



## Updates on measures taken for strengthening governance

### (1) Establishment of the management meetings

System strengthening ④

We established management meetings with the objective of contributing to appropriate decision making related to the execution of important operations by an active exchange of opinions from the perspective of consistency with management policies and strategies before approvals at the meetings of the Board of Directors or through the collective decision-making system on important operations, such as key investments, management policy of the whole group and formulation of management strategies and plans.

In fiscal 2018, we held discussions on investments in international business and development business as well as evaluation of the effectiveness of the Board of Directors and measures to deal with revisions in the Corporate Governance Code.

While internal directors and full-time Audit & Supervisory Board members are required to join these meetings, external directors and outside Audit & Supervisory Board members can also attend them if they request. Many external directors and outside Audit & Supervisory Board members took part in the management meetings and enabled constructive discussions and exchange of opinions.

### (2) Clarification of departments under the control of directors and structural reforms of the company

System strengthening ⑤

In April 2018, we reorganized the corporate structure of the head office into six divisions (Business Strategy, Supplied Housing Business, Transaction Promotion, Investor Relations, Administration and Technology) and carried out structural reforms to share risk information and coordinate between departments. This structural reform has enabled us to clarify the reporting line when issues occur. It will also increase our structural responsiveness by strengthening human resource development through rotation of personnel within divisions in future.

### (3) Reform of approval system

System strengthening ⑥

We revised our approval rules in July 2018, determined responsible departments for screening in each category and clarified the roles of each department. The person who makes the proposal as well as the screening department analyze risks, consider countermeasures and take other steps to raise risk awareness. They report projects that entail risk and are conditionally approved and carry out thorough follow-up afterwards.

At the same time, we are also introducing an electronic approval system and striving for a balance between speedy business decisions and adequate risk management.

### (4) Transparency and invigoration of Board of Director meeting operations

System strengthening ②③

In the general shareholders' meeting held in April 2018, we appointed women external directors and outside Audit & Supervisory Board members to diversify the Board of Directors and Audit & Supervisory Board. We also revised the Basic Policy on Corporate Governance and decided that different directors will act as the chairman of the Board and the convener.

Furthermore, we carried out reforms in the Board of Directors so that transparent and active discussions take place naturally. To this end, we select an agenda and clearly categorize deliberation matters and resolution matters when they are raised, based on opinions shared in the evaluation of the effectiveness of the Board that constructive and free discussions should be further conducted on the matters, including actual discussions on business strategies and other issues.

### (5) Succession plan for senior management

System strengthening ①③⑤

We introduced a mandatory retirement age of 70 years for representative directors to encourage generational change in senior management and worked to build a structure that is always conscious of strengthening development of managerial human resources. We decided to hold periodic hearing surveys of representative directors in the Personnel Affairs and Remuneration Committee about the status of implementation of the succession plan for representative directors based on the Corporate Governance Code.

We also started the Sekisui House Management Training in November 2018 to develop, evaluate and select candidates who can be potential heads of branches. The 1.5 year-long training includes programs on Integrity Management, Strategy Planning and Organizational Management and New Value Creation and Innovation, among others. It provides the participants with the opportunity to acquire knowledge, personal qualities, management skills, and leadership qualities suited to the next generation of branch managers and helps determine whether the participant should be appointed for the position.

### (6) Revision of the remuneration system for officers

System strengthening ⑨⑩⑫

To share more value with our shareholders, we decided to abolish the existing stock compensation-type stock option system and introduce the restricted stock remuneration plan in the general shareholders' meeting held in April 2019.

We also made external directors ineligible to receive performance-related remuneration (bonuses/stock remunerations) with the objective to leverage them as auditors and monitors of the Board of Directors.

We will continue to discuss revisions in the overall remuneration system for officers (basic remuneration (fixed remuneration), bonuses (short-term performance-related remuneration) and the weight for medium-to-long-term performance-related remuneration, KPIs for performance-related remuneration, process for finalizing the amount of remuneration (standard and method of evaluation)) with the Personnel Affairs and Remuneration Committee at the center.

### (7) Ensuring independence and strengthening internal checks of chief managers in charge of general affairs in sales administration headquarters and branches

System strengthening ⑦

We have been holding training for administration managers since November 2018 to improve their decision-making and management skills, and to build a collaboration system with the Administration Division of the Head Office.

We also changed the evaluation method to ensure independence of administration managers.

## Management structure

### Board of Directors

System strengthening ⑧

In principle, the Board of Directors meet once per month. To improve corporate value over the medium and long term, the Board of Directors shall be responsible mainly for establishing management policies, strategies and plans, and making decisions on the execution of important operations, as well as for supervising and evaluating the execution of duties by directors and executive officers and establishing systems, such as internal control and risk management, to ensure the soundness of management.

To promote constructive exchange of opinions, we decided not to combine the positions of the chairman of the Board of Directors and the convener. Therefore, the vice chairman serves as the chairman of the Board, while the chairman serves as the convener. The Board of Directors comprises members who are well-informed and knowledgeable about the company's business, and those who are well-versed in financial accounting and legal compliance. It balances diversity, including that of gender, and an appropriate number of people, with three or more external directors.

In the fiscal year ended January 2019, the Board of Directors met 12 times with an attendance rate of 98.0% (including attendance by 96.9% of external directors and 93.3% of external Audit & Supervisory Board members). Moreover, we are striving to launch self-evaluation activities conducted in cooperation with attorneys and other experts to analyze and evaluate the efficacy of the Board of Directors and promote ongoing reforms and improvements to strengthen its function.

### Board of Director composition (as of April 25, 2019)

Directors	Of which are external directors	Age		
		Under 30	30-50	Over 50
11 (10 men, one woman)	3 (two men, one woman)	0	0	11

Note: There are no members belonging to minority groups that require special mention.

## Audit & Supervisory Board

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

In addition, Audit & Supervisory Board members exchange opinions and work in close coordination with the Internal Audit Department, hold regular meetings with accounting auditors and engage in mutual cooperation to ensure that all audit activities are carried out efficiently and effectively.

Furthermore, we established the Office of Audit & Supervisory Board Members as a dedicated organization to which several employees including full-time staff are allocated for assisting Audit & Supervisory Board operations. If said employees are concurrently assigned other duties, they must not be influenced by guidance and commands from the other division to which they are concurrently assigned and, with regard to human resource matters pertaining to these employees, the opinions of auditors must be considered to ensure the independence of their duties with regard to Audit & Supervisory Board operations.

### Audit & Supervisory Board composition (as of April 25, 2019)

Audit & Supervisory Board members	Of which are external Audit & Supervisory Board members	Age		
		Under 30	30–50	Over 50
6 (Five men, one woman)	4 (three men, one woman)	0	0	6

Note: There are no members belonging to minority groups that require special mention.

### Training for directors and Audit & Supervisory Board members

Directors and Audit & Supervisory Board members are provided with opportunities to acquire necessary and useful knowledge to fulfill their respective roles and responsibilities on an appropriate and ongoing basis.

In the fiscal year ended January 2019, newly appointed directors took part in external seminars for new directors. The company held training camps for internal directors, executive officers and others, invited external instructors to conduct study groups for directors and Audit & Supervisory Board members, and took other initiatives.

### Selection of outside officers

To ensure objectivity and fairness in company management and corporate governance, Sekisui House appoints persons who satisfy the Criteria for Independence of Outside Officers as external directors and external Audit & Supervisory Board members who have no conflicts of interest with general shareholders.

### Personnel Affairs and Remuneration Committee

As a consultative body to the Board of Directors, the Personnel Affairs and Remuneration Committee provides opinions on matters relating to the directors and executive officers and their remuneration to ensure the fairness and transparency.

A majority of the members of the committee are either external directors or external Audit & Supervisory Board members. At present, it comprises three representative directors, two external directors and two external Audit & Supervisory Board members. The president serves as the head of the committee.

### Management Meeting

We established management meetings with the objective to contribute to appropriate decision making related to the execution of important operations by an active exchange of opinions from the perspective of consistency with management policies and strategies before approvals at the meetings of the Board of Directors or through the collective decision-making system on important operations, such as key matters related

to officers, management policy of the whole group and formulation of management strategies and plans.

While internal directors and full-time Audit & Supervisory Board members are required to join these meetings, external directors and external Audit & Supervisory Board members can also attend them if they request.

### Risk Management Committee

As a consultative body to the Board of Directors, the Risk Management Committee creates appropriate risk management systems and provides opinions to the Board of Directors on matters relating to the maintenance of risk management systems with the aim of ensuring effective operating conditions.

In principle, the committee meets once per month. In fiscal 2018, it focused on the deliberation of medium to long term issues including (1) maintaining and strengthening compliance, (2) enhancing quality management systems and (3) BCP formulation. It also revised screening and decision-making rules and suggested and executed the establishment of the Quality Control Committee.

In addition, the main departments are monitored regarding (1) compliance with labor laws, (2) compliance with operational rules, (3) IT security and other issues to grasp and verify the operational status of risk management systems in each division.

## Internal control systems

Based on the Companies Act and the Ordinance for Enforcement of the Companies Act, Sekisui House created and manages internal control systems, with internal control system basic policies deliberated by the Board of Directors.

The Auditing Department, a specialized internal audit department, conducts onsite audits to confirm whether internal controls and internal management are being conducted appropriately and properly based on laws and regulations and internal rules to ensure effective management, and when necessary suggests corrective actions. Results of these audits are reported to directors and Audit & Supervisory Board members as well as related departments. Moreover, the Auditing Department and accounting auditors cooperate to execute effective internal audits.

Sekisui House dispatches directors and others for internal control of group companies, including those overseas, and receives reports on their management status and work execution. In addition, the company's internal audit department periodically audits important subsidiaries. An Overseas Audit Office was set up in the Auditing Department in April 2019, strengthening the audit system for overseas group companies.

## Accounting auditors

The accounting auditor evaluates whether the Audit & Supervisory Board possesses independence and expertise in accordance with the selection criteria for accounting auditors as well as internal rules and determines items for election based on relevant assessments.

If the accounting auditors discover fraud, a report will be made to the Audit & Supervisory Board, and if they discover deficiencies or problems, a report will be made to the Board of Directors, who will then take corrective actions.

## Governance awareness survey

Every year, a governance awareness survey is conducted targeting all group employees. Regularly conducting surveys on corporate ethics awareness and workplace environments provides an opportunity to exchange opinions in organizational units and focus efforts on creating a more open work climate.

## Remuneration and incentives

### Policies and procedures for determining remuneration for directors

Policies for determining remuneration for directors, the total amount of remuneration and individual amounts shall be resolved at the meetings of the Board of Directors with due regard for the opinions of the Personnel Affairs and Remuneration Committee.

