



Sumitomo Realty's Governance Initiatives

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Updated on 5 November, 2021

Corporate Governance

Basic Views of Corporate Governance

Sumitomo Realty is a comprehensive real estate enterprise of the Sumitomo Group which has a history of 430 years and inherits Sumitomo's business philosophy of "Placing prime importance on integrity and sound management in the conduct of its business" and "Under no circumstances, shall it pursue easy gains." The Company's slogan, "Integrity and Innovation" expresses its corporate stance to all stakeholders including its employees, customers, business partners, creditors and shareholders. This includes the pride as a developer which values "Integrity" above all, and creates new corporate value with a pioneering spirit, without pursuing easy gains under any circumstances.

Under this slogan, we have set forth our fundamental mission as to "Create even better social assets for the next generation," and our basic management policy aims to contribute to addressing various social issues such as the environment, while at the same time maximizing corporate value through each business.

This fundamental mission also includes a reminder "Do not rest on seniors' laurels and make the best efforts for a better company for the next generation." At this point in time, we believe that the management of the Company should continue to be carried out by people mainly from within the Company who have inherited the strong will to sow the seeds of growth for the sake of the next generation. In so doing, we believe that employees will be able to maintain a high level of motivation to eventually participate in management.

In consideration of this basic stance, we are working to further strengthen and enhance corporate governance so as to contribute to the improvement of the Company's corporate value over the medium- to long-term, by working on collaboration and dialogue with all stakeholders including shareholders, improving the efficiency of decision-making, appropriate supervision of execution, and proper disclosure of information.

Corporate Governance System

Reasons for adopting an organizational structure of a company with corporate auditors

Under the Companies Act of Japan, companies may adopt one of the following three forms of organizational structure: (i) a company with corporate auditors, in which the board of directors assumes executive responsibility, while corporate auditors in charge of the monitoring of management; (ii) a company with a nominating committee, etc., wherein the board of directors is tasked with the management monitoring function and the board of executive officers assumes executive responsibility; and (iii) a company with an audit and supervisory committee, in which the management monitoring function of corporate auditors is incorporated into the functions of the board of directors. In this way, companies may select the optimum governance structure that best suits their circumstances.

As stated in the basic views above, in order for the Company to continue growing, we believe that people from within the Company who are deeply familiar with the significance of continuing to invest, always looking

resolutely forward even in difficult times, should be the core members of management and execution; hence we have a structure as a company with corporate auditors, where the Board of Directors bears responsibility for execution.

Eight directors, mainly from within the Company, who are deeply familiar with the business content, are in charge of management and execution, while two outside directors and four corporate auditors for a total of six persons, which accounts for over 40% of the 14 Board of Directors attendees, are responsible for the management supervision function. In order to fully demonstrate the supervisory function, we have built a system to accurately grasp the management condition and issues and to cooperate with each other as follows. We believe that the Company's corporate governance is sufficiently functioning, as its effectiveness is being reflected in our business results.

Role and structure of the Board of Directors

The Board of Directors promotes the sustainable growth of the Company and the enhancement of corporate value over the medium- to long-term, improves profitability and business efficiency, and prevents fraud before it occurs. In order to do so, it is responsible for deliberating and deciding important matters for the Company such as basic management policy and management strategy, as well as supervising the execution of duties by each director. The maximum number of directors in the Board

stipulated in the Articles of Incorporation is 12. The Board of Directors is comprised of eight directors from within the Company who are in charge of business execution as they are deeply familiar with the significance of always looking resolutely forward and continuing to invest for sustainable growth, and two outside directors with experience as chairman and president of listed companies, who have superior character and insight and understand the Company's management principles.

Corporate Governance

Governance System

Executive Officer System

Due to the limited number of directors, we have introduced an executive officer system comparable with directors so that we can appoint officers necessary for business expansion, and we have appointed six executive officers who do not concurrently serve as directors. Compensation for executive officers who are

non-concurrent directors is to be paid from the total compensation for directors, which is clearly based on the Company's performance set at 1% of consolidated ordinary profit for the previous consolidated fiscal year, because they are considered to be comparable with directors.

Role and structure of the Board of Corporate Auditors

Corporate auditors are responsible to supervise whether directors are performing their duties properly by using the powerful authority endorsed by law.

The Board of Corporate Auditors consists of four corporate auditors, half of whom are the two outside corporate auditors.

Cooperation among Internal Audit Department, Independent Auditor and Corporate Auditors

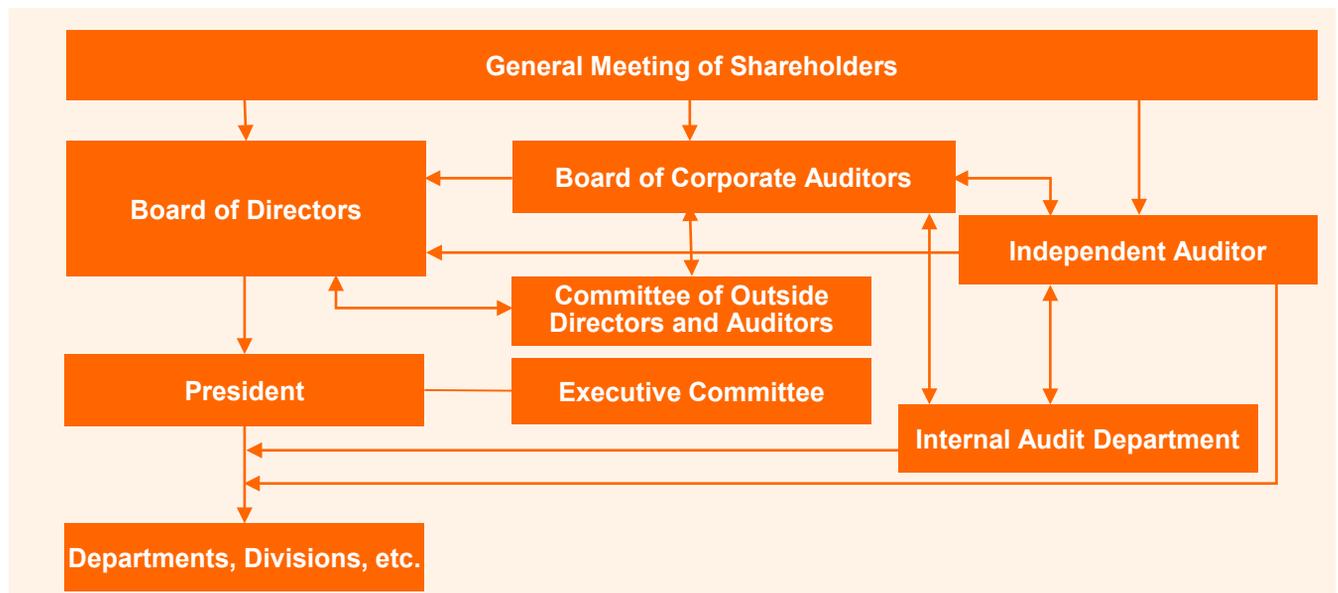
We have established the Internal Audit Department (16 persons) to check the business execution status of each department of the Group and the operational status of internal controls, to prevent fraud and errors, and to make proposals for operational improvement. In addition to reporting the audit results by the independent auditor, the Internal Audit Department reports directly to the corporate auditors to enhance and improve the efficiency of audits by the corporate auditors.

independent auditor is maintaining independence, and is executing appropriate audits.

The independent auditor examines the effectiveness of internal control over financial reporting through the audit of financial statements as well as the audit of internal control reports as stipulated in the Financial Instruments and Exchange Act.

At meetings and by means of communications with the independent auditor as necessary, the corporate auditors receive information about audits and reports on the audit plan, audit results, etc. from, and exchange opinions and necessary information with the independent auditor, in an effort to achieve smooth and effective audits. The corporate auditors also monitor and examine whether the

The Internal Audit Department reports the results of its internal audits to, and exchanges views as appropriate with, corporate auditors and the independent auditor in an effort to forge closer collaboration between the three parties and increase the quality and efficiency of individual audits. Also, the Internal Audit Department provides advice, guidance, and other support to each department in collaboration with corporate auditors.



Corporate Governance

Initiatives to Strengthen Corporate Governance

Steps taken to strengthen corporate governance

<p>June 2002 Appointed two outside corporate auditors, making half of the four corporate auditors outside members.</p>	<p>June 2015 Appointed two outside directors. Established a Committee of Outside Directors and Auditors and began holding briefings for outside directors on a regular basis, to strengthen the supervision function of outside directors and outside corporate auditors.</p>
<p>April 2004 Reformed the management system, reducing the number of directors from 23 to nine.</p>	<p>April 2020 Introduced an Executive Officer System.</p>
<p>June 2004 Introduced a fully performance-based compensation system for directors. Abolished the retirement benefit and bonus schemes for directors.</p>	<p>June 2020 Appointed one female corporate officer (outside corporate auditor).</p>

Roles of outside directors and outside corporate auditors

As part of its initiatives to strengthen corporate governance, the Company appointed two outside corporate auditors in 2002 and two outside directors in 2015.

Corporate Auditor is a system that has taken root in Japan for a long time. Corporate auditors use the strong investigative power granted by the law to audit whether the directors are conducting their duties appropriately. Although full-time corporate auditors from within the company are familiar with the company's internal affairs and have excellent information-gathering skills, they might become somewhat lenient, albeit unconsciously, when it comes to auditing their colleagues. Therefore, the Company ensures that at least half of the corporate auditors are outside members to add an objective

perspective and thereby ensure the effectiveness of audits.

Likewise, it is undeniable that the Board of Directors may become narrow-minded if it consists only of people from within the company, and it is possible that the Board may find itself left behind by the changes in the world. Therefore, the Company has appointed outside directors who have excellent character and insight, who understand its management philosophy, and who have experience as a chairman or president of listed companies, in order to have them advise the management team and monitor the directors and corporate auditors by utilizing their wide range of knowledge and insight based on their experience in corporate management.

Efforts to strengthen the supervision function

The Company has two outside directors and four corporate auditors, a total of six persons, which accounts for over 40% of the 14 Board of Directors attendees, responsible for the management supervision function. To ensure that outside directors and outside corporate auditors can fully perform their roles, in the fiscal 2020 the Company (i) held eight briefings for the outside directors in which they were briefed on the agendas for the Board of Directors meetings, the content of discussions at the Executive Committee, and other matters; and (ii) convened 13 meetings of the Board of Corporate Auditors wherein they received reports from the independent auditor and the Internal Audit Department and conducted interviews about the operating situation with the heads of each department.

In addition, (iii) we have established a Committee of Outside Directors and Auditors with only four members, comprised of outside directors and outside corporate auditors. The Committee of Outside Directors and Auditors directly hears from each officer about the execution status of the duties of which he or she is in charge and the issues they are aware of, as well as giving appropriate advice. In the event of whistle-blowing report toward officers, outside corporate auditors receive a report directly to share at the Committee of Outside Directors and Auditors.

We believe that the Company's corporate governance is sufficiently functioning, as its effectiveness is being reflected in our business results.

Corporate Governance

Policies for Appointment of Directors and Corporate Auditors

Basic Policy

Regarding nomination of candidates for directors and executive officers, persons with a wealth of experience, high-level insight and sophisticated expertise who will contribute to the Company's sustainable growth and medium- to long-term enhancement of corporate value are selected as candidates at the Executive Committee. The candidates are determined by the Board of Directors based on thorough deliberation, reflecting independent and objective opinions of independent outside directors and outside corporate auditors in

addition to opinions of internal directors who are familiar with the Company's business. Independent outside directors and outside corporate auditors have opportunities to know about relevant information such as the background, insights and achievements of internal directors, internal corporate auditors, and executive officers at several occasions including meetings of the Committee of Outside Directors and Auditors, Briefings for Outside Directors, and meetings of the Board of Corporate Auditors.

Compliance with the independence criteria of outside directors and outside corporate auditors and reasons for appointment thereof

Regarding appointment of independent outside directors and Independent corporate directors, the Company appoints outside directors who will be independent officers based on the requirements for outside directors prescribed in the Companies Act and the independence criteria set by the Tokyo Stock Exchange.

Name	Independence	Supplementary Explanation of the Relationship	Reasons of Appointment
Yozo Izuhara	○	Mr. Izuhara previously worked for Nippon Sheet Glass Co., Ltd., with which the Company has some transactions, etc. Considering the scale and nature of such transactions, the Company judges it is unlikely the relationship would have any impact on decisions of shareholders and investors.	Mr. Izuhara had served as President and Chairman of Nippon Sheet Glass Co., Ltd., and he has extensive knowledge on overseas business and M&A as a manager. The Company deems him to be suitable as an outside director, and therefore appointed him to that position.
Nobumasa Kemori	○	Mr. Kemori previously worked for Sumitomo Metal Mining Co., Ltd., with which the Company has some transactions, etc. Considering the scale and nature of such transactions, the Company judges it is unlikely the relationship would have any impact on decisions of shareholders and investors.	Mr. Kemori had served as President and Chairman of Sumitomo Metal Mining Co., Ltd., and he has extensive knowledge of the mining industry from a long-term perspective and overseas business as a manager. The Company deems him to be suitable as an outside director, and therefore appointed him to that position.
Yoshiyuki Norihisa	○	Mr. Norihisa previously worked for Sumitomo Mitsui Construction Co., Ltd., with which the Company has some transactions, etc. Considering the scale and nature of such transactions, the Company judges it is unlikely the relationship would have any impact on decisions of shareholders and investors.	Mr. Norihisa has a wealth of managerial experience at another company. In view of his personality, insight, experience, etc., the Company judges he is suitable and qualified to serve as an outside corporate auditor and has appointed him to that position.
Chiyono Terada	○	Ms. Terada currently serves as Chairperson Emeritus of Art Corporation, with which the Company has some transactions, etc. Considering the scale and nature of such transactions, the Company judges it is unlikely the relationship would have any impact on decisions of shareholders and investors.	Ms. Terada has a wealth of managerial experience at another company. In view of her personality, insight, experience, etc. the Company judges she is suitable and qualified to serve as an outside corporate auditor and has appointed her to that position.

Corporate Governance

Compensation of Corporate Officers

Outline of system and policy for determining the amount of compensation for corporate officers

At the ordinary General Meeting of Shareholders held in June 2004, we introduced a performance-based compensation system for directors, consolidating the three elements that made up the previous system—monthly compensation, annual bonuses and retirement allowances. Under the new system, the total annual (July to June) compensation for directors is set at just 1% of consolidated ordinary profit (the number of directors at the time of the resolution concerning the system was 12).

The amount paid to each director is determined upon agreement by the Chairman of the Board and Representative Directors, a total of four persons, in consideration of each director's duties and level of contribution to performance. The remainder is retained without fixing the amount per director.

On April 1, 2020, the Company introduced an executive officer system, which enables the appointment of officers comparable to directors necessary for business expansion, with the aim of the further broadening the scope of business and enhancing employee morale. Accordingly, with the agreement of all directors, the compensation of executive officers is also to be paid from the aforementioned total amount of compensation for directors.

The monetary compensation for corporate auditors, who are independent from business execution, is a fixed amount and is determined to be within ¥6.5 million per month, in accordance with the resolution made at the Ordinary General Meeting of Shareholders held on June 29, 1999. The number of corporate auditors as of the conclusion of that General Meeting of Shareholders was 5.

Authorization for determination of individual directors' compensation, etc.

Based on authority resolved by the Board of Directors, Mr. Kenichi Onodera (Director - Chairman of the Board/Chairman of the Board), Mr. Kojun Nishima (Representative Director and President/Head of Building Development Division), Mr. Nobuaki Takemura (Representative Director and Deputy President/Head of Management Division), and Mr. Masato Kobayashi (Representative Director and Deputy President/Head of Residential Business Division) determine the specific content (individual payment amount, timing of payment, payment method, etc.) of the compensation for individual directors.

These four directors are, respectively, the Chairman of the Board, Representative Director and President, Representative Director and Deputy President in charge of the Management Division, and Representative Director and Deputy President in charge of the Business Division, and are given this authority because it is judged that they can execute the comprehensive examination and appropriate assessment of the duties and contributions to performance of each director by deliberation.

Total amount of compensation for each category of corporate officers and number of officers eligible

Category	Total amount of compensation (millions of yen)	Amount by type (millions of yen)				Number of officers eligible (persons)
		Basic compensation	Stock options	Bonus	Retirement benefit	
Directors (excluding outside directors)	2,123	2,123*	—	—	—	8
Corporate auditors (excluding outside corporate auditors)	30	30	—	—	—	2
Outside directors/corporate auditors	67	67	—	—	—	5
Total	2,221	2,221	—	—	—	15

*With the agreement of all directors, a portion of the amount of directors' compensation has been allocated to the five executive officers. Regarding the amount of directors' compensation above, the full amount is not paid to the individual directors in the current fiscal year, with around 50% of the total paid. Payment of the rest is reserved in preparation for retirement benefit for directors, making up for possible decreases in directors' compensation if the Company's financial performance deteriorates in the future, salaries to be paid to persons who will become advisors or counsellors of the Company after retirement, etc. Regarding the reserved amount, the timing of payment and the amount for each director or corporate auditor cannot be determined, and thus, the reserved amount will become subject to calculation of compensation etc. of each director or corporate auditor upon payment in the future or upon confirmation of future payment.

Total amount of compensation of persons with total compensation of 100 million yen or more

Name	Category	Amount by type (millions of yen)				Total amount of compensation (millions of yen)
		Basic compensation	Stock options	Bonus	Retirement benefit	
Kenji Onodera	Director	120	—	—	—	120
Kojun Nishima	Director	120	—	—	—	120

Corporate Governance

Initiatives for Promoting Diversity

We have been actively promoting diversity since before, based on the awareness that the existence of diverse perspectives and values reflecting a variety of experiences, skills and characteristics within the Company is a strength that supports the sustainable growth of the Company.

For more than 20 years, we have been actively hiring people with diverse careers at other companies as individuals who can be immediately effective in the Company. Today, mid-career hires with work experience at other companies account for 90% of our employees, and are the source of the Company's growth.

In addition, we believe that equal opportunity in promoting employees to managerial positions is the most important factor for increasing their motivation, so we promote employees based solely on their enthusiasm, ability, and achievements, regardless of gender or whether they were hired as new graduates or as mid-career hires. As a result, more than 60% of our managers are currently mid-career hires, ensuring diversity in the

managerial positions.

We are also actively working on the promotion of female participation and career advancement. Firstly, we have announced a numerical target for the ratio of female employees in sales and engineering positions that support our front line operations (25% in sales and 13% in engineering positions). By further increasing the ratio of female in our employees and working on their career development to expand the pool of our human resources, we will increase the number of female employees for future promotion and gradually promote them to managerial positions.

We believe that diversity in managerial positions should be ensured naturally as a result of fair appointments. We believe that setting a numerical target for diversity in managerial positions may distort equal opportunity in the appointment of managers and lower the morale of employees as a whole, and therefore we will not set such a numerical target.

Timely and Appropriate Information Disclosure and Communication with Shareholders and Investors

System for information disclosure

The Company considers that it is important to ensure soundness and transparency of management by means of timely and appropriate information disclosure. In accordance with this basic policy, the Company has put in place systems that enable swift reporting to the responsible department at the head office and implementation of appropriate information management measures, if a material fact that may have an impact on investors' investment decisions arises at the Company's departments or at subsidiaries.

Upon emergence of a material fact and reporting thereof, the responsible department, the General Affairs Department, Corporate Planning Department, and other relevant departments, discuss whether there is need for timely disclosure, and if it is judged that disclosure is necessary, timely disclosure is performed without delay following the necessary internal procedures.

Subsequently, the disclosure materials are posted on the Company's website for thorough information disclosure.

Constructive dialogue with shareholders

The Company strives to provide substantial explanation of the Company's corporate management and business activities through General Meetings of Shareholders, financial results briefing sessions, individual meetings, and other opportunities for communication with shareholders and investors.

If a shareholder requests a dialogue, the Company's policy is that the ESG promotion office respond to such request appropriately under the supervision of the responsible director, etc. depending on the objective of

the dialogue, the method of communication, the number of shares held, the attributes, etc. and strive to make improvement when given constructive opinions.

Regarding dialogues with shareholders, the Company exercises due care concerning the handling of insider information, and notifies, as necessary, important meetings such as management meetings attended by directors and senior executives, of the details of the dialogues.

Corporate Governance

Takeover Defense Measures

Details of and initiatives to help realize the basic policy

(1) Steadily achieving objectives of the medium-term management plans and maintaining the revenue and profit growth trajectory

With top priority placed on achieving objectives of the medium-term plans it draws up every three years, the Company has increased its corporate value as a result of having steadily carried out such initiatives.

The Company has been steadily achieving its anticipated objectives under each of the plans, having implemented seven management plans thus far, starting with the First Management Plan (April 1997 to March 2001) whose aims involved overcoming the adverse effects encountered by the Company when Japan's bubble economy burst, and achieving a rebound to record-high financial results.

The Seventh Management Plan (April 2016 to March 2019), concluded in March 2019, assumed an outlook whereby the Sixth Plan's favorable business environment was unlikely to persist into the Seventh Plan, yet the Seventh Management Plan marked the start of our stated objective of setting new record-high financial results beyond those achieved under the Sixth Plan and thereby maintaining our "revenue and profit growth trajectory." Fortunately, the Company's business environment remained favorable overall, particularly with respect to leasing office buildings in Tokyo amid a scenario of business conditions in Japan looking increasingly upbeat year by year, driven by favorable economies worldwide. As a result, the Company substantially exceeded its initial targets across the board in terms of revenue from operations, operating income and ordinary profit over the cumulative three year period. Moreover, the Company achieved record-high financial

results over six consecutive fiscal years, having achieved revenue from operations and ordinary profit in the final fiscal year of the plan, the fiscal year ended March 31, 2019, respectively exceeding 1 trillion yen and 200 billion yen for the first time ever. The Seventh Management Plan ended on a successful note with the Company having achieved profit growth exceeding initial expectations.

Moreover, the Company has been taking steps to furthermore strengthen its corporate governance. This has entailed eliminating risk involving conflict of interest due to parent-subsidiary listing by having made its real estate brokerage subsidiary Sumitomo Real Estate Sales Co., Ltd., a wholly-owned subsidiary in June 2017, and building a framework for promoting increased corporate value over the medium- to long-term by optimally allocating the Group's managerial resources.

The Company's new medium-term management plan, the Eighth Management Plan (April 2019 to March 2022) released in May 2019, cites as its first objective the goal of achieving consecutive record-highs with respect to financial performance while maintaining the pace of growth attained under the previous Seventh Management Plan. Meanwhile, we remain committed to increasing the Company's corporate value by steadily implementing plans for capital investment of 2 trillion yen in leasing properties with respect to development plans that have taken shape in central Tokyo, and continuing to strengthen our platform for generating revenues over the long-term.

(2) Growth underpinned by central Tokyo office building leasing business and corporate value

The real estate leasing business primarily involving office buildings in central Tokyo has been a driving force underpinning the Company's growth thus far. Given that this business accounts for nearly 70% of the Company's operating income overall, it clearly forms the core aspect of its corporate value acting as a major pillar of operations.

The Company has been expanding its business platform by promoting development of office buildings with a specific focus on central Tokyo over roughly half a century since the early 1970s, an era that ushered in completion of the Shinjuku Sumitomo Building, often referred to as the "triangular building." The Company has experienced various change in the business environment such as unprecedented economic crises that include the bursting of Japan's bubble economy and the 2008 global financial crisis in wake of the Lehman Brothers collapse, along with Japan's bubble economy and recent business conditions under Japan's Abenomics policies such that: (i) the Company will not pursue temporary gains by selling assets; (ii) the Company will hold ownerships of buildings constructed on sites it has developed; and (iii) the Company will generate stable leasing income over the long-term by owning and leasing such buildings. Having consequently grown to become a building owner professing to be "No.1 in Tokyo" with more than 230 buildings located in central Tokyo, the Company's cash flow from the leasing business has reached 200 billion yen for the fiscal year ending March 31, 2021 (operating income of the

real estate leasing business + depreciation).

The office building leasing business calls for comprehensive strength for carrying out business encompassing everything from acquisition of development sites to operations that include planning projects, marketing tenants, providing services for tenants and managing buildings. Given that acquiring development sites is the most important of these operations, the Company has been developing sites for buildings as if it were a manufacturer in terms of the approach it takes to redevelopment in terms of buying up land and coordinating rights and interests of landowners.

In addition, the Company attaches importance to performing building management, tenant marketing, etc. directly, thus grasping the actual conditions of clients and sites appropriately and always eagerly working on the improvement of project planning and making operations more efficient. As a result, we have realized high profitability, and have increased the value of the property possessed as well as of the corporations. As a result, we have realized high profitability, and have increased the value of the property possessed as well as of the corporation. Unrealized gains from rental and other investment properties have accumulated over the years, and amounted to approximately 3.4 trillion yen by March 31, 2021, as disclosed on the financial summary for the fiscal year ended March 31, 2021.

Corporate Governance

Takeover Defense Measures

Details of and initiatives to help realize the basic policy

(3) The necessity for the takeover defense measures

The Eighth Management Plan cites as its secondary objective the notion of steadily promoting new building development plans in central Tokyo to achieve gross floor area exceeding 800,000 tsubo (one tsubo is roughly 3.3㎡), which constitutes more than 50% of the 1,520,000 tsubo in gross floor area for leasing as of March 31, 2019. The Company aims to further expand its earnings base, increase its corporate value and augment shareholder returns by successively completing such developments and putting them into operation.

Such large-scale development plans involve ultimately generating revenues from the substantial amount of cumulative upfront investment made thus far.

The Company has long managed to continuously expand its business platform by developing lease buildings while avoiding exposure to vicissitudes of the real estate market and business conditions, given that it has normally been buoyed by its leasing business cash flows which have been a stable source of revenues. As such, the Company needs to maintain and further expand its cash flows from the leasing business, which have grown to around 200 billion yen, in order to confidently carry out such upfront investment without having to continually resort to interest-bearing debt. Moreover, it is likely to take another six or seven years before the Company achieves full profitability given that the focus has been on large-scale redevelopment.

Meanwhile, if the Company adopts a short-term management policy to seek temporary earnings and realizes latent gains by selling real estate holdings prior to having accomplished the

objectives of the development plans formulated to contribute to higher corporate value in the future, the leasing business cash flows that act as a stable revenue source will decrease, thereby exposing the development plans to financial risk. As such, the Company is unable to rule out a possible threat of damage to the foundation of the Company's corporate value.

The Company's management policy aims to steadily increase corporate value based on a medium- to long-term outlook, and is consequently incompatible with such short-term goals. As such, if an investor seeking to orchestrate a takeover emerges, the Company must seek a mandate from its shareholders upon having ensured sufficient information and time for completing discussions. Accordingly, the Company deems that preliminary development of procedures through "the Policy on Large-Scale Purchase of Shares of the Company (Takeover Defense Measures)" (hereinafter referred to as the "Policy") aligns with the common interests of shareholders. The Policy was adopted based on the decision of the meeting of its Board of Directors dated May 17, 2007, was continued or renewed upon receiving approval from shareholders at each of the shareholders' meetings of the 74th fiscal year dated June 28, 2007, the 77th fiscal year dated June 29, 2010, the 80th fiscal year dated June 27, 2013, the 83rd fiscal year dated June 29, 2016, and the 86th fiscal year dated June 27, 2019. The term of the Policy will expire upon the conclusion of the shareholders' meeting of the 89th fiscal year scheduled to be held in June 2022.

The policy on measures to a large-scale purchase of shares of the Company and the Board's stance

The Company believes that if a large-scale purchase of the Company shares ("Large-Scale Purchase") is initiated, the shareholders should decide to accept or reject the Large-Scale Purchase. In order for the shareholders to correctly recognize the effect on the corporate value and common interests of shareholders, however, it is necessary that both the party making the Large-Scale Purchase (the "Large-Scale Purchaser") and the Board of Directors of the Company provide to the shareholders necessary and sufficient information, opinions, alternative proposals, etc., and necessary and sufficient time to consider them.

The Policy sets out rules on Large-Scale Purchases (hereinafter referred to as "Large-Scale Purchase Rules") and requests the Large-Scale Purchaser to comply with the Large-Scale Purchase Rules. The Large-Scale Purchase Rules state that the Large-Scale Purchaser provide the Board of Directors of the Company necessary and sufficient information regarding the Large-Scale Purchase in advance, and only commence the Large-Scale Purchase after a certain period of evaluation by the Board of Directors of the Company has elapsed. The Board of Directors shall take countermeasures that it deems necessary if the Large-Scale Purchaser does not comply with the Large-Scale Purchase Rules, or even though the Large-Scale Purchaser complies with the Large-Scale Purchase Rules, if it is clear that the Large-Scale Purchase will cause unrecoverable

damages to the Company or if the Large-Scale Purchase significantly damages the corporate value and common interests of shareholders.

Additionally, the Board of Directors of the Company shall consult with a Special Committee consisting of external academic experts, lawyers, certified public accountants, etc., and shall receive the recommendations of the Committee when taking decisions as to whether or not the Large-Scale Purchaser complies with the Large-Scale Purchase Rules, whether or not it is clear that the Large-Scale Purchase will cause unrecoverable damages to the Company, whether or not the Large-Scale Purchase will significantly damage the corporate value and common interests of shareholders, and whether or not countermeasures should be taken. The Board of Directors of the Company shall take the Special Committee's recommendations into the fullest account.

As stated above, the Policy stipulates rules to secure the necessary information and time for shareholders to deliberate on the Large-Scale Purchase, as well as countermeasures if the Large-Scale Purchaser does not comply with the Large-Scale Purchase Rules or if it is clear that the Large-Scale Purchase will cause unrecoverable damages to the Company. The purpose of the Policy is not to maintain the status of the Company's officers but to contribute to the Company's corporate value and the common interests of its shareholders.

Compliance

Issue Awareness and Action Plans

The Sumitomo Realty Group has set forth its fundamental mission which is based on Sumitomo's business philosophy, and it established the Code of Conduct as guidelines to govern all our officers and employees in order to fulfill this fundamental mission.

The Code of Conduct upholds the concept of implementation of compliance and promotes compliance activities based on the understanding that compliance is an important management issue.

The Company defines compliance as not only complying with laws and regulations, but also sensitively responding and adapting to social demands that underlie laws and regulations. We promote our business activities by responding to laws, regulations, internal rules, social common sense, corporate ethics and social demands that underlie them.

【Fundamental Mission】

Create even better social assets for the next generation

【Code of Conduct】

- | | |
|---|--|
| <ul style="list-style-type: none"> 1 . Open Culture ... Opportunity 2 . Higher Goals ... Innovation 3 . New Approaches ... Pioneering 4 . Compliance
Business activities in compliance with laws and regulations, corporate rules, social norms, and ethics 5 . Rejection of antisocial forces | <ul style="list-style-type: none"> 6 . Trust with our stakeholders
Sustaining trust with our employees, customers, business partners, local communities, shareholders/investors, and government organizations 7 . Environmental Protection
Protecting the global environment through efforts such as resource saving, energy saving, resource recycling, and CO2 reduction |
|---|--|

Management Structure

The Company has established the Risk Management Committee chaired by the Company's President. The Internal Control Meeting (hosted by the Company's Internal Audit Department), which is a subordinate organization of the Risk Management Committee, monitors compliance promotion activities of the Group, and reports the result to the Risk Management Committee.

The Company's Internal Audit Department performs internal audits to prevent any misconduct or illegal acts and guide for business improvement. Moreover, the department reports the results of its audits to the

corporate auditors and the independent auditor and exchanges opinions with them in an appropriate manner. These activities help to improve the quality and efficiency of the audit work of the Internal Audit Department, the corporate auditors and the independent auditor.

The Company has a system in which the Board of Directors supervises the compliance promotion activities. Of the matters examined by respective department and subsidiaries, important matters are reported to the Board of Directors.

* Compliance promotion activities refer to activities to prevent all types of corruption including bribery and money laundering, as well as activities to comply with various laws and regulations concerning the environment and society.

Compliance

Initiatives

➤ Whistleblowing System

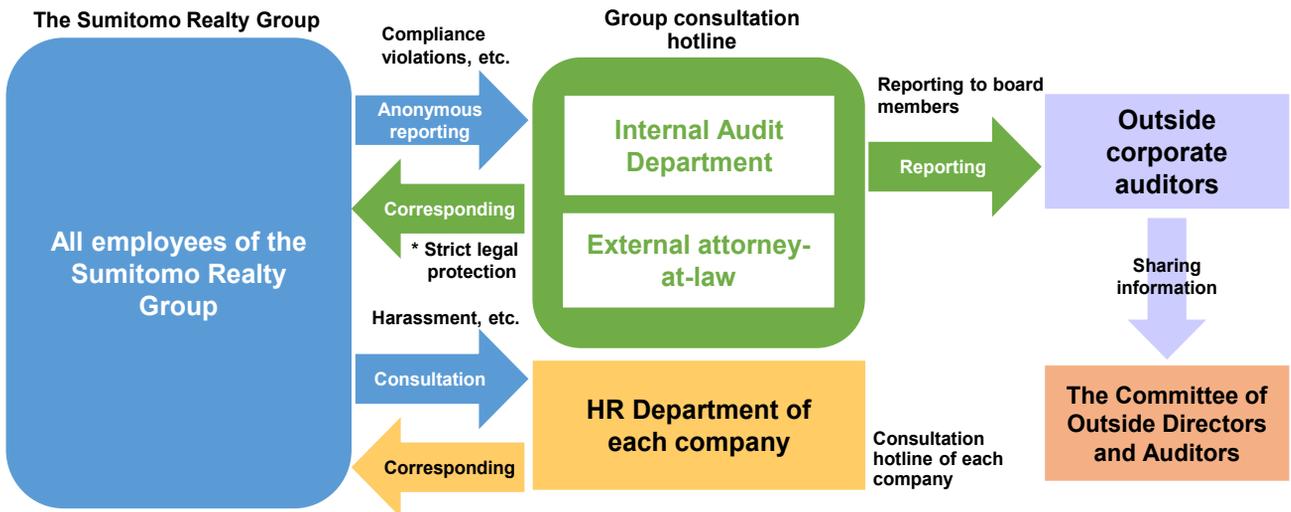
The Sumitomo Realty Group has established a whistleblowing system for the entire Group, which aims to enable early detection of compliance violations and appropriate corrective action. In order to encourage active consultation and reporting, we have designed the system to provide strict legal protection for those who report violations as well as to allow them the option of anonymous reporting. In this system, we respond to not only clear compliance violations but also potential violations.

We have established two points of contact for reporting, the Internal Audit Department, which is independent of business divisions or other internal organizations, serves as the internal point of contact, and an external law firm, which is independent of the management, serves as the external point of contact.

In addition, we have established a consultation desk in each Group company's Human Resources Department to provide consultation on harassment and other issues related to the working environment. The personal information of whistleblowers is kept confidential with strict legal protections, so they do not suffer any negative consequences by contacting the consultation desk.

Should a compliance violation be identified, we take appropriate action and then work to prevent a similar situation from reoccurring by providing instructions on our website to employees and other measures. Remedial measures are also provided for victims.

[Whistleblowing System]



➤ Compliance Handbook

The Compliance Handbook, which describes appropriate behavior in terms of compliance in given situations, is distributed to all officers and employees to be thoroughly acquainted with legal compliance. It is used to check the status of compliance with the code of ethics and to identify compliance violations whenever necessary. Its contents are updated as required based on opinions from the work sites after confirming effectiveness.

➤ Handling Compliance Violations

When compliance violations are discovered, the Company conducts prompt investigations and takes strict disciplinary actions as well as measures to prevent the reoccurrence of such violations. At the same time, all officers and employees are warned.

➤ Compliance Training

Employees are educated on implementation of compliance as Sumitomo Realty Group employees through various training programs including new employee training, compliance training for all employees, and managerial position training.

Compliance

Initiatives

Anti-Corruption

➤ Issue Awareness and Action Plans

[Basic Policy on Anti-Corruption]

The Sumitomo Realty Group is committed to preventing all types of corruption, including bribery and money laundering. In order to prevent the occurrence of the following situations, the Group is thoroughly promoting awareness among all employees.

- ◆ Offering or receiving excessive entertainment or gifts in any form of relationship with stakeholders, regardless of whether they are public or private
- ◆ Especially, offering bribing or rendering any other favors that are suspected to be bribes (including facilitation payments) to public officials or persons in a similar position, domestic or overseas, in order to gain an unfair advantage
- ◆ Engaging in all other types of corruption that violate corporate compliance, such as money laundering, acts of fraud/compulsion, and insider trading

➤ Identification of and Responses to the Risk of Corruption in Business

In pursuing its business activities, the Sumitomo Realty Group has identified potential corrupt practices that are considered as high risk in each business, such as bribery and excessive entertainment/gifts, collusion through political donations, acts of fraud/compulsion, and insider trading. In order to prevent such corruption, the Group has a set of procedures for dealing with each situation that are to be followed by each employee of Sumitomo Realty in a Q&A format.

These are summarized in the Compliance Handbook, which is distributed to every officer and employee, and they are thoroughly enforced through compliance training and other means. In the unlikely event that corrupt practices described above be discovered, the Company will take strict actions including disciplinary actions, and conduct educational activities for raising awareness within the Company to prevent their reoccurrence.

➤ Policy on Political Donations

When supporting the activities of political groups, the Sumitomo Realty Group will appropriately act in accordance with the Public Offices Election Act, the Political Funds Control Act, and other relevant laws and regulations. The Group does not make donations to individual politicians.

➤ Fines, Administrative Monetary Penalties, and Settlement Monies Resulting from Corrupt Practices

At the Sumitomo Realty Group, there were no serious violations of laws and regulations related to corruption such as bribery in fiscal 2020. Accordingly, there have been no fines, administrative monetary penalties, or settlement monies paid.

➤ Participation in a Consortium

The Sumitomo Realty Group signed the “UN Global Compact” on October 2020 as part of initiatives toward anti-corruption. It is working to promote anti-corruption activities based on the principle of “Businesses should work against corruption in all its forms, including extortion and bribery.”

◆ UN Global Compact

The “UN Global Compact” is a global initiative advocated by then UN Secretary-General Kofi Annan in 1999 and was officially inaugurated in July 2000 in New York. It aims to realize a sustainable global society through each participating company and organization working toward solving social issues by demonstrating responsible and creative leadership.



Compliance

Initiatives

Tax Transparency

➤ Issue Awareness and Action Plans

The Sumitomo Realty Group, in the spirit of the law, complies with the tax laws of every country in which it conducts business activities, and strives to maintain the impartiality of taxation. The Group is also aware of its responsibility to pay taxes as an entity engaged in corporate activities, and it contributes to society by paying appropriate taxes commensurate with the scale of its business operations, which is the aim of the Action Plan on Base Erosion and Profit Shifting (BEPS).

➤ Supervisory System

The Sumitomo Realty Group periodically receives reports from each subsidiary on the performance of duties including the status of business execution and the financial condition including tax matters. Depending on the matter, it provides instructions related to the business as necessary. The corporate auditors and the Internal Audit Department also perform audits as necessary on the financial condition including tax matters. Furthermore, a system has been established in which the Director responsible for the Accounting Department oversees general tax matters, and important matters are reported to and supervised by the Board of Directors.

➤ The Amount of Tax Payment

The amount of tax payment of the Sumitomo Realty Group inside and outside the country for 2019 are listed as follows.

Area		Amount of tax payment (Billion yen)
Domestic	Japan	68.8
Overseas	U.S.A., etc.	0.4
Total		69.2

➤ Examination of Tax Matters by External Parties

KPMG AZSA LLC audits the Sumitomo Realty Group's consolidated financial statements including tax-effect accounting.

◆ Action Plan on Base Erosion and Profit Shifting (BEPS)

A 15-item action plan formulated by the OECD to deal with "tax avoidance (BEPS)" in which multinational enterprises artificially manipulate taxable income (2015 Final Reports)

- Action 1: Addressing the Tax Challenges of the Digital Economy
- Action 2: Neutralise the Effects of Hybrid Mismatch Arrangements
- Action 3: Strengthen CFC Rules
- Action 4: Limit Base Erosion via Interest Deductions and Other Financial Payments
- Action 5: Counter Harmful Tax Practices More Effectively, Taking into Account Transparency and Substance
- Action 6: Prevent Treaty Abuse
- Action 7: Prevent the Artificial Avoidance of PE Status
- Action 8: Assure that Transfer Pricing Outcomes are in Line with Value Creation-Intangibles
- Action 9: Assure that Transfer Pricing Outcomes are in Line with Value Creation-Risk and Capital
- Action 10: Assure that Transfer Pricing Outcomes are in Line with Value Creation-Other High-risk Transactions
- Action 11: Measuring and Monitoring BEPS
- Action 12: Require Taxpayers to Disclose their Aggressive Tax Planning Arