct contacts with customers, carefully listening to their specific needs. This includes issues such as personal taste and preferences, lifestyle, and the life stage of respective family members.

When conducting site surveys, we make it a rule to closely inspect the surrounding environs as well. This is an important step for us, because by doing so we can offer meaningful proposals to customers to ensure they will continue to live pleasant lives into the future.

In the process of developing housing plans, we use originally developed systems, such as an environmental simulation tool to determine which environmental technologies are best suited for the specific conditions of customers and a structural planning system to ensure the safety of housing structures.



Our sales personnel listen carefully to customers' needs to have a full understanding of their lifestyles and preferences

Production

Building a Variety of Customer-Specific Houses Using High-Quality, High-Precision Components

Building houses that can cater to the individual needs of each customer is one of our basic policies, and this means we need to use a wide array of housing components. By utilizing industrial robots and our highly computerized production system, we ensure efficient production and a stable supply of high-quality components. In addition, our factories have in place a strict quality control system whereby raw materials are inspected upon delivery, products on the line are randomly checked for defects, and every product undergoes a thorough quality check. Further, factory engineers are required to take proficiency tests at regular intervals.



Automated production line



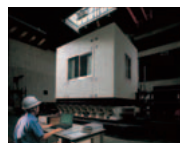
Inspecting the thickness of anti-rust coating on steel frames

R&D

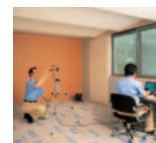
Conducting R&D on Proprietary Construction Methods, New Technologies, and New Lifestyles

Consistent R&D efforts have been underway at our Comprehensive Housing R&D Institute—located in Kizugawa City, Kyoto Prefecture—to enhance both the physical value and the comfort of our housing products. Vibration tests of building structures and durability tests of building components are conducted to ensure high levels of earthquake resistance and a comfortable standard of living.

Internal testing of housing performance conducted at the R&D Institute allows us to quickly identify problems and take corrective measures. This has given rise to a number of our proprietary innovations. Our R&D efforts are also focused on universal design, new environmental technologies, and new lifestyles based on human engineering.



Full-sized exterior walls are tested for anti-seismic performance



A full-sized building is used for testing acoustic properties



Research is being conducted to develop housing environments ideally suited to bringing up children

Construction

High Quality and Precision through an Integrated Production System and Proprietary Technologies

Under our project accountability system, we have an in-house manual that stipulates the precise rules and procedures for construction. All of the houses we build must undergo meticulous inspection at each construction stage in accordance with this manual. Furthermore, we take advantage of our proprietary technologies to ensure consistently high quality and precision for each construction job. We also operate a school at which we train prospective technicians and provide training seminars and certification tests for technicians, in order to improve their proficiency.



Use of a Metal Form steel frame enables the construction of foundation work with uniform quality and precision, regardless of the workers' skill level



Technician training is an important area of focus

3

Ensuring comfortable living over the long term

Supporting Homeowners Even after They Have Moved into Their New Homes

To ensure our homes last for generations, Sekisui House offers comprehensive warranty programs, such as a proprietary 20-year manufacturer warranty program and the U-trus system. We also offer reliable after-sales support to homeowners through our customer service centers, which have personnel specifically assigned to this service. Furthermore, we have implemented an efficient system to address the remodeling, rebuilding, and relocation needs of homeowners. In this way, the entire Sekisui House Group is committed to ensuring our housing provides safety, peace of mind, health, and comfort for as long as possible.

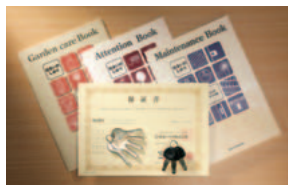


Customer service center personnel provide reliable maintenance services to ensure the prolonged lifespan of houses

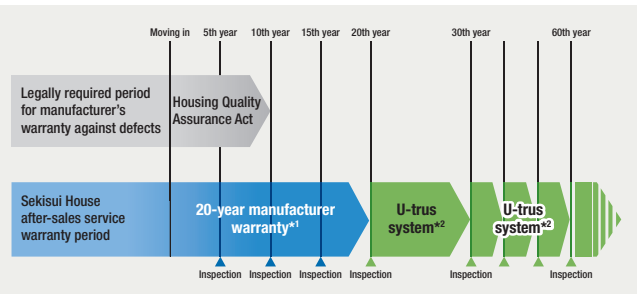
Long-term warranty

Longer than Legally Required— a Manufacturer’s Warranty That Assures the Longevity of Our Homes

Once construction is complete and the house is handed over to the owner, we provide a 20-year warranty applicable to the structural frame*1, along with other warranties that apply to each housing component for a specified period of time. After the initial 20 years, our U-trus system provides extended warranty at 10-year intervals, on the condition that required inspections are conducted and maintenance and repairs are completed at the homeowner’s expense. This system helps maintain the asset value of the house, keeping it attractive to potential buyers in case the homeowner decides to sell it in the future.



