2018 Governance Reforms by Sekisui House current management => Failed to deliver promises and exacerbated Corporate Governance

Why is the Shareholder Proposal necessary?

After the land fraud incident in May 2017, Sekisui House ("the Company") positioned 2018 as the First Year of Governance Reforms, and established a total of 17 items to strengthen governance (please see table below for the details on how 16 of the 17 items have failed to be implemented).

In order to prevent recurrence of failure to reform and strengthen corporate governance, the Company must holistically understand its responsibilities to shareholders and employees.

However, the current management presently operates on a misguided understanding of governance. Governance, as defined by the Company, includes compliance, diversity, management, training, and remuneration, which are not part of governance.

As a result, there have been no sufficient governance reforms implemented, and many of them have actually gotten worse. One current example of a severe governance "red light" is the Company still resisting to disclose the investigation report on the land fraud. This is equivalent to abandoning its social responsibility.

Stakeholders of Sekisui House have every reason to believe that under the current management more improper transactions and wrongdoing will occur.

Among the 17 items that the Company set for Governance Reforms, only six are governance-related with the only reform properly implemented being I-2 “Abolishing officer's bonus system of Outside Directors.” The other five are not implemented in a sufficient manner.

The most defiant of stakeholder trust is I-4 (Separation of chairperson and convener of the Board of Directors), where the Company defined chairperson and convener by personal names rather than corporate titles, and as a result, the chairperson and convener can stay in power as far as they are directors even after retiring as representative directors. They are essentially making the Company their own.

Governance, properly defined, is to control and supervise the management and chief executives. For Sekisui House, it should be to control and supervise the four representative directors.
Ideally, those who supervise and those who are supervised should be separated.

★ The current board of directors, which consists of eight insiders and four outsiders, just follows what the insiders direct.

★ Personnel Affairs and Remuneration Committee consists of three insiders (representative directors) and four outsiders, and it is not good enough although a majority is outsiders.

All of the above must be changed since you cannot expect control and supervision to be fully functional. As a result, we have made the Shareholder Proposal to directly solve the issues that exist in the current board's structure.

Current Management-Proposed 17 items			How they have been implemented
I. Governance			
1	Appointment and dismissal of senior management (Clarification of the Criteria for Appointment of Directors)	Set up Personnel Affairs and Remuneration Committee	Three insiders (representative directors) and four outsiders. Despite the majority being outsiders, the outsiders cannot speak up in front of the three insiders. It has to be staffed by all outsiders.
2	Abolishing officer's bonus system of Outside Directors	Fair evaluation with no link to financial results	Good.
3	Evaluation of efficacy of the Board of Director ・Conduct a questionnaire survey	A survey conducted by an outside firm	You cannot expect a fair survey result or improvement since it is not anonymous. There are a total of 24 evaluation items with four multiple choices of “○△▲×”. The survey is conducted for a total of 17 members (10 insiders and 7 outsiders). Since you cannot expect the 10 insiders to make bad choices, all the bad choices of ▲ or × must have been made by the 7 outsiders. For the item on recurrence prevention of recurrence Gotanda Improper Land Transaction, there were 3 ▲s with 1 ×, which means that a majority of the 7 outsiders evaluated negatively. FYR -- For the item on control and reporting of group companies, there were 6 ▲s, which means that 6 out of the 7 outsiders evaluated negatively.
4	Transparency and invigoration of the meeting of the Board of Directors‘ operations ・Separation of chairperson and convener of the Board of Directors	Avoid concentration of power	The convener is defined as “Director Toshinori Abe” with the chairperson of the board being “Director Shiro Inagaki.” It is structured so they can remain in power after they turn 70 years old. **The internal rules have been modified so they can remain in power after they retire as representative directors at the age of 70. They are making the Company their own.** To perfect the management control, any director should be able to become the convener, and the chairperson of the board has to be an outsider.
5	Introduction of retirement age of 70 for Representative Director	Prevention of long-term administrtion by a management team	**The mandatory retirement age of 70 is only applicable to the representative directors.** If you introduce any mandatory retirement age, it should be applicable to all the directors. As mentioned 4 above, defining the chairperson and convener by personal names is inconsistent with the objective of introducing the mandatory retirement age of 70.
6	Better independence of the Board of Directors	Separation of supervision and business operations	With eight insiders and four outsiders, the insiders will always prevail. You cannot expect effective control and supervision with the minority outsiders. To ensure fairness, a majority has to be outsiders. Also, outside directors should be provided sufficient internal information to ensure transparency of management by the insiders.

