

IV. Governance

Governance

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Embodying Integrity

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# G Governance

The Sekisui House Group has proceeded with governance reform designed to strengthen the effectiveness of governance while simultaneously ensuring sustainable corporate growth. In order to achieve this, it is essential that we revitalize communication and encourage the growth of each and every employee by promoting initiatives that combine innovation and communication.

Positioning 2018 as the first year of governance reform, we have steadily implemented specific measures comprising 21 items, including "Introduction of mandatory retirement at age 70 for representative directors," "Establishment of the Management Meeting," and "Clarification of departments under control of directors," over the past three years.

In order to further enhance the effectiveness of corporate governance going forward, we will take steps to reform governance at the group employee level, as well as governance at the levels of top management and business management, in addition to fostering an organizational culture that thrives through innovation and communication.

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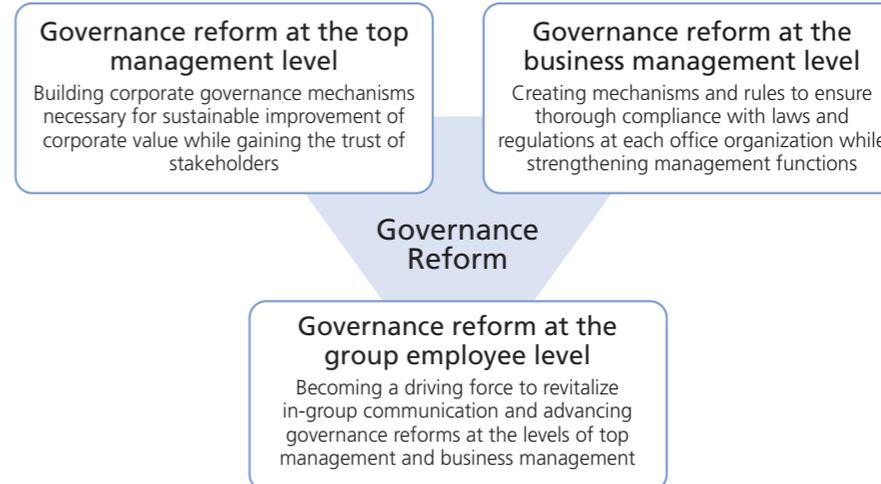
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Basic Concept

At the Sekisui House Group, we have established a corporate governance system, grounded in our corporate philosophy of love of humanity, committed to timely and trustworthy management. Moreover, we have published our Basic Policy on Corporate Governance to inform our stakeholders of our approach and framework.

Positioning 2018 as the first year of governance reform, we have steadily implemented each of these measures in an effort to establish a foundation of resilient management for long-term and sustainable growth in corporate value. We have adopted the concept of “integrity”—signifying a sincere and high-spirited sense of ethics—as our guiding principle for addressing governance reform. This resonates with “love of humanity,” our core philosophy, and with “truth and trust,” the stance encapsulated in our corporate philosophy. While prioritizing integrity in all our corporate operations, we are promoting reforms aimed at transforming us into a leading company in ESG management. We are moving forward with governance reform at three levels of “top management,” “business management” (as stated in our 5th Mid-term Management Plan), and “group employee.”



Themes and Key Performance Indicators (KPI)

Themes	KPI	Unit	FY2020 Results		FY2021 Targets	FY2022 Targets
			Targets	Results		
Corporate governance	Percentage of independent outside directors	%	—	33.3%	40.0%	40% or higher
Further enhance the integrity of business management and strengthen the group governance system	Integrity training attendance status	—	Head office managers Over 50% in attendance	97% (74 out of 76 persons)	Group executives and managers Over 50% in attendance	Group executives and managers 100% attendance
	Governance Strategy Sheet initiatives	—	—	Operated by General Affairs chief managers of Sekisui House (121 persons in total)	Operated by General Affairs managers of group companies (223 persons in total)	Percentage of Governance Strategy Sheet initiatives adopted: 90%
Enhance communication among employees	Engaging in ESG Dialogue	—	—	Sekisui House managers	Sekisui House employees Group managers	Group employees

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## Initiatives for Governance Reform

The Sekisui House Group is pursuing governance reform designed to strengthen the effectiveness of governance while simultaneously ensuring sustainable corporate growth. In order to achieve this, it is essential that we revitalize communication and encourage the growth of each and every employee by promoting initiatives that combine innovation and communication.

To further enhance the effectiveness of group governance going forward, we will take steps to reform governance at the group employee level, as well as governance at the level of top management and business management, in addition to fostering an organizational culture that thrives through innovation and communication.

### Governance reform at the top management level

During the period of the 5th Mid-term Management Plan, we have been strengthening management organizations, aiming at management innovation through collaboration (“co-creation”) with outside directors while encouraging fair and robust relationships.

In fiscal 2020, we strengthened our effectiveness by reviewing the structure of the Personnel Affairs and Remuneration Committee, a consultative body for the appointment/dismissal and remuneration of directors/executive officers. We also worked on a moderate separation of the management supervision function and the business execution function, and moreover, strengthening the management supervision function by enhancing the independence of the Board of Directors, and promoting the delegation of authority by reforming the Management Meeting and the Executive Officer System.