Upon delivery of the home, a maintenance handbook is handed over to the homeowner along with a warranty of the home



Inspection fees applied for the 20th year and after. The warranty period can be extended repeatedly as long as the home exists.

*1 At Sekisui House, a 20-year manufacturer warranty is applied to structural frames and rainwater-proofing components (rainwater-proofing components are covered by an initial 10-year warranty plus another 10-year warranty) on condition that free inspections be conducted and maintenance/repairs be made at the homeowner’s expense upon expiration of the first 10 years.
*2 The U-trus system provides extended warranty at 10-year intervals, subject to required inspections and with maintenance/repairs to be completed at the homeowner’s expense.

Regular inspection and maintenance

10% of Employees Devoted to Providing Prompt and Reliable After-Sales Support

We provide after-sales support through our customer service centers in 100 locations (operated by 30 offices) all over Japan. As many as about 10%, or 1,400, of our employees work as dedicated service personnel who conduct regular basic inspections and offer advice regarding the various housing needs of homeowners. In case of an earthquake or other natural disaster, we will work under our emergency response program to offer support to homeowners as needed and embark on restoration and reconstruction activities on a group-wide basis.



On non-business days for our customer service centers, homeowners can call our telephone center

Remodeling

Achieving Long-Term Comfortable Living through Customized Remodeling Solutions

Remodeling projects are undertaken by Sekisui House Remodeling, a company that shares our consistent homebuilding principles. We serve remodeling needs by offering various solutions, such as renovating interior and exterior designs, upgrading equipment, optimizing room layouts following changes in family structures and lifestyles, and improving heat insulation efficiency. Based on a detailed record of a house’s history, we implement remodeling to exacting Sekisui House standards.



We provide remodeling solutions to accommodate changes in family structure and lifestyle



SH Metarof PV, our proprietary roofing material, integrates with a photovoltaic power system

Housing revitalization

Revitalizing Homes as Social Assets under the Everloop Home Repurchase Program

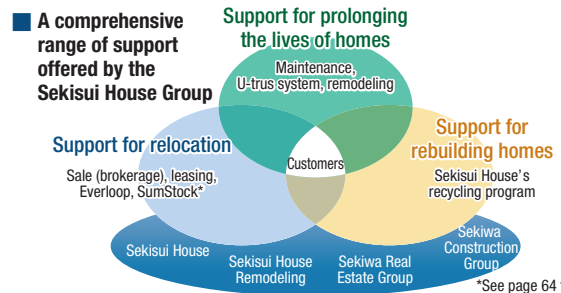
We repurchase used Sekisui House homes at a fair price and completely renovate them to the latest standards, with a view to reselling them. Against a backdrop of increasing longevity for modern homes, we aim to accelerate the shift from disposal to recycling of homes as social assets.



Support for relocation

A Nationwide Network Providing a Comprehensive Range of Services to Meet Homeowners' Needs

Sekiwa Real Estate, a member of the Sekisui House Group, offers full support to homeowners considering selling their homes due to a desire to relocate or for some other reason. Sekiwa Real Estate's services include assisting homeowners in selling or leasing their homes and in finding a temporary home or relocating to a new home. The extensive nationwide network allows the company to offer optimal solutions to meet a wide range of needs quickly and reliably.



*See page 64 for details.

Conducting research and tests on the future of safe, durable, healthy, and comfortable living from a long-term perspective

SUMUFUMULAB



The number of visitors reached the annual target of 150,000 in just 7 months of opening

In April 2013, we opened SUMUFUMULAB in the Knowledge Capital area of Grand Front Osaka, a new shopping and business complex in Osaka. Operating under the motto that "quality housing is the key to a happy life,"

SUMUFUMULAB is the industry's first information and R&D base designed to involve visitors in developing new lifestyles and creating desirable, life-enhancing housing environments. The venue provides visitors with opportunities for hands-on experiences of comfortable living in a full-sized living space, so that they can discover optimal lifestyles through a two-way exchange of information.



Exploring the potential of robotics in housing, in collaboration with Honda Motor Co., Ltd.

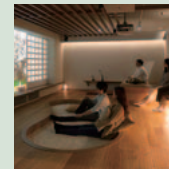
At SUMUFUMULAB we also offer the House of Dialogue. This is a highly popular program that forms part of our co-creation effort with Dialogue in the Dark (DID)—a widely known project that gives visitors a unique chance to discover how sharp their five senses are in complete darkness. If visitors become SUMUFUMULAB members, they can take part in our research project to explore future styles of housing.



We offer a variety of workshops and seminars, some of which are held exclusively for SUMUFUMULAB members



Family Structure zone



Comfort Home zone



Quality of Life zone

Nattoku kobo (Home Amenities Experience Studio)

Nattoku kobo located on the premises of the Comprehensive Housing R&D Institute (in Kizugawa City, Kyoto Prefecture) allows visitors to check, compare, and better understand important homebuilding factors firsthand.