Remuneration for directors shall consist of basic remuneration, bonuses as short-term performance-related remuneration and restricted stock remuneration as medium- and long-term performance-related remuneration whose aim is to grant incentives to sustainably boost corporate value and share more value with shareholders.

#### Basic remuneration (fixed remuneration)

Basic remuneration as fixed remuneration shall be determined within the scope of resolutions of the general meetings of shareholders by considering the company's management situation, in addition to the importance of roles and the scope of responsibilities of each position.

#### Bonuses (short-term performance-related remuneration)

Bonuses shall be determined based on general consideration by referring to qualitative factors, such as the strengthening of the management foundation, etc., in addition to quantitative factors, such as sales and income of each fiscal term, etc.

#### Restricted stock remuneration (medium- and long-term performance-related remuneration)

Stocks shall be granted according to each position within the scope of resolutions of the general meetings of shareholders.

### Remuneration amount

The type of remuneration and the total amount of consolidated remuneration for each director and Audit & Supervisory Board member are disclosed in the Securities Report. The total amount of consolidated remuneration and the type of remuneration are reported individually for individuals with a total amount of consolidated remuneration of 100 million yen or more.

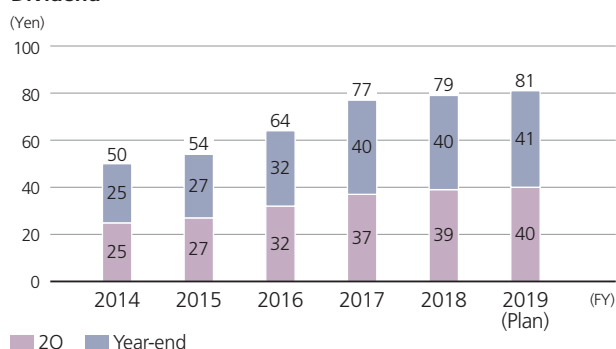
## Capital policies

### Aiming to maximize shareholder value

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

In fiscal 2018, we paid 2 yen more as dividend year-on-year, amounting to 79 yen for the year.

### Dividend



## Constructive dialogues with shareholders and investors

### Appropriately reflecting shareholder and investor opinions in management

We use company briefings, seminars and other events held in different regions to inform individual investors about our business activities. We have created a page on our website, which contains information on our company and IR, to explain our business activities and achievements to individual investors and potential shareholders. We also provide information on our management strategy and plan in the Business Report for shareholders.

As a new initiative in fiscal 2018, we have started publishing the summary of briefings on financial results and management plan on the Corporate Information Site\*. Anyone can now check the details of the question-answer sessions and other contents of the briefings for institutional investors.

We started facility tours for shareholders from fiscal 2014 and held it at our Comprehensive Housing R&D Institute in Kyoto for fiscal 2018. Shareholders mainly visited and experienced Sekisui House's R&D sites, including an experience of sub-zero temperatures at the artificial climate room where research on insulation is conducted in life-size mock-up houses and of soundproof environment in our anechoic room where the interiors are surrounded by sound absorbing material. They also toured our hands-on learning centers, such as Housing Dream Factories and *Nattoku Kobo Studio*, and saw from various angles the tangible and intangible technologies that support safe, reliable and comfortable living in houses we build.

We also hold periodic study groups and tours for institutional investors. In fiscal 2018, we held a briefing on Sekisui House's ESG management and a tour of the Shizuoka Factory to help investors deepen their understanding on the company's competitive advantage.

\* <https://www.sekisuihouse.co.jp/english/financial/library/info/index.html>



# Messages from External Directors and Corporate Auditors

The Sekisui House Group has been working to bolster and reform its corporate governance since 2018, a year that also saw the group welcome a new external director and two new corporate auditors. In addition to energizing the board of directors, their diverse perspectives are propelling the group's governance reforms forward.



**Yukiko Yoshimaru** External Director

#### Professional background

October 2004: General manager of the Diversity Development Office at Nissan Motor Co., Ltd.  
 June 2014: Executive officer, deputy director of the Management Division, general manager of the Diversity Promotion Office, and personnel administrator at Nifco Inc.  
 April 2018: Director at Sekisui House (current)



**Hisako Makimura** Corporate Auditor

#### Professional background

April 2000: Professor in the Faculty of Contemporary Society at Kyoto Women's University  
 June 2011: Outside Audit & Supervisory Board member at the Kansai Electric Power Co., Inc. (current)  
 April 2013: Visiting researcher at the Kyoto Women's University Institute of Religion and Culture (current)  
 April 2017: Visiting professor at Kansai University (current)  
 April 2018: Corporate Auditor at Sekisui House (current)



**Ryuichi Tsuruta** Corporate Auditor

#### Professional background

August 1990: Representative director of a UK-based finance subsidiary of Panasonic Corporation  
 November 2014: Corporate adviser at Panasonic Corporation  
 May 2015: Outside Audit & Supervisory Board member at ZUIKO Corporation (current)  
 April 2018: Corporate Auditor at Sekisui House (current)

## Yukiko Yoshimaru (External Director)

### Q What are your impressions of the Sekisui House Group?

When I became an external director, the Sekisui House Group was right in the middle of its governance reforms. It was easy to see how serious the group was about it, too: at the general meeting of shareholders, executives fielded questions from attendees and gave answers with an earnest sincerity. In terms of business, I think that the group is doing a great job of meeting needs and providing added value that goes beyond what competitors can offer. From my experience in international business, I would definitely say that Sekisui House has a competitive advantage on the global scene. The group also sees ESG as business itself, which is distinctive. Having taken part in the UN Framework Convention on Climate Change and made the Dow Jones Sustainability World Index for three years running, the group is in position to showcase itself to a global audience—and I hope to see that happen.

### Q What are your thoughts on how the Sekisui House Board of Directors works and functions?

I think the directors are really engaging in lively discussions. People say that transparency makes board meetings better, and the same goes for the Sekisui House Group. While the discussions are great, there are also potential issues to address. If the directors can keep speaking even more openly about their own interests and topics outside their areas of expertise, the discussions will take on a more diverse depth.

### Q How do you think the 2018 governance reforms are playing out?

Progress on the "six items for strengthening the corporate governance system" is solid. From my perspective, a key facet is

the "evaluation of board of director efficacy"—third-party evaluations will be instrumental in enhancing overall transparency. A big challenge will be fortifying governance at locations abroad, however. Japan is important, of course, but navigating the challenges of governance abroad is a challenge: things overseas are often different from things in Japan, complicating the issue further. The group needs aggressive governance and defensive governance. For me, the group's competitiveness depends on bringing women with proven track records, people with local expertise, and diverse human resources into management.

### Q What kind of role do you want to play as an outside officer? What do you hope to see from the company?

I want to translate my experience into meaningful contributions with a global dimension, an area where Japanese companies still have a lot of ground to cover. Sekisui House knows what the challenges are, but there are so many challenges waiting on the horizon. The group is also hard at work on the SDGs, a common language for the entire globe. From the environment and housing design to community development, those efforts are delivering benefits to society and company business alike. If the group can go even deeper, I think it will be able to reach investors and other stakeholders with a more unique, meaningful message. Sekisui House, with its eco-friendly focus and impressive environmental track record, can be a world-leading enterprise. As a female external director, I look forward to adding my input—from my cross-disciplinary experience in global business, diversity management, and different industries—toward sustainable value improvement.

## Hisako Makimura (Corporate Auditor)

### Q What are your impressions of the Sekisui House Group?

For most of my career, I have been studying community- and city-building with a focus on demographics and global environments. When you explore changes in communities and lifestyles, you find that gender is one of the key issues. Sekisui House is remarkable in that regard; the company has been tackling diversity and encouraging female employees to pursue career development. It also emphasizes coexistence with nature, an element evident in its green, eco-friendly housing. The group's collective strengths are impressive: Sekiwa Real Estate and Sekiwa Construction are great examples. Seeing the successes of the group's luxury hotels, condominium business, and international business, too, shows me that company employees are driven to create business where needs are.

### Q What are your thoughts on how the Sekisui House Board of Directors works and functions?

One important thing is that the company now holds management meetings (with outside officers) before meetings of the board of directors. That approach is uncommon and, in my opinion, extremely beneficial. Boards normally do Q&A sessions on matters that come up at executive councils and the like before making resolutions. Management meetings, however, help bring practical management issues into the discussion—and that enhances meetings of the board of directors. A big part of that is the input from outside officers, who enrich discussions by expanding the overall conversation. I think the board of directors might need to narrow down its agenda to help clarify functions and roles with management meetings.

### Q How do you think the 2018 governance reforms are playing out?

The governance reforms were the most important developments at the Sekisui House Group in FY2018. The company set out to make the board of directors a group of "well-balanced members, such as those familiar with the company's business and owning knowledge and experts specializing in finance, accounting, statutory compliance and others, ensuring both the compatibility with diversity including gender and proper headcount," and I voiced my thoughts from the gender-oriented perspective—a crucial issue not only for the global community but also ESG investment. Creating the Personnel Affairs and Remuneration Committee and formulating a successor-development plan are two more important elements that the company has tackled. As the group continues to train future executives, I want to propose ideas for long-term, systematic development procedures for putting the right people—women included—in the right leadership positions.

### Q What kind of role do you want to play as an outside officer? What do you hope to see from the company?

Gender issues abroad, environmental education, and climate change are three areas that my career has taken me into—and overlap with the United Nations' SDGs. I want to see Sekisui House make the SDG targets part of its management approach, weaving tangible approaches to new social value into operations. The potential is huge; efforts to meet RE100 goals are already underway. As a corporate auditor, I plan to address whatever needs attention—be it strengthening and rebuilding the auditing framework or optimizing the size of the personnel force. Sekisui House is cultivating diversity and encouraging female employees to take more active roles, but it needs to flesh out the efforts on a deeper level. As Sekisui House pushes onward, I look forward to offering the company an objective perspective.

## Ryuichi Tsuruta (Corporate Auditor)

### Q What are your impressions of the Sekisui House Group?

The group has powerful business-promotion capabilities, with sales at the core, and a firm foundation in planning, development, and production. Sales representatives make sure customers' needs are met, too. That dedication reflects the group's fundamental philosophy: love of humanity. The workforce embraces that strand of the corporate DNA. If the group wants to make good on its management strategies by building more cornerstones of business and expanding its scope into the global arena, it has to uphold that identity and a strong governance structure. Diversifying business will hinge on diversifying leadership, achieving world-class capital cost, and optimizing procurement methods. The synergy between strategy and governance is a vital piece of the puzzle—as is the constant openness to rethinking approaches.