At the Personnel Affairs and Remuneration Committee, which is chaired by and composed of a majority of outside directors, active deliberations are held. Outside committee members participated from the selection stage of the skills matrix items for director candidates and proactively engaged in the appointment/dismissal process of representative directors, which has dramatically improved the effectiveness and transparency of the committee.

Chairperson of the Board: Mr. Toshifumi Kitazawa (Outside Director)  
Chairperson of the Personnel Affairs and Remuneration Committee: Ms. Yukiko Yoshimaru (Outside Director)

Note: Three of the five are outside directors.

### Governance reform at the business management level

The strength of the Sekisui House Group lies in our worksites where we view business issues from the customer’s perspective. We are also promoting governance reforms at the business management level to further enhance our capabilities at the worksite.

In fiscal 2020, the target of employees to be included in the integrity training program was changed to include not only managerial employees from Sales Administration Headquarters, but also managers at the head office and factories. During integrity training, participants conducted management diagnoses (multifaceted observations) and interviews with officers in charge, thereby substantially improving integrity. Going forward, we will apply these approaches to the executives and managers of our group companies.

With the aim of strengthening internal checks at the level of general affairs, chief managers in charge of general affairs at domestic branches are working to strengthen governance with the “Governance Strategy Sheet” action plan based on an analysis of governance problems and issues in each organization. Since fiscal 2021, general affairs managers of group companies have also been working on formulating governance strategies, and our efforts to strengthen governance has now gone group-wide.

Furthermore, we positioned general affairs managers in our sales divisions and group companies including overseas subsidiaries as “human resources for governance” who are there to promote strengthening of governance. We have built a “governance network,”—a reporting system to the administration division centered on the Auditing Department and Legal Department at head office—to ensure information sharing on governance.

### Governance reform at the group employee level

The Governance Committee established under the ESG Promotion Committee implements measures to invigorate communication among employees and organizations within the group, so employees are encouraged to give bottom-up feedback, which is linked to the governance reforms at the level of top management and business management.

Throughout the group companies, “ESG Dialogue” is encouraged along the theme of happiness, such as “how we can make our customers, employees and society happy through our business,” thereby promoting initiatives aimed at creating a virtuous cycle of fostering employee engagement, accelerating communication, and generating innovation, which will then increase our corporate value.

We strive to revitalize communication that tends to be lacking amid the current trend of working from home by providing various opportunities for exchanging opinions on a group basis about our corporate philosophy and codes of conduct during Corporate Ethics Month (October) as set by the Japan Keidanren, in addition to thinking about human rights issues as part of human relations training, in which all employees participate every year, and exchanging opinions on an organizational basis based on the results of the anonymous “Governance Awareness Survey” questionnaire (conducted annually) on the awareness of corporate ethics, working environment and others.

## Strengthening Our Corporate Governance System

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# Strengthening Our Corporate Governance System

Positioning 2018 as the first year of governance reform, we have steadily implemented specific measures comprising of 21 items over the past three years.

The 21 specific measures taken to strengthen our corporate governance system

	FY2018	FY2019	FY2020
Introduction of a mandatory retirement at age 70 for representative directors	▲ Resolved at the meeting of Board of Directors in Mar 2018		
Appointment of female outside officers	▲ Approved at the General Meeting of Shareholders in Apr 2018 (Elected one female external director and one female external Audit & Supervisory Board member)		
Transparency and invigoration of Board of Directors meeting operations	▲ Resolved at the meeting of Board of Directors in Feb 2018 (Separation of the chairperson of the Board and the convener)		
Establishment of the Management Meeting	▲ Resolved at the meeting of Board of Directors in Feb 2018 (Held 8 times in FY2018, 10 times in FY2019, and 8 times in FY2020)		
Clarification of departments under control of directors	▲ Resolved at the meeting of Board of Directors in Mar 2018 (Structural reform in Apr 2018)		
Evaluation of the effectiveness of the Board of Directors	▲ Resolved at the meeting of Board of Directors in Mar 2018 (Conducted an annual questionnaire survey, in FY2019, a questionnaire survey and individual interviews were conducted by an independent evaluation organization)		
<i>Ringi</i> (collective decision-making) system reform	▲ Implemented gradually from Jun 2018 (Clarification of departments responsible for deliberation, introduction of the <i>e-Ringi</i> system)		
Ensuring independence and strengthening internal checks on General Affairs senior managers of our Sales Administration Headquarters and chief managers of our Branch Offices (Construction of a governance network including our group companies)	▲ Started from Nov 2018 (Provided training for general affairs managers and reviewed process of team and personnel evaluation)		
Improving the integrity of branch managers Expansion of the target for integrity management training	▲ Started from Nov 2018 (Launched the <i>Keiei-juku</i> , a program to cultivate and select future branch managers) ▲ Target expanded (to include head office managers and group executives) in Aug 2020		
Development of next-generation managers and leaders	▲ Started from Oct 2019 “SHINE! Challenge Program”—a training course for the development of younger personnel)		
Introduction of a stock remuneration system with transfer restrictions	▲ Approved at the General Meeting of Shareholders in Apr 2019 (Paid in Jun 2019)		
Elimination of the officer bonus system for outside directors	▲ Approved at the General Meeting of Shareholders in Apr 2019		
Reviewing the director’s term of office	▲ Policy resolved at the meeting of Board of Directors in Sep 2019 (Implemented in Apr 2020)		
Abolishment of the executive advisor system	▲ Policy resolved at the meeting of Board of Directors in Sep 2019 (Implemented in Apr 2020)		

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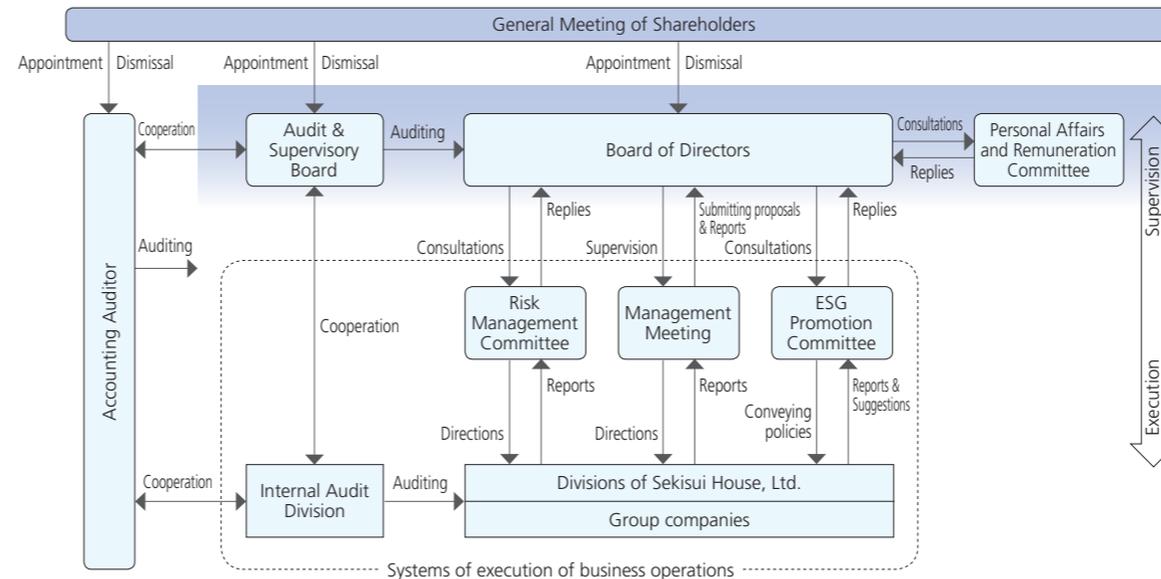
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	FY2020	
Fundamental review of the officers' remuneration system	▲ Apr 2020	
Introduction of guidelines for holding stock	▲ Implemented in Apr 2020	
Establishment of Stock Compensation Refund Clause (Malus and Clawback)	▲ Implemented in Apr 2020	
Creation of the criteria and procedures of the appointment/dismissal of executives	▲ Started from Apr 2020	
Increase in independence of Board of Directors	▲ Proportion of outside directors: 1/3 in Apr 2020	
Development of an internal reporting system at our overseas subsidiaries	▲ Started from Jun 2020	Established and launched the operation of the "Sekisui House Global Helpline" at local subsidiaries in the United States, Australia, the United Kingdom, and Singapore, using an (external) law office as the contact point for people seeking assistance.
Establishment of the Office of Directors	▲ Established in Aug 2020 (to support the productive activities of outside directors)	<p>Established an organizational structure to support productive activities in view of an increase in the number of outside directors.</p> <ul style="list-style-type: none"> <li>Reviewed opportunities for exchanging information and sharing understanding by holding regular meetings between outside directors and representative directors, outside directors and the Audit &amp; Supervisory Board members, and outside directors and outside Audit &amp; Supervisory Board members.</li> <li>Actively disseminated information from the Office of Directors to outside directors.</li> </ul>

Corporate Governance Structure (as of April 28, 2021)



## Strengthening Our Corporate Governance System

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### Board of Directors

In principle, the Board of Directors meet once a 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 to ensure the soundness of management, such as an internal control and risk management system.

To promote a constructive exchange of opinions, we decided not to combine the positions of the chairperson of the Board of Directors and the convener. Therefore, currently Mr. Toshifumi Kitazawa, an outside director, serves as the chairperson of the Board, while Mr. Yoshihiro Nakai, President & CEO, serves as the convener.

The Board of Directors comprises the optimum number of members for substantive discussions, and the proportion of independent outside directors on the Board of Directors shall be one-third or more. The board members are appointed after a skills matrix is formulated based on management strategies and plans, and shall include those who have good knowledge and expertise in financial accounting and legal compliance. Taking into account knowledge, experience, ability, term of office, gender and other factors, the board shall keep a good balance between diversity and an appropriate number of people. Additionally, as a system to support the duties of outside directors, we have set up the Office of Directors with multiple employees assigned to those positions.

In the fiscal year ended January 2021, the Board of Directors met 13 times with an attendance rate of 99.5% (including an attendance rate of 100% for outside directors and 98.6% for outside Audit & Supervisory Board members). Moreover, we regularly analyze and evaluate the effectiveness of the Board of Directors as a whole using a third-party organization to promote ongoing reforms and improvements to strengthen its functions.