Based on the concept that direct experience is the best form of persuasion, this facility provides an opportunity for homebuilders and future homeowners to

get together and explore optimal housing styles. The experiences that visitors share with us through questionnaires are stored in our database so they can be used in research and development as well as in planning solutions.

We also offer six-month seminar programs designed to help participants discover the housing and living styles that optimally suit them, along with open seminars where participants can learn useful housing-related tips that will enrich their everyday lives.



Questionnaire responses are shown in this booklet, which is made publicly available to help create more pleasant living environments



Experiences of visitors to this studio are used as valuable data



A child-minding service is available inside the studio for the convenience of family visitors



Various specialists, from both inside and outside the company, are invited to speak at open seminars

These research results connect us to future customers and additional housing projects.

Change Society by Changing Housing

Transforming Society and Creating Shared Value through Housing

Isami Wada Chairman & CEO



Housing Can Help Solve Society's Problems

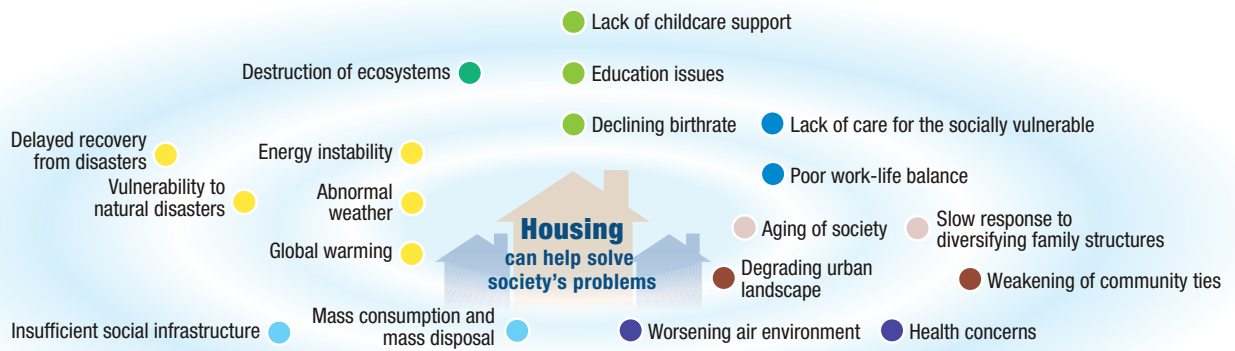
Japan appears to be finally breaking out of its long-term deflationary spiral and people are starting to feel that the economy is buoyant. The outlook brightened after Tokyo was awarded the 2020 Summer Olympics. The prospects are for an acceleration of growth strategies as attention focuses on the economic benefits that will come from infrastructure development and tourism in the run-up to the Olympics. We at Sekisui House must take advantage of these opportune conditions by using our world-class-quality housing to contribute to the advancement of society. Housing exerts a major impact on numerous aspects of Japan's society and economy, and it holds great promise for helping solve many of the problems society faces today.

The main role of housing is as a shelter for families and their possessions. But it is also crucial as a place for families to enjoy peace and comfort, live in good health, and properly educate their children. And communities of houses become places for exchanges among residents, resulting in safer neighborhoods and new culture. It has been three years since the Great East Japan Earthquake of March 11, 2011, yet still many people live uncertain lives in temporary housing. This has highlighted the importance of housing as a family's heart and soul and as a key factor in forging ties within communities.

If we look at how closely housing and the state of neighborhoods are related to social problems in recent years—environmental and energy issues, the deterioration of communities as neighbors become more distant from each other, and less inter-generational exchange as the population ages and birthrates decline—it becomes evident that housing can contribute to the betterment of society. Sekisui House provides about 50,000 new homes each year and since our foundation we have built a cumulative total of 2.18 million units. This puts us in a unique position to take the lead in solving these problems.

Leading the Housing Industry in Taking on Environmental Problems

With the 1999 launch of our Environmental Future Plan, we embarked on company-wide environmental activities. Environmental awareness was on the rise following the adoption of the Kyoto Protocol in 1997, and Sekisui House took the early lead in the industry in putting the environment high on the company management's priority list. In 2001, we began our *Gohon no ki* ("five trees")



landscaping concept to preserve biodiversity, and in 2005 we issued our Declaration of Sustainability, our vision for a sustainable society.

These and other environmental efforts were rewarded in 2008 as the Japanese government certified Sekisui House as an Eco-First Company. This designation recognizes our role as the leader in making environmental activities a key focus for the housing industry. I recently was named Chairman of the Eco-First Promotion Council, and I encourage cooperation across industries in order to advance environmental action among Japanese companies.