	Current Management-Proposed 17 items		How they have been implemented
II.	**Personnel System** (Personnel Affairs and Remuneration Committee initiatives)		
7	Review of Directors' term of office ・Two year → One year	Directors must be fully engaged and committed at all times	Good to have more frequent inputs from shareholders, but it results in the management prioritizing short-term earnings over mid- to long-term. Mid- to long-term visions are not clear enough.
8	Abolishment of the system of Executive Advisor and Advisor	Consideration to the current management	Good but it is sometime good to have advice from those who served the Company for many years. No need to abolish – the system may stay wherever appropriate with roles clearly defined.
III.	**Remuneration System** (Personnel Affairs and Remuneration Committee initiatives)		
9	Introduction of Stock Holding Guidelines	Check massive and irregular stock holding	No guidelines or action plans re: cross-shareholding, and therefore it is not effective.
10	Introduction of "Stock Compensation Return (Mars-Clawback) Clause"	Penalty for imprudence by the management	No criteria on imprudence and therefore not practical.
11	Introduction of Restricted Stock remuneration plan	Increase remuneration and tax savings by the new rule	You get to choose whatever methods that work for the management by optimizing such management indices as ROE and EBITDA. It is good for the Company since the payments can be treated as a loss accounting-wise. Need to check to see if it is meant to be a cover for an increase in remuneration. Need to fulfill accountability to shareholders on this.
12	Drastic revision in officer's remunerations	Enhance officer morale	
IV.	**Diversity**		
13	Appointment of female Outside Officers ・One outside director + One outside auditor	Achieve diversity in gender, race, nationality, religion, age, and educational & professional background	Diversity has been met in gender only. Diversity and inclusion need to be a part of the entire organization, not limited to the management.
V.	**Management**		
14	Establishment of the Management Meeting	Information disclosure and business evaluation	It is defined that a Management Meeting has to be held "prior to board meetings or internal approval processes of important projects." However no definite rules on which projects to discuss at the Management Meetings – very arbitrarily operated. Too broad an agenda with no definition of important projects. Monthly Management Meetings cannot deal with all the important projects. Not clear why the check on consistency with management strategies and policies leads to enhanced governance.
15	Clarification of departments under the control of Directors ・Structural reforms	Clarification of authority & responsibilities and speedy execution	The Company just changed the internal ranking as Chairman => Vice Chairman => President => Executive Vice President => Director and Senior Managing Officer => Director and Managing Officer => Director, and there is no definition of authority and responsibilities for each of the corporate titles. No review done of the CEO/COO/CFO roles. The only definition of approving authority is the difference between the representative directors and the rest.
VI.	**Employee Training**		
16	Better integrity of Branch Chief ・Training and selection programs for the next Branch Chief managers ・Sekisui House Management School	Strengthen training of middle managers	No clear criteria set for the selection of middle managers, and it is solely up to their bosses. This initiative has to include those working at head office and factories.
VII.	**Compliance Training for Senior Employees**		
17	Strengthened checks and balances of the General Affairs Manager of Sales Administration Headquarters and the General Affairs Manager of Branch ・General Affairs Manager Training ・Affiliation of the general affairs supervisor and personnel assessment processes	Separation of sales and finance operations	This is not part of governance and should be left to daily operation rules. Need to figure out what is going on, and division of roles and clear definition of authority have to be made to enhance close cooperation among employees. While compliance education for employees is being promoted and it has been effective, compliance education for the management has not been effective.