#### Board of Director composition (as of April 28, 2021)

Directors	Of which are outside directors	Age		
		Under 50	50 to 59	60 and above
10 (seven male, three female)	4 (one male, three female)	0	2	8

Average age: 62.3

### Audit & Supervisory Board

The Audit & Supervisory Board formulates audit plans and, based on such plans, conducts hearings regarding risks and other issues pertaining to the assigned duties of directors, executive officers, senior managers of major departments, directors of subsidiaries and others in a planned manner, and inspects offices when necessary.

In addition, the Audit & Supervisory Board members exchange opinions and work in close coordination with the Internal Audit Division, 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 have established the Office of Audit & Supervisory Board 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 to other duties, they must not be influenced by guidance and commands from the division to which they are concurrently assigned and, with regard to human resource matters pertaining to these employees, the opinions of Audit & Supervisory Board members must be considered to ensure the independence of their duties with regard to Audit & Supervisory Board operations.

#### Audit & Supervisory Board composition (as of April 28, 2021)

Audit & Supervisory Board members	Of which are outside members	Age		
		Under 50	50 to 59	60 and above
6 (four male, two female)	4 (three male, one female)	0	0	6

Average age: 68.0

### 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 personnel affairs of Directors and Executive Officers and their remuneration to ensure fairness and transparency.

Chaired by an independent outside director (Ms. Yukiko Yoshimaru), the majority of the members of the Committee are independent outside directors.

### Management Meeting

The company has established the Management Meeting for the purpose of holding prior deliberations on important matters to be delegated to the Board of Directors, making decisions on the execution of individual operations based on management policies and strategies, and sharing information on business execution policies and issues among entrusted executive officers.

The meeting shall be attended by entrusted executive officers. Outside directors and Audit & Supervisory Board members may attend voluntarily as observers.

### ESG Promotion Committee

Chaired by the officer in charge of ESG Division, with two experts (outside members) added to the internal committee members, active discussions on ESG management are made once every three months. The details of discussions at the ESG Promotion Committee are reported to the Board of Directors for deliberation.

### Risk Management Committee

As a consultative body to the Board of Directors, the Risk Management Committee is chaired by Mr. Satoshi Tanaka, Representative Director, Executive Vice President & Executive Officer, and this committee provides opinions to the Board of Directors on matters relating to the maintenance of risk management systems with the aim of creating appropriate risk management systems and ensuring effective operating conditions.

Responsible departments are monitored regarding important themes of "governance," "human rights/labor management," "compliance," "quality management," and "BCP" to grasp and verify the operational status of domestic and overseas risk management systems in each division and across the entire group.

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### Highlights

#### Executive officer system reform

In April 2021, we reformed the executive officer system with the aim of clarifying authority and responsibility to promote “moderate separation of management supervision and business execution functions.” Through this executive officer system reform, the management hierarchy has been changed to a four-tier structure: Entrusted Executive Officers (President, Vice Chairman, Vice President and Senior Managing Officers) who also concurrently serve as directors, Entrusted Executive Officers (Managing Officers) who are candidates for future directors, Employed Executive Officers, and Operations Officers. Officers in the last two positions maintain their employee status, enabling flexible appointment. By clarifying the roles, personnel requirements, and the process of appointment and dismissal of each class of positions, we will strengthen the development of senior management officers in each division and build a sustainable leadership pipeline. Additionally, by having Employed Executive Officers and Operations Officers participate in presentations and Q&A sessions at the Management Meeting, ESG Promotion Committee and others, we will ensure opportunities for outside officers who can participate as observers to monitor senior management officers.

The Personnel Affairs and Remuneration Committee supervises the appointment and dismissal process.

The Personnel Review Meeting (comprising of internal directors and others) deliberates appointments and dismissals, as well as personnel allocation and development.

Divisions	Directors & Entrusted Executive Officers (Senior Managing Officer or higher rank)	Entrusted Executive Officers (Managing Officers)	Employed Executive Officers	Operations Officers
	Implement moderate separation of supervision and execution functions, control and take responsibility for business execution of the division in charge to achieve the goals set out in our Mid-term Management Plan.	As director candidates, take charge of main areas of the division in charge and take responsibility for business execution in those areas to achieve the goals set out in our Mid-term Management Plan.	As candidates for entrusted executive officers, take responsibility for the division in charge and business execution of the division to achieve the goals set out in our Mid-term Management Plan.	As candidates for employed executive officers, take responsibility for the division in charge and business execution of the division to achieve the goals set out in our Mid-term Management Plan.
Built-to-Order Business Supplied Housing Business	Yoshihiro Nakai Kunpei Nishida	Hiroshi Shinozaki	7 officers	11 officers
Development Business	Toru Ishii		2 officers	3 officers
Business Strategies	Yoshihiro Nakai	Kohei Hirota	2 officers	5 officers
Finance & ESG	Yosuke Horiuchi	Haruhiko Toyoda	3 officers	1 officer
Administration & Human Resources	Satoshi Tanaka	Osamu Minagawa Keizo Yoshimoto	2 officers	2 officers
Technology & Production	Toshiharu Miura	Kohei Joki	6 officers	5 officers

### Internal Control System

Based on the Companies Act and the Regulation for Enforcement of the Companies Act, the company developed 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 on-site 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.

We dispatch directors and others for internal control of group companies, including those overseas, and receives reports on their management status and important work execution. In addition, the company’s internal audit department periodically audits important subsidiaries and strengthens the audit system for overseas group companies by setting up an International Auditing Office.

### Accounting Auditor

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.

Promoting Compliance

## Promoting Compliance

Recognizing “compliance” as an important management concern, the Sekisui House Group extracted themes to be addressed and strives to make improvements while paying attention to the PDCA cycle. In October 2003, the Group formulated the Sekisui House Corporate Ethics Guidelines and put them into effect as the standards to be followed by the company, its officers and employees. The content of these Guidelines is revised as necessary in line with changes in the business environment.

Since 2005, we also hold a Compliance with Corporate Ethics Check every October in which all executives and employees of the group submit a Pledge Regarding Compliance with the Essentials of Corporate Ethics. This submission is made to thoroughly enforce our policy on corporate ethics throughout the entire group. Moreover, we provide all group employees with legal training every year on different themes as a continuous effort to foster compliance awareness. Revision of the Civil Code was the training theme for fiscal 2020.

### Main statements regarding compliance in the Sekisui House Group Corporate Ethics Guidelines (excerpt)

**2-3 Compliance with Various Industry Laws and Related Laws and Regulations**

- (1) Comply with the industry laws related to the manufacturing, development, importing, storing, design, construction, sales, transport, exporting, and repair of housing, materials for housing, and equipment relating to housing, the buying, selling, leasing, intermediary services, agency services, and management in respect of real estate, residential area development and urban development. Along with executing proper procedures for acquiring permissions and submitting documents, take sufficient caution not to violate laws during all business operations.
- (2) Comply with various related laws and regulations in the execution of other related businesses and take sufficient caution to conduct business operations according to laws.

**2-4 Restrictions on Donations and Political Contributions**

- (1) Upon donating to various organizations, etc., recognize the roles of companies in society, proactively judge the need for donations, comply with related laws and regulations, and follow proper methods.
- (2) Upon making political donations, comply with related laws and regulations including the Public Offices Election Act and the Political Funds Control Act, carefully avoid any and all action that can be misunderstood as colluding with politicians or government officials by bribery and payoffs, and strive to create healthy and transparent relationship with all parties.
- (3) Receive prior authorization according to internal rules upon making various donations and contributions.

**2-7 Compliance with Laws and Regulations Related to Importing and Exporting**

- (1) Conduct proper customs clearance procedures according to related laws and regulations upon importing or exporting products or raw materials.
- (2) Do not export goods prohibited from being exported and do not import goods prohibited from being imported.
- (3) Do not handle products or raw materials which were produced, manufactured, or transported under conditions which violate human rights, including child labor or forced labor.

**3-3 Compliance to the Antimonopoly Act**

In all circumstances, do not act in a manner which violates the Antimonopoly Act, including forming cartels, bid-rigging, fixing resale prices or abuse of superior position. Ensure free and fair competition between companies.

- (1) Do not place improper restrictions on transactions, such as colluding with other companies or organizations in the same industry to discuss or conclude agreement for fixing prices, volume, or production facilities as well as bid-rigging.
- (2) Do not engage in unfair business practices in collusion with other companies or organizations in the same industry, such as refusing transactions with specified business entities or new market entrants, or placing constraints on sales prices with purchasers.

**3-4 Appropriate Transactions with Suppliers and Compliance with the Subcontract Act**

Handle transactions with building contractor partners and other business partners fairly and equally, based on conscientiousness and honesty.

- (1) Upon selecting a supplier from multiple options, fairly compare and evaluate factors such as quality, price, delivery speed, technical development capabilities, stable supply, corporate attitude, social responsibility initiatives, etc., in order to determine the most appropriate business partner.
- (2) Upon selecting and evaluating suppliers, do not use influences which grant specified suppliers an advantageous treatment.
- (3) Form contracts and conduct transactions with suppliers after sufficiently comprehending the Construction Business Act and the Subcontract Act and taking heed not to commit any violation such as delays in payment or unreasonable demands for discounts.

**3-5 Prevention of Unfair Competition**

- (1) No matter the reason, do not acquire nor use trade secrets of another company through unfair means, such as theft.
- (2) Do not acquire nor use trade secrets of another company in knowing that they were obtained or possibly obtained through unfair means.
- (3) Do not slander nor libel other companies, such as competitors.

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### Promoting Compliance

#### Legal compliance status

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

##### Penalties 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. 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

There were no major infractions or penalties of environmental laws or regulations. There were no accidental spills or other incidents impacting the environment surrounding our factories. No environment-related fines were imposed on the group.

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

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

There were no substantiated petitions for redress related to customer privacy infringements or customer data loss.

##### Legal action related to monopolistic practices

The group faced no legal action, substantial fines or punitive measures in connection with violations of laws or regulations related to competition and monopolistic practices.

#### 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. Furthermore, in June 2020, we established and began operations of the Sekisui House Global Helpline for employees of our overseas subsidiaries in English-speaking regions, using a third-party law firm as a contact point (another contact has been established for subsidiaries in China).

#### Sekisui House Group internal reporting system

	Point of contact	Method	Content of report
SCS (Sekisui House Group Compliance Support) System	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
Sekisui House Group Supplier Company Corporate Ethics Helpline	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
Sekisui House Global Helpline	(External) law office	E-mail (English language support is available)	Witness account of an unlawful act or any conduct that violates laws or our corporate ethics policy by our overseas subsidiaries
Sexual and power harassment hotline	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.
Personnel related hotline	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.

Promoting Compliance

Personal information protection initiatives

We have established Rules for Handling Personal Information and we strive to handle personal information appropriately. Our Privacy Policy and Information Security Policy are disclosed on our website.

We handle customers' personal information at Sekisui House Group worksites, such as housing exhibitions and land sales offices. In accordance with the Personal Information Protection Law and the Rules for Handling Personal Information, we have implemented e-learning and educational training for employees on a continual basis. The e-learning activities include tests to confirm how well employees understand the proper protection of personal information. We have also established a Customer Information Service Office, which is a dedicated department that unifies responsibility for the protection of personal information and is led by the CS Promoting Department senior manager who is also an executive officer. This structure enables the entire group to comply with the Personal Information Protection Law. From the customer's perspective, customers may request disclosure, correction, suspension of use, erasure, etc. of their own personal data through lodging a Contact for Inquiries About Customer Information application with the Customer Information Service Office. In the event of the loss or theft of customers' personal information, in addition to informing customers about the issue immediately, we shall post information concerning what information was lost or stolen on our website as necessary, as well as notices regarding our future handling of the situation. At the same time, we shall make every attempt to recover this information.

Additionally, in view of the fact that personal information protection laws are being put in place in various countries around the world, we are making efforts to protect personal information in our overseas businesses as well, by developing systems, providing training and other means in accordance with the businesses we operate in each country to comply with local laws and regulations.

Basic policy on tax

The Sekisui House Group's basic stance on tax has been disclosed, recognizing that it has a significant responsibility to respect the stakeholders' trust, for which our group is required to comply with the tax laws and regulations of the regions where it operates its businesses and make tax payments in a transparent and appropriate manner, observing the principle of fairness regarding taxes.

Sekisui House, Ltd. Basic Policy on Corporate Governance (Excerpt)

Chapter 6: Other

6. Basic policy on tax

The Group recognizes that it has a significant responsibility to respect the stakeholders' trust for which the Group is required to comply with the tax laws and regulations of the regions where it operates its businesses and make tax payments in a transparent and appropriate manner, observing the principle of fairness regarding taxes. The Group's basic stance on tax is as follows.

(1) Basic policy on tax

All officers and employees of the Group shall ensure that the highest priority is placed on compliance with the tax laws and regulations of the regions in which they operate. They shall also strive to fulfill tax responsibilities in good faith without engaging in any abnormal transactions intending tax avoidance.

(2) Transfer pricing

The Group aims to avoid double taxation on the international stage by conducting international transactions within the Group based on the arm's length principle in accordance with the OECD Transfer Pricing Guidelines.

(3) Awareness-raising efforts

The personnel in charge of taxation for the Group shall endeavor to collect necessary information by participating in external opportunities including but not limited to seminars and strive to spread and establish tax compliance awareness. If any tax issues or other matters to be addressed are identified, measures for improvement shall be promptly implemented.

(4) Relationships with tax authorities

The Group shall strive to ensure tax transparency by providing appropriate information in accordance with the requests of the tax authorities in each country, and shall engage in appropriate dialogues with tax authorities in each country to develop sound relationships. In addition, if questions arise regarding the interpretation of relevant tax legislation, the Group shall explain the facts of the situation to the tax authorities and seek confirmation as necessary in order to avoid discrepancies resulting from differences in opinion.

(5) Governance

The Group shall strongly call for thorough familiarity with the basic policy on tax so that it may comply with the tax laws and regulations of the regions in which it operates and make tax payments in an appropriate manner. The Board of Directors of the Company shall be responsible for managing and supervising the practice of this basic policy on tax.

## Risk Management

### Governance

#### IV. Governance

Addressing Material Issue ⑤  
Embodying Integrity

Strengthening Our Corporate Governance System

Promoting Compliance

Risk Management

## Risk Management

### Our Risk Management System

The group has established a Risk Management Committee (chaired by Mr. Satoshi Tanaka, Representative Director, Executive Vice President & Executive Officer) as a consultative body to the Board of Directors, with the aim of accurately understanding important risks in its business activities, preventing the occurrence of those risks, and mitigating the impact on the group's businesses in the event that such risks materialize.

As a general rule, the Committee meets once a month, and based on the monitoring results of responsible departments of the head office regarding each case of risk, the Committee then summarizes and verifies the status of the development of the risk management system and gives necessary advice. Details of committee deliberations are reported regularly to the Board of Directors.