Protecting Japan's Important Social Capital

I think that one problem the housing industry in Japan must solve is the fact that homes lose their value in a short period of time. Since the end of World War II, Japan has invested ¥850 trillion in housing, but only ¥350 trillion worth of this remains. This means that ¥500 trillion in national wealth has disappeared through “scrap-and-build.” In Europe and North America, homes gradually increase in value with each passing year, but in Japan the value of a house is nearly zero in about 20 years. Reasons for this include the lack of maintenance to sustain a home’s value, and the absence of official housing maintenance records, which are records of a home’s maintenance history. To protect housing, important social capital of Japan, we must conduct major home renovations, have clear official housing maintenance records, and take other measures to keep homes from devaluating over the years.

In order to put such measures in place, Sekisui House and nine other housing manufacturers formed the Provision of Quality Housing Stock Association (SumStock). The goal is to have each member company take responsibility for managing, renovating, and buying and selling the homes it has built, thus creating new business opportunities. People will be able to buy existing homes that have been properly maintained and eventually sell them at a price that has not gone down.

Problems in Japan like a shrinking population are causing the housing market to continue contracting, and housing starts are no longer likely to increase. Sekisui House has numerous initiatives underway to expand the market. For example, we are actively calling for measures such as increasing a tax exemption on advancements that people receive from their parents when they purchase a home. We are also offering high-value-added products like Green First ZERO, an industry-first way to meet changing needs, and we are focusing on stock-type business areas such as home renovations and distribution networks for

existing homes. These are part of the continuing effort to create value for society.

Bringing Japanese Quality Worldwide

Housing in Japan is called a domestic industry—but things are changing. The superb quality of Japan’s industrialized housing and Sekisui House’s advanced environmental technology have been attracting worldwide attention. We currently have projects in countries like Australia, Singapore, China, and the United States building detached homes, collective housing, and commercial complexes. With the market demanding extremely high levels of environmental friendliness, we can meet this need with the expertise we have built up in green technologies and community planning. In China, air and water pollution are serious problems, so we are improving insulation performance so that a home’s heating system can lessen the effects of air pollution, and we are providing residential equipment that gives homeowners clean, safe water. Doing business is not easy in countries with different cultures and ways of thinking, but we will continue to share our belief that “high-quality housing brings safety, security, and health to residents” as we contribute to solving social problems around the world through our housing business.

Building a Sustainable Future by Adapting to a Changing Society

When we first began our environmental activities, our efforts did not immediately translate into profits. But we continued these activities because we believed that they were the right things to do and that society needed them, and as a result they gave us huge momentum. This is much like a phrase we hear often recently: Creating Shared Value, or CSV. Sekisui House will continue to stick to this belief.

A house is a long-term-use product, something that customers are going to live in for decades. That is why it is our mission to provide customers with many years of satisfaction and peace of mind. Today’s society changes at lightning-fast speed: what used to last 10 years now may last just one. We would like to be a company that is sensitive in quickly responding to today’s needs, a company that continues to grow by looking to the future and steering a course for long-term growth.

The road to a sustainable society is a long one, and there is still much to do along the way. We have set our targets and are proceeding towards such a society with steady resolve.

Ethics to Promote a Sustainable Society

Developing Strategic CSR Activities by Identifying High-Priority Issues

Toshinori Abe President & COO



Economics and Ethics—Like a Pair of Wheels on a Cart

According to Sontoku Ninomiya, a 19th century Japanese philosopher and agrarian reformer, “economics without morals is criminal, and morals without economics is nonsense.” Economics and ethics are inseparable; they go together like a pair of wheels on a cart. Neglecting one or the other puts business continuity at risk. Sekisui House should never forget its stance of fulfilling its social responsibility. Rather than merely pursuing profit, we should also work to raise customer satisfaction and build better relationships with business partners, employees, and local communities.

Based on this thinking, Sekisui House has taken the lead in the housing industry in pursuing CSR activities. In order to integrate CSR and business activities at an even deeper level and boost our activities as a whole, we have designated five high-priority issues for which we have established strategic management indicators.

Five Key Issues

1. Net Zero Energy Housing

Of all the electricity used in Japan, 30% is consumed by the residential sector. A number of approaches are needed to reduce consumption—for example, building more zero energy housing, optimizing electricity demand and supply with a particular focus on smart homes, and developing infrastructure for a hydrogen-powered society. As a housing manufacturer, Sekisui House must contribute to the spread of net zero energy houses (ZEH) and take on the challenge of promoting new lifestyles that use renewable energy sources. In April 2013, Sekisui House launched the Green First ZERO model, a forward-looking approach to zero energy housing. In FY2013, we were able to raise the proportion of Green First ZERO home sales to 48% of all new Sekisui House homes—a major achievement. We aim to raise that figure to 60% in FY2014.

We also developed a new interactive HEMS (home energy management system) that lets users have fun while saving energy. The new HEMS features on-screen characters with whom users can interact. The system also manages customer information on a centralized basis, so that it can provide information and services to suit each customer.