### Q What are your thoughts on how the Sekisui House Board of Directors works and functions?

The 2018 reforms have helped define directors' responsibilities more clearly, giving the organization a more transparent, open dynamic. Management meetings, meanwhile, have helped the company accept input from outside officers. While the board of directors currently concentrates on management decision-making, touching on more topics—like internal controls, compliance, and risk management—will make discussions even better. I hope the Board takes strategic steps to enhance the governance structure, too.

### Q How do you think the 2018 governance reforms are playing out?

They are doing what they need to do, but governance is complex—you have to mold principles, strategies, and practices into one. That requires a fair, open organizational framework and quick-moving operations. The group needs to stand against mutual backscratching, keep the governance structure from losing substance, and keep everything moving along. It comes down to embodying the real meaning of the group's fundamental philosophy—love of humanity.

### Q What kind of role do you want to play as an outside officer? What do you hope to see from the company?

Companies are "public institutions." Every company—including Sekisui House—should live up to that ideal. As a corporate auditor, I fill two roles: balancing between corporate management and society, first of all, and keeping an eye on operations in the interest of shareholder profits. Those responsibilities take on a deeper significance during efforts to bolster governance structures, like the Sekisui House Group is doing right now. For the company to grow in a global, sustainable way, every employee at home and abroad needs to embody the group's corporate culture. Any Japanese company looking to communicate its core philosophy to global audiences encounters plenty of challenges. Getting people to understand principles across borders is never easy. The same goes for Sekisui House's concept of "love of humanity." I want to see the group engage audiences in full awareness of those issues and commit to effective cross-cultural communication. I will use my diverse network of connections, fresh perspectives, and specialized knowledge to fill out the group's governance framework and boost shareholder value.

# Compliance and Risk Management

The Sekisui House Group positions compliance and risk management as important issues to be addressed at all times. In addition to establishing the Risk Management Committee as a consultative body to the Board of Directors, in 2017 we revised our CSR promotion system and established the Governance Committee under the aegis of the CSR Committee. In 2018, we formed the Management Meeting to promote compliance and handle risk management. This body engages in vigorous exchanges of opinion about important investment projects before resolutions are made by the Board of Directors or decisions are approved internally.



## Promoting Compliance

Sekisui House Group attempts to promote thorough compliance, which it positions as an ongoing management concern that includes not only an adherence to laws and regulations, but also the promotion of CSR initiatives as important issues to be addressed at all times.

The Risk Management Committee, established in 2016 as a consultative body to the Board of Directors, and the Governance Committee, established in fiscal 2017 under the aegis of the CSR Committee based on a CSR promotion system, work together to improve issues pertaining to the promotion of compliance incorporated into the PDCA cycle.

The Sekisui House Group formulated the Sekisui House Corporate Ethics Guidelines in October 2003 and currently applies these guidelines as common items related to corporate ethics. These ethics must be observed by the company, its directors and employees to promote the corporate activities of

each group company.

We are moving ahead with broadening the Sekisui House Corporate Ethics Guidelines' scope of application and revising the information contained within from the standpoint of changes in social environment, development in corporate activities and group management (In 2018, we added items on maintaining and improving employee health). Additionally, since 2005, we have held a Compliance with Corporate Ethics Check every October in which all executives and employees submit a Pledge Regarding Compliance with, and the Essentials of, Corporate Ethics. This submission is made to thoroughly enforce our policy on corporate ethics throughout the entire group.

Moving forward, we will continue to work together to proactively apply our corporate ethics policy.

### Statement on compliance in the Sekisui House Corporate Ethics Guidelines (excerpt)

<b>Sekisui House Corporate Ethics Guidelines</b>	<p>Chapter 2 Relationship with society</p> <p>2-3 Compliance with various business laws and related regulations</p> <ol style="list-style-type: none"> <li>1. The company shall comply with regulations related to houses, housing materials and manufacturing, development, import, storage, design, construction, sale, transport, export and repair of housing related equipment as well as sale and purchase, renting, mediation, trading partnership, management, residential land development and urban development of real estate. Apart from properly executing all procedures for acquiring permits and submitting documents, it shall take due care to ensure that there is no violation in any business activity.</li> <li>2. The company shall comply with related regulations for other connected businesses also and ensure that all activities follow the law.</li> </ol> <p>2-4 Rules for political and other donations</p> <ol style="list-style-type: none"> <li>1. When donating to political parties or other organizations, the company shall comply with the Public Office Election Law, Political Funds Control Law and other regulations and follow regular methods.</li> <li>2. The company shall receive prior approval for all donations following internal regulations.</li> <li>3. The company shall strictly refrain from bribery, interest sharing and illegal political donations, along with any act that can cause misunderstandings, such as close connections with the government or authorities, and build sound and transparent relationships.</li> </ol> <p>2-7 Compliance with import and export regulations</p> <ol style="list-style-type: none"> <li>1. The company shall carry out appropriate import, export and customs procedures in accordance with related regulations for importing and exporting products or materials.</li> <li>2. The company shall not export or import prohibited products.</li> <li>3. The company shall not deal in products or raw materials produced, manufactured or transported in conditions, such as child labor and forced labor, that violate human rights.</li> </ol> <p>Chapter 3 Relationships with customers, suppliers and competitors</p> <p>3-3 Compliance with Antimonopoly Law</p> <p>In no circumstances shall the company indulge in any act, such as cartels or rigging, maintaining resale price or abusing superior status, that violates the Antimonopoly Law. It shall engage in fair and free competition with other companies.</p> <ol style="list-style-type: none"> <li>1. The company shall not consult or fix prices, quantity or production equipment with other companies or organizations in the same industry or engage in unfair trading restrictions such as bid rigging.</li> <li>2. The company shall not reject transactions with a specific company or new company in cooperation with other companies or organizations in the same industry or engage in unfair dealing methods, such as restraining the sellers' selling price.</li> </ol>
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Note: The full Sekisui House Corporate Ethics Guidelines are available on our website. <https://www.sekisuihouse.co.jp/company/info/ethics.html>

## Fair business practices

In the third chapter of the Sekisui House Corporate Ethics Guidelines, "Relationships with customers, suppliers and competitors," the group specifies appropriate business practices, adherence to the Act against Delay in Payment of Subcontract Proceeds, Etc. to Subcontractors and prohibition of entertaining and gifts to ensure business practices are

thoroughly fair.

We also established a checklist item related to the Act against Delay in Payment of Subcontract Proceeds, Etc. to Subcontractors as one of the internal audit checklist items to confirm business practices are conducted fairly.

### Statement on fair transactions in the Sekisui House Corporate Ethics Guidelines (excerpt)

<b>Sekisui House Corporate Ethics Guidelines</b>	<p>Chapter 3 Relationships with customers, suppliers and competitors</p> <p>3-4 Fair transactions with business partners and compliance with the Act against Delay in Payment of Subcontract Proceeds, Etc. to Subcontractors</p> <p>The company shall deal soundly and sincerely with partner building constructors and carry out fair and just transactions with them.</p> <ol style="list-style-type: none"> <li>1. When selecting a business partners from among multiple businesses, the company shall make a fair comparison of their quality, price, delivery time, technical development abilities, stability of supply and various other factors, evaluate them and select the best deal.</li> <li>2. The company shall not use any power that grants special treatment to any business partners regarding selection and evaluation.</li> <li>3. The company shall ensure adequate understanding of the Construction Business Act and the Act against Delay in Payment of Subcontract Proceeds, Etc. to Subcontractors and refrain from delayed payments and other acts in its contracts and transactions with business partners.</li> </ol>
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Note: The full Sekisui House Corporate Ethics Guidelines are available on our website. <https://www.sekisuihouse.co.jp/company/info/ethics.html>

## Legal compliance status

There was no major violation of laws or voluntary standards in the relevant fiscal year.

### Penalty for non-compliance of the anti-corruption policy

No disciplinary action or dismissal took place against any employee for non-compliance of the anti-corruption policy in the relevant fiscal year. To the best of our knowledge, no cost was incurred on penalties, surcharges or settlement related to corruption.

### Infractions and penalties related to the environment

In the fiscal year under review, there were no major infractions of environmental laws or regulations. There were no accidental spills or other incidents impacting the environment surrounding our factories.

### Infractions and penalties related to products and services, safety and hygiene

In the fiscal year under review, there were no legal or regulatory infractions or penalties paid related to the provision and use of our products and services. There were also no infractions of health and safety-related regulations or voluntary standards.

### Infractions and penalties related to customer privacy

In the fiscal year under review, there were no substantiated petitions for redress related to customer privacy infringements or customer data loss.

### Concerning Legal Action Related to Monopolistic Practices

During the fiscal year ended January 31, 2019, Sekisui House Group faced no legal action, substantial fines or punitive measures in connection with violations of laws or regulations related to competition and monopolistic practices.

## Personal information protection initiatives

Sekisui House Group worksites, such as housing exhibitions and land sales offices, handle customers' personal information. We created a system corresponding to the Personal Information Protection Law, regularly implement e-learning and repeatedly conduct educational training for employees to ensure the proper handling of customer information. The e-learning activities include tests to confirm how well employees understand the proper protection of personal information. We also established the Customer Information Service Office, a dedicated department unifying responsibility for the protection of personal information led by the CS Promoting Department manager who is also an executive officer. This structure enables the entire group to comply with the Personal Information Protection Law. On the other hand, in the event of the loss or theft of customers' personal information, in addition to informing customers about the issue immediately, we post information concerning what information was lost or stolen, and notices regarding our future handling of the situation, on our website. At the same time, we make every attempt to recover this information.

Going forward, we will continue the implementation of personal information protection-related e-learning and repeated educational guidance on the handling of personal information, while making efforts to heighten knowledge and awareness regarding personal information protection.

We will also strengthen personal information protection initiatives corresponding to each region overseas in line with the expansion of international business.



## Internal reporting system and whistleblower protection

The Sekisui House Group has an internal reporting system, known as the Sekisui House Group Compliance Support (SCS System), based on the Whistleblower Protection Act. It is designed to ensure that an employee who has witnessed an unlawful act or any conduct that violates our corporate ethics policy can report it in confidence to the Compliance Office of the Legal Department by phone, e-mail, or other channels. Our SCS System guidelines on internal reporting explicitly stipulate that the identity of whistleblowers and the detail of their reports shall be treated as classified information and that such information shall not be used against their interests.

In October 2016, we added our corporate law office as an external point of contact. We also provide helplines that provide counseling on labor management issues in general and hotlines dedicated to consultation regarding sexual and power harassment.

Though it would be ideal to solve problems through discussions in the workplace, we also believe it is important to have an internal reporting system in place that employees can freely turn to for help. Efforts are made to familiarize employees with this system through leaflets and human relations training.

At the same time, in October 2016, we established the Sekisui House Group Supplier Company Corporate Ethics Helpline as system for handling consultation regarding concerns pertaining to legal and corporate ethics infractions and transaction-related issues connected to Sekisui House Group business activities from directors or employees of partner building constructors and supplier companies with whom the group has an ongoing business relationship. Similar to the SCS System, the Legal Department Compliance Office is the internal point of contact and our corporate law office is the external point of contact.

### Sekisui House Group internal reporting system

	Contactee	Method	Content of report
<b>SCS (Sekisui House Group Compliance Support) System</b>	Compliance Office, Legal Department (External) Sekisui House corporate law office	Phone E-mail Postal mail (registered mail receivable only by the addressee)	Witness account of an unlawful act or any conduct that violates laws or our corporate ethics policy
<b>Sekisui House Group Supplier Company Corporate Ethics Helpline</b>	Compliance Office, Legal Department (External) Sekisui House corporate law office	Phone E-mail Written correspondence	When partner building constructors or supplier companies suspect illegal activities, are uncertain about or have concerns regarding the Sekisui House Group and its transactions and business activities
<b>Sexual and power harassment hotline</b>	Human Relations Office, Legal Department	Phone E-mail	Consultation pertaining to sexual/power harassment and other human rights issues, including concerns and problems related to interpersonal relationships. Consultation aimed at creating a comfortable workplace for disabled employees, etc.
<b>Personnel related hotline</b>	Personnel Department	Intranet	Labor management issues in general, such as work hours and working on scheduled days off

Note: We also provide an external (outside the company) contact for counseling by a professional for group employees and their families.

## Risk management system enhancement

Sekisui House Group's risk management is conducted by the head office and in all departments, with initiatives conducted according to work duties within technical department and administrative department manager meetings. Through our structural reforms in April 2018, we set up departments that include multiple head office departments and clarified the responsibilities and authorities of directors and executive officers.

The Risk Management Committee (headed by the Vice President), which we established as a consultative body to the Board of Directors, collects and inspects information on the condition of risk management systems in each Sekisui House Group division, receiving reports when a risk incident occurs and verifying recurrence countermeasures in an effort to strengthen risk management. We also established the Management Meeting, which, in order to offset risk, vigorously discusses opinions regarding the consistency of management policy and business strategy before resolutions are made by the Board of Directors or decisions are made via circular letter. Furthermore, under the aegis of the CSR Committee, the Governance Committee discusses independent countermeasures from the side of employees.

## Activities of the Governance Committee under the CSR Committee

Based on our system for promoting ESG management, we established the Governance Committee under the aegis of the CSR Committee (refer to p.84) and are conducting top-down activities, middle-up-down activities by managers and leaders, and bottom-up activities by young employees to ensure risk management and establishment of corporate ethics from these three directions.

### Major activities in FY2018

#### Theme: Promoting governance reforms – Creating positive, open workplaces –

##### I. Top-down

Provided information related to the top management's message and the company's vision on the internal website.

##### II. Middle-up-down

Added Integrity Management to the curriculum of the Sekisui House Management Training.

##### III. Bottom-up

① Created a corner on the internal website for receiving emails with suggestions on creating positive, open workplaces.

② Based on the results of the Governance Awareness Survey, we created opportunities for discussion to build good workplaces at each worksite and formulated action plans. Progress in the action plans is confirmed in the Compliance with Corporate Ethics Check held every October.

## Business continuity planning (BCP) maintenance

Sekisui House maintains preparedness for business continuity planning (BCP) to cope with major natural disasters. We revised traditional guidelines emphasizing recovery and released and began implementation of a disaster manual in February 2013 for the Sales Divisions and head office stipulating a focus on the continuation of business activities. In August 2018, we concluded the Emergency Fueling Agreement and are also securing gasoline for commercial vehicles in disaster-stricken areas.

Additionally, in the increasingly likely event of a Nankai Trough Megathrust Earthquake in the near future, enormous damage is expected in Osaka, where our head office (Umeda Sky Building) is located. In preparation for the likelihood of business continuity challenges at our head office, we are creating a manual to establish and operate a disaster countermeasures office at our head office and formulating BCP. In the event of a disaster at the head office, we will continue business activities with the Tokyo office (Akasaka, Minato-ku) and the Comprehensive Housing R&D Institute (Kizugawa, Kyoto) as substitute head offices. We will continue to regularly conduct training and drills to verify and revise manuals.

We are also focusing efforts on business continuity management (BCM) at supplier companies that provide numerous components and parts necessary for the manufacturing of houses and conducting disaster response system drills. These drills enable us to confirm the BCM status of supplier companies while attempting to enhance systems able to quickly gather information and formulate countermeasures.

We conduct business activities at the global level, which puts our local staff and employees on international business trips at risk of natural disasters, terror attacks and riots. In such event, the related divisions of the head office will promptly gather information and take initial action.



Disaster prevention drill (AED training) at Umeda Sky Building



Drill using EVAC chair to safely and speedily evacuate persons requiring special help from upper floors through the staircase at the time of emergency, when the elevator cannot be used

## Response in the event of a natural disaster

The Sekisui House Group recognizes that it is the mission of housing manufacturers to quickly restore the lives of customers affected by large-scale natural disasters and provide new housing, including emergency temporary housing. To this end, we have established the Action Program for Handling Natural Disasters that prescribes company-wide policies and measures.

The first step toward recovery is to quickly ascertain the condition of employees and their families in the affected region. The speed of initial responses is linked to the formation of support systems for worksites and the rapid response to company-wide needs, which in turn enables us to promptly provide support to customers. For this reason, we not only conduct periodic evacuation drills at each worksite, but also require all employees to always carry an initial response card to be used when natural disaster strikes. This card contains information on measures to be taken and safety reporting in the event of a natural disaster.

Fiscal 2018 was fraught with various natural disasters throughout Japan, including typhoons, heavy rains and earthquakes. However, we took prompt initial action and responded based on experiences and lessons learned from the Great East Japan Earthquake (2011). There was extensive damage from heavy rains in west Japan, which lasted from June end to early July. More than 1,300 of our houses were also damaged due to flooding under and above the floor. We ascertained the condition of our employees and their families, while promptly setting up local response headquarters and checking the safety of the house owners and damage caused to the buildings. We also quickly transported stockpiles from our Yamaguchi Factory as relief supplies to Okayama and Hiroshima Prefectures that acted as the base for recovery activities. Relief teams arrived from different part of the country and helped repair or remove mud from customer houses that had been flooded.

In addition, we also set up reception centers for holidays in Osaka and Yokohama to respond to repair requests from house owners on days when our offices are closed. We carry out integrated and complementary operations to ensure that worksites can fill-in for each other in the event of a large disaster and support customers by serving as Disaster Reception Centers coordinated with the Customer Service Center in the affected region and remodeling offices.



The meeting room of an office in a disaster-stricken area being used as a station for support staff from all over Japan

# Occupational Health and Safety Management

At the Sekisui House Group, nothing is more important than the health and safety of employees, subcontractors, and everyone else who plays a role in the group's business activities. If a worker-related accident ever occurs in the administrative, production, or construction departments, we provide the relevant details to the Health and Safety Committee and incorporate the corresponding information into its PDCA cycle for improving workplace health and safety.



## Accidents resulting in lost worktime and occupational-illness frequency rates

While the production department was free of any occupational accidents or illnesses resulting in lost worktime in FY2018, the construction department saw a year-on-year increase in such accidents and illnesses. We will continue to make thorough analyses of causal factors to improve safety and health awareness, prevent unsafe conduct, and minimize long working hours, which can lead to accidents and illnesses.

### Accidents resulting in lost worktime and occupational-illness frequency rates

(Total of one or more days of lost worktime)

Department	Frequency rate of accidents resulting in lost worktime		Frequency rate of occupational illnesses	
	FY2017	FY2018	FY2017	FY2018
Administrative department (employees)*	0.10	0.19	0.07	0.03
Production department	Employees*	0.00	0.00	0.00
	Subcontractors	0.51	0.00	0.00
Construction department (subcontractors only)	1.89	2.42	0.20	0.63

\* On a nonconsolidated basis (Sekisui House only)

## Occupational health and safety activities at worksites

At the Sekisui House Group, ensuring the occupational health and safety of all of our construction employees is an important social responsibility and one of our key focus areas as a business. We organize and implement a variety of activities to make sure that our construction employees are as safe and secure as possible on the job.

These efforts helped prevent any major accidents from occurring in FY2018, but the overall number of occupational accidents over the course of the year surpassed the FY2017 total.

### Accidents in FY2018

- Occupational accidents at worksites rose 30% from FY2017 to FY2018, with a rise in the number of falling-related accidents contributing to the increase. As a large number of accidents were attributable to human error, we will address the issues in full recognition of the needs both to safeguard against unsafe conduct through instructions and to encourage workers to take independent action as the situation dictates.
- We continued to encourage workers to wear air-conditioned clothing through the provision of subsidies and other measures in order to help prevent heatstroke, a policy that we instituted in 2017, but cases of heatstroke increased in FY2018 due to record-breaking summer temperatures. Considering that

outdoor workers accounted for over 90% of the heatstroke cases, our action plan focuses on improving working environments for outdoor workers.

- Efforts to curb increases in external-scaffolding accidents have proved successful thanks to improvements in scaffolding installations (on the equipment side) and scaffolding-assembly training programs (on the human side).
- The risks of heavy machinery toppling affect workers and the surroundings alike. In order to minimize these risks, we train our employees in selecting the optimal equipment during planning, adhering to rated-load standards, and other safety measures.

### Initiatives for FY2019

Our efforts for FY2019 will focus on avoiding serious accidents and slowing the rise of accident occurrence. Coming off a year that saw an increase in our total number of occupational accidents, our Annual Company-Wide Construction Health and Safety Plan for this year will concentrate on preventing accidents through three core measures: preventing recurring accidents, enhancing awareness of basic rules, and eliminating unsafe conduct.

### Annual Company-Wide Construction Health and Safety Plan essentials

- Devote even more attention to tracking trends in and taking measures against major (life-threatening) accidents.
- As certain types of accidents, such as falling, cutting and rubbing, flying and falling objects, and toppling, remain common despite widespread awareness, re-analyze the relevant accidents that have occurred at business sites, implement preventive measures, work to help the measures take root, and establish a framework that eliminates accidents before they occur.
- Strive to prevent unsafe conduct, which is gradually becoming a more conspicuous contributor to accidents occurring at our sites, by emphasizing and enforcing basic rules more thoroughly.
- To safeguard against heatstroke, work even harder to encourage the use of air-conditioned clothing and enhance on-site working environments.



A poster highlighting the three safety slogans for FY2019