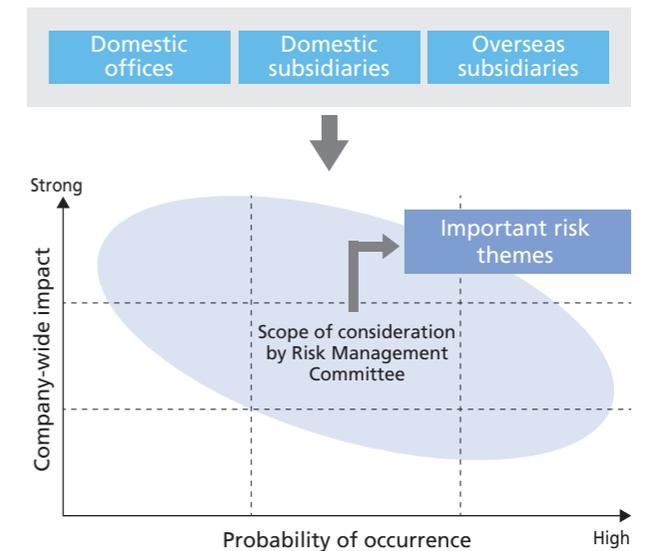
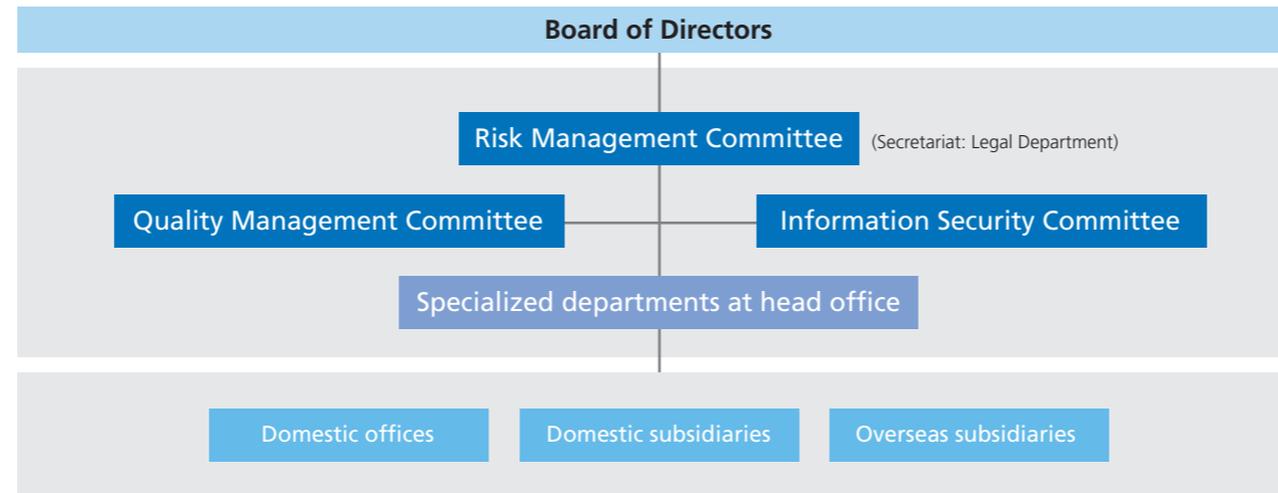
Additionally, the Quality Management Committee and the Information Security Committee have been established as subordinate organizations of the Risk Management Committee to discuss risk recognition and countermeasures from a more professional perspective. Details of deliberations made at each committee meeting are reported to the Risk Management Committee on a regular basis.

In the event of the occurrence of a serious risk, said risk shall be reported to the Risk Management Committee through the secretariat. If any crucial detail such as reputation risk is observed in the content of these reports, we have a system in place to seek ways to respond by setting up a specialized team called a Crisis Countermeasures Headquarters.

### Risk Management Process

The Risk Management Committee considers the selection of risk themes by assessing importance from the perspective of the probability of occurrence and the degree of impact on the group among risks extracted by each of the group's domestic offices, domestic and overseas subsidiaries. The department responsible for each important risk theme formulates a basic risk management plan at the beginning of the term, reports on progress to the Risk Management Committee, and pursues improvements based on the opinions of the Committee, thereby running a PDCA cycle in risk management.

Risk Management System Diagram



Risk Management

**Initiatives to strengthen information security**

The group has positioned information security as one of the important management issues to address in order to minimize risks that may hinder the continuation of the business itself, such as information leakage or suspension of operations caused by a cyberattack. For that reason, we have established the Information Security Committee (chaired by Mr. Osamu Minagawa, Managing Officer) under the Risk Management Committee, which is a consultative body to the Board of Directors. With our information security policy established in July 2020, we are working to strengthen security. The instructions that our employees should follow when they notice a suspicious person are given to all group employees through regular training, etc., and disciplinary action for information security violations has become part of an employee's performance assessment.

Additionally, in response to diversifying workstyles amid the prevailing trend of telework and the new threat of cyberattacks, we are strengthening technical measures and enhancing organizational strength at the same time.

Regarding business continuity planning and procedures to prevent IT system failures and cyberattacks, we are continuously striving to increase the e-literacy of employees and improve the procedures by providing educational training every year and on other occasions as necessary.

**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 suffered from 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.

In the event of a large-scale natural disaster, 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.

Fortunately, in fiscal 2020 we did not witness any large-scale natural disasters. However, in fiscal 2019, typhoons No. 15 and No. 19 hit from September to October and the subsequent heavy rains caused great damage mainly in eastern Japan, and more than 1,300 houses built by Sekisui House also suffered flooding under and above the floor. We confirmed the safety of our employees and their families, while setting up a Disaster Response Headquarters at our head office to transport relief supplies using our Tohoku Factory as a base to enable a quick response. We also organized relief teams arrived from all over the country to repair or remove mud from customer houses that had been flooded in cooperation with local response headquarters.

In addition, we currently have a Customer Service Center Owner Desk in Osaka and Fukuoka that can respond to house owners' requests for consultation and urgent repair 24 hours a day, 365 days a year. We carry out integrated and complementary operations to ensure that these desks can fill-in for each other in the event of a large disaster and support customers by serving as Disaster Reception Centers capable of coordinating with the Customer Service Center in the affected region as well as with Sekisui House Remodeling, Ltd.

**Business continuity planning (BCP) maintenance**

The Sekisui House Group maintains preparedness for business continuity planning (BCP) to cope with major natural disasters. The group has also formulated a Sekisui House Group Basic Policy Concerning Disaster Countermeasures. A disaster manual has also been released to our Sales Administration Headquarters and business headquarters, as well as to head office, and we are prepared for ensuring business continuity at each business base in the event of a disaster.

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 an initial response manual to establish a Sekisui House Disaster Response Headquarters. In the event of a disaster at the head office, we are prepared to continue business activities with the Tokyo office (Akasaka, Minato-ku) as well as from the Comprehensive Housing R&D Institute (Kizugawa, Kyoto) that can serve as substitute head offices.

Since numerous components and parts are required for manufacturing of houses, supply of components should not be suspended even in the event of a large-scale disaster. For this reason, we are also strengthening the supply chain by having multiple component lineups, multiple supplier companies, multiple production bases, and multi-purpose components.

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 preparation for such event, an emergency procedure manual has been created to form a system for prompt information sharing. Along with that, we have established a system to support local employees in cooperation with an external specialist company in the event of an emergency.

## Risk Management

### Comprehensive Evaluation Report on Problems with the Purchase of Land for Condominiums

On December 7, 2020, Sekisui House received a Comprehensive Evaluation Report (hereafter, the "Report") from its Comprehensive Evaluation Committee. At the request of the Board of Directors, this committee had conducted a comprehensive evaluation of the causes of an incident involving transactions for land for condominiums in Nishi Gotanda, Shinagawa-ku, Tokyo that occurred in 2017 (hereafter, the "Transaction Incident"), as well as measures to prevent recurrence and other matters. The Report was disclosed to the public on the same day.

In addition to details regarding the facts that had been determined, the Report verified and

made recommendations regarding Sekisui House's response and approach to information disclosure after the discovery of the Transaction Incident. Topics included whether cases similar to the Transaction Incident have occurred, cause analysis (direct causes in the course of the transactions and cause analysis of internal environment and internal control system), recurrence prevention measures implemented and their dissemination and awareness promotion among employees and their effectiveness, the investigation by the 2017 committee and the content of the 2018 report.

#### Background of Preparation of the Report

By June 2020, first-instance convictions were handed down on all the criminal groups indicted in the Transaction Incident. In view of this fact, the Board of Directors decided in September 2020 to conduct a comprehensive evaluation of the Transaction Incident and other matters for the purpose of fulfilling its accountability to stakeholders, including its shareholders, customers, suppliers, officers and employees, by accurately disclosing the background of facts and other matters regarding the Transaction Incident. The Board of Directors then established the Comprehensive Evaluation Committee (hereinafter, the "Committee") (Head of Committee: Shin Kikuchi of Gaien Partners), which was entrusted to external experts to ensure independence.

From September to November 2020, the Committee examined materials related to transactions, materials related to the 2017 survey and other related materials such as the minutes of Board of Directors meetings. During that time, it also held interviews with related parties and conducted a digital forensic study of e-mails of related parties, among other activities, and prepared a report (hereinafter, the "Report") that incorporates expert opinions.

#### Evaluation and Recommendations of the Report

The Report acknowledged Sekisui House's response to the cause analysis in the measures to prevent recurrence it had implemented, and positively evaluated those measures to a certain extent, but suggested that because Sekisui House did not formulate comprehensive measures to prevent recurrence, it was desirable to conduct a serious re-examination of whether effective countermeasures to the problems indicated had been taken. The Report also suggested that in order to prevent similar negative impact, in-house training and education based on the Transaction Incident was necessary due to the extreme importance of raising the awareness of each individual who operates systems, and that comprehensive reforms were needed to improve the corporate culture, including personnel rotation throughout the organization and personnel evaluations that emphasize integrity.

#### Initiatives in Response to Report Recommendations

In response to the recommendations of the Report, the Board of Directors resolved to have the Risk Management Committee re-examine the effectiveness of the recurrence prevention measures implemented by Sekisui House from the perspective of their correspondence to the cause analysis indicated in the Report; to conduct education and training using the Transaction Incident as a lesson in point; and to implement personnel rotation to help improve the corporate culture.

For education and training, we conduct a program using the Transaction Incident as a specific case study to increase awareness of risks. It fosters approaches toward work that use intuition on top of social common sense, specialized knowledge, experience and other factors. In addition, we conduct a program for managers that focuses on the problem of sectionalism, which was the cause of the internal environment that led to the Transaction Incident, and on the importance of checks and balances among divisions.

For personnel rotation, since 2019 we have been conducting transfers among the Condominium Headquarters, Development Department and International Business Department, as well as transfers of general managers and branch managers outside their headquarters in connection with our reorganization of the various sales administration headquarters, and other measures. Going forward, we will work proactively to systematically cultivate the next generation of leaders, which will lead to improvements in corporate culture and communication.

Once again, we sincerely apologize for causing great concern to our shareholders, customers, suppliers and other stakeholders regarding this matter. We take the recommendations of the Report seriously and will make further efforts to improve the effectiveness of our governance, strengthen internal controls and raise awareness of risks.