2. Biodiversity Preservation

Biodiversity, with all its benefits, provides a foundation for people’s lives and for corporate activities. Mindful of this

fact, Sekisui House long ago prioritized the preservation of biodiversity. Our efforts include using resources in a way that preserves the ecosystem's regenerative capability, while also taking measures to protect nature's diversity and cycles of life. The cornerstone of our efforts is what we call the *Gohon no ki* landscaping concept, which involves procuring wooden building materials in a sustainable manner and paying careful consideration to local ecosystems during landscaping activities. Since 2001, when this concept was introduced, we have enjoyed the understanding and participation of many of our customers. And in FY2013, the total number of trees planted under this concept surpassed the 10 million milestone.

In 2007, Sekisui House formulated its original Wood Procurement Guidelines. These guidelines clarify the company's wood procurement policies, based on sustainable forest management methods that include giving consideration to biodiversity, protecting the rights of workers, and ensuring good labor practices. Wood materials go through a long and complex supply chain. To fully grasp the situation in the supply chain requires the understanding and cooperation of suppliers. Sekisui House gives meticulous support to our suppliers in order to procure wood in a sustainable manner.

3. Boosting Production and Construction Quality

Delivering high-quality housing requires high quality not only in the building components, but also in the expertise of the construction workers. Regarding the latter, there has recently been an unwelcome trend in Japan involving a shortage of skilled workers and difficulties in securing and training new workers. Sekisui House is striving to provide high-quality housing on a stable basis by training skilled workers and expanding in-house production of building components.

Sekisui House has been able to maintain a high level of construction quality because of the strong ties we have nurtured over the years with our partner building contractors. Even during off seasons, Sekisui House places orders for construction work on a stable, long-term basis to help secure the livelihood of construction workers. This helps to foster the building contractors' confidence in Sekisui House, and in turn they provide us with high-quality construction. When we began pursuing zero waste at our construction sites, the construction workers were actively cooperative in sorting waste; and when we built temporary housing in Tohoku, a large number of workers joined in to help.

Sekisui House has been involved in a company-wide reconstruction effort in areas affected by the Great East Japan Earthquake. In September 2013, a new production line for Bellburn ceramic exterior wall tiles—which are used on SHAWOOD wooden-frame houses—was added to the Tohoku Factory, generating employment for 100 people.

4. Longer Life for Housing and Enhanced After-Sales Support

The average lifespan of houses in Japan is said to be about 30 years, which is considerably shorter than houses in Europe and North America. In Japan, the asset value of houses is not assessed fairly, and the value of a house declines virtually to zero in about 20 years. The conventional approach in Japan of repeatedly scrapping houses and building new ones is a huge waste of resources

and energy. In situations like this, it is hard to nurture local culture and create attractive townscapes that people will cherish. With their housing expenditures a heavy burden, residents find it harder to lead rich, fulfilling lifestyles.

Sekisui House is tackling this problem by providing highly durable, high-quality housing that adapts flexibly to changes in family structure and lifestyles and that is filled with features designed to help owners feel a greater degree of pride in their homes. We are also expanding and improving after-sales support in an effort to create invaluable social capital over the long term.

5. Promoting Diversity

Given Japan's aging population, falling birthrate, and shrinking workforce, it is imperative that the nation exploit the capabilities of a diverse range of people in order to maintain its vitality. Our society must become one in which a diverse range of people can play an active role, regardless of their gender, age, nationality, and physical ability. A society such as this will be a rich and varied one, able to respond flexibly to changes.

Recognizing that diversity in human resources is integral to our company, Sekisui House established the Diversity and Inclusion Promoting Office in February 2014. Our aim is to create an organization in which a wide variety of human resources can exercise creativity and innovation; one where every employee can lead a fulfilling, active life. Furthermore, by having a diversity of employees join forces to realize a common goal, Sekisui House strives to achieve innovations in its business operations.

The housing industry is intimately connected with everyday life. There are therefore many areas where we can gain invaluable insights from those who have experienced housework and child rearing or who have learned to live with physical challenges. Sekisui House is fully aware of the significant role played by diversity in business. As such, we will be pursuing even more comprehensive diversity measures.

Aiming for Further Growth while Adhering to High Ethical Standards

The Japanese economy is on the upswing and Sekisui House is showing healthy business results. But it is at times like these when companies must pay extra attention to corporate ethics and compliance. There may also be occasions when changes in the social environment require us to change our way of thinking. I hope to drive home the importance of compliance among employees through measures such as compliance training.

People are what make up a corporation. To develop human resources that customers and society can trust, workplace leaders must treat each employee with respect and strive to create a healthy, vibrant work environment.

There are numerous obstacles to overcome in solving the various issues related to achieving a sustainable society. But at Sekisui House, we consider taking on these challenges as our responsibility and, at the same time, as an opportunity for sustainable growth. Every employee at Sekisui House is committed to fulfilling our social responsibility while upholding high ethical standards.

Committed to Realizing a Sustainable Society

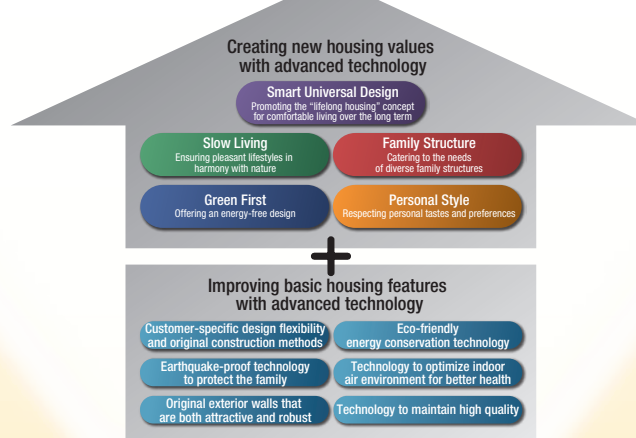
Proposing New Value through Sustainability

In 1989, we established a corporate philosophy that embodies our commitment to providing the highest-quality housing, offering customer-first services, and fostering cooperative relationships with our business partners. Then in 2005, bearing in mind the scale of the impact that the housing industry has on society and the global environment both now and in the future, we defined our vision for a sustainable society and declared our determination to carry

out corporate management in a manner that balances four key values: economy, the environment, society, and homeowner needs. In 2012, we formulated our SLOW & SMART brand vision. This represents our determination to deliver the optimum in housing comfort ("slow"), using the latest technology ("smart"), in order to address evolving social needs.

SLOW & SMART

Housing innovation to make your heart feel at home



2012»»

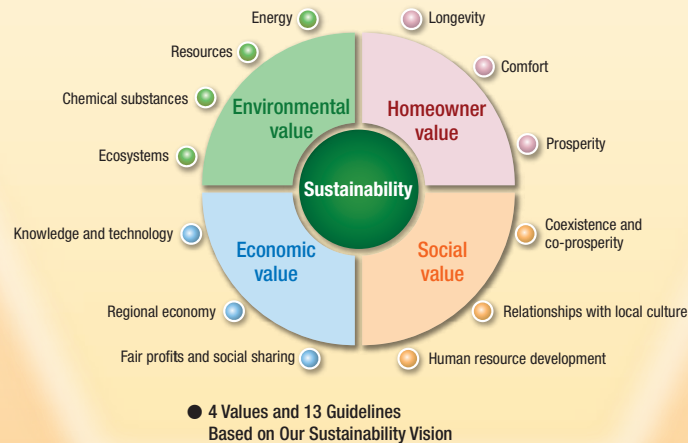
SLOW & SMART

The SLOW & SMART brand vision represents our determination to offer the optimum in housing comfort ("slow") using the latest technology ("smart") to achieve 'comfortable living — now and always'.

2005»»

Sustainability Vision

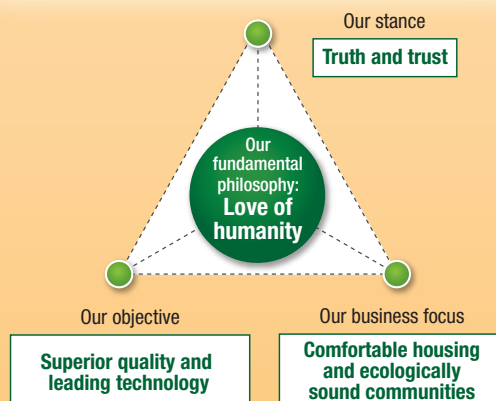
We defined our vision for a sustainable society. To move closer to this vision and ensure our progress, we declared our determination to carry out corporate management in a manner that balances four key values: economy, the environment, society, and homeowner needs. In 2006, we introduced 13 guidelines by further exploring each of these values to determine the direction of our corporate activities and decision-making.

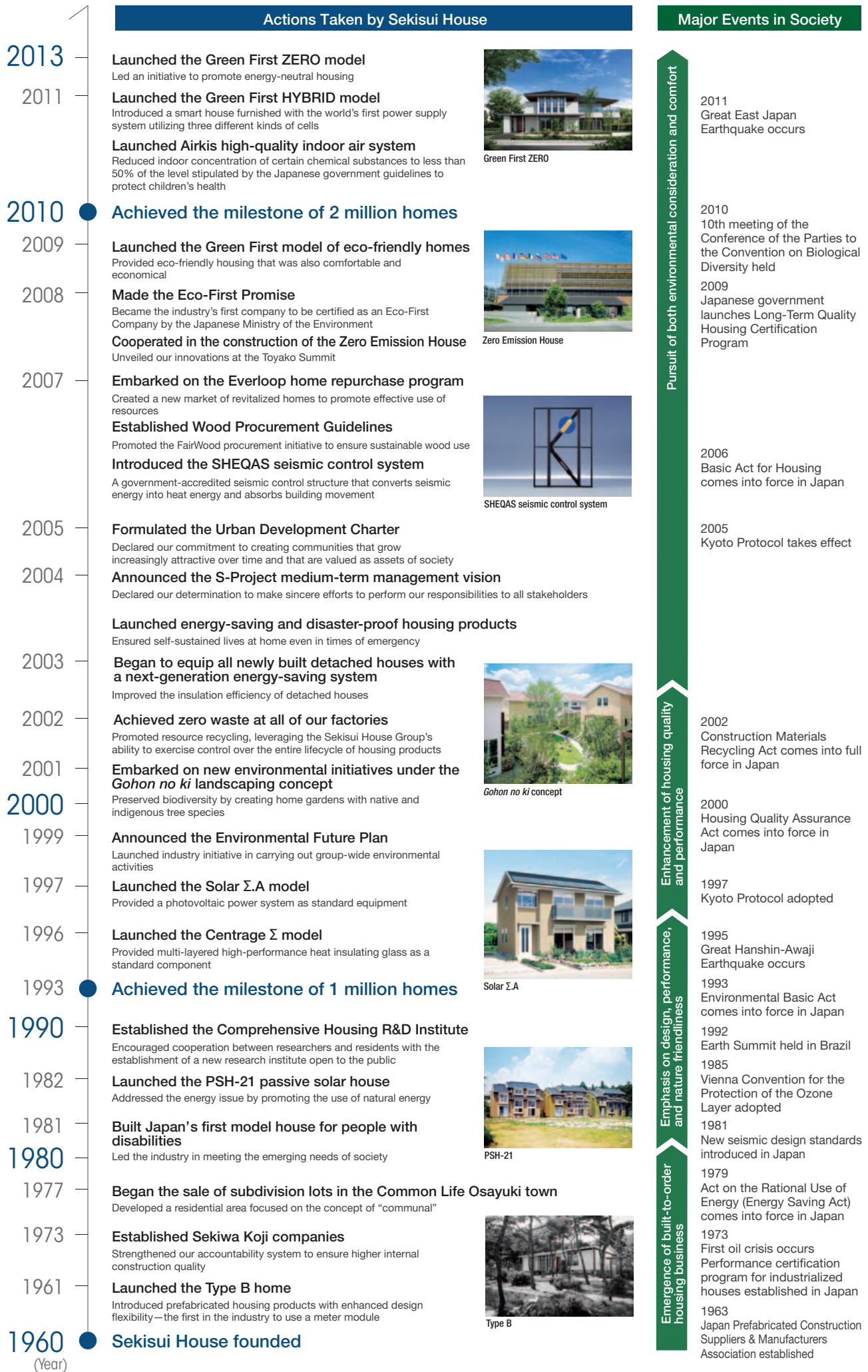


1989»»

Corporate Philosophy

We believe that a company is a group of individuals; that the mindset of each employee and the relationships between them constitute the very basis of corporate activities and management; and that our employees are the source of our commitment to contributing to society.

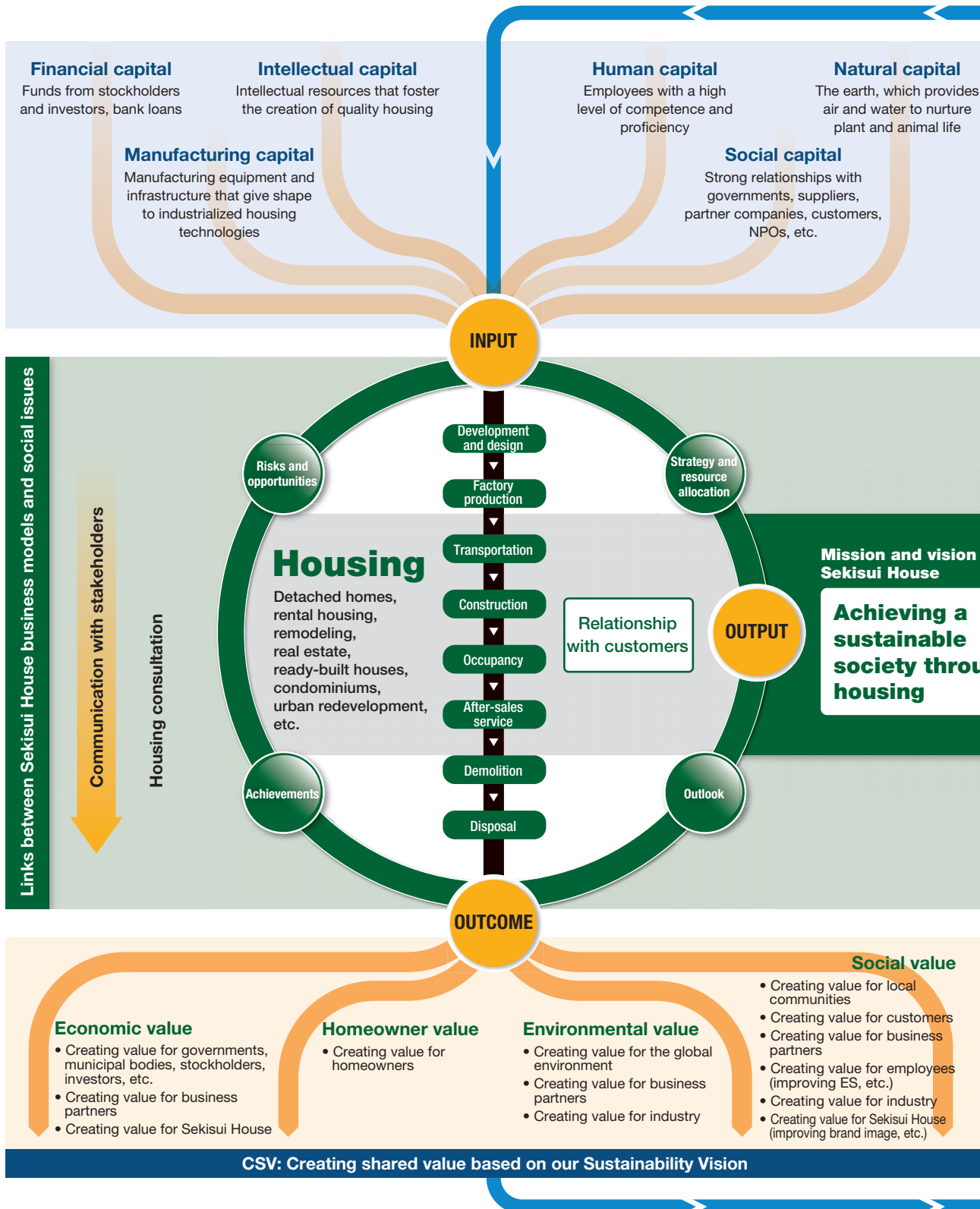




CSV Strategy of the Sekisui House Group

Addressing Social Problems through Housing and CSV (Creating Shared Value) Strategy

We believe that the housing industry can play a major role in providing solutions to various social problems. With sustainability standing at the heart of our corporate vision, we have been working to address social issues through a process of creating and sharing values with our stakeholders. To further advance these activities, we have recently formulated a CSV strategy based around five selected themes. The following chart shows the process by which we intend to carry out our CSV strategy.



Social problems

- Global warming
- Energy instability
- Abnormal weather
- Vulnerability to natural disasters
- Delayed recovery from disasters
- Destruction of ecosystems
- Lack of childcare support
- Education issues
- Declining birthrate
- Insufficient social infrastructure
- Mass consumption and mass disposal
- Lack of care for the socially vulnerable
- Poor work-life balance
- Aging of society
- Slow response to diversifying family structures
- Degrading urban landscape
- Weakening of community ties
- Worsening air environment
- Health concerns

Five Pillars of Our CSV Strategy

- 1 Promoting net zero energy housing** P.17
 We promote energy-neutral housing through energy-saving and energy-creating measures.
- 2 Preserving biodiversity** P.21
 We work to conserve sound ecosystems through our *Gohon no ki* landscaping project and also in accordance with our Wood Procurement Guidelines.
- 3 Improving production and construction quality** P.25
 We reinforce our production and construction systems to ensure a stable supply of quality housing.
- 4 Extending the lifespan of a house and enhancing after-sales service** P.29
 We improve the durability of our housing, promote the use of universal design, and provide enhanced maintenance and remodeling services.
- 5 Promoting diversity** P.33
 We formulate a system in which people of various talents and specialties can fully exercise their creativity to achieve business innovation.

VOICE

Creating Value through CSR

One important aspect of CSR activities is determining how they can be linked to a company's management strategy. In order to do that, it is necessary to identify relevant items through a materiality analysis and to clarify how these items are related to the company's business activities. Reviewing and reinforcing the entire value chain* is another important issue related to CSR.

In my interview with two top managers at Sekisui House, I could sense the company's commitment to making a social contribution and their strong desire to carry out these activities with an appropriate degree of transparency.

Considering all of the above, Sekisui House reviewed its business models and proposed four key values, which I understand constitute their CSV (Creating Shared Value) concept. I suggest the company should set quantitative targets for these values and use them as KPIs (key performance indicators). I believe this would help them identify new forms of value creation in a more tangible way.



Katsuhiko Kokubu
 Dean, Graduate School of Business Administration,
 Kobe University

*A value chain is a concept wherein the sequence of activities performed by a company—from material procurement, development, and production to sales and service—is considered to add value (and cost) to products and services before they are delivered to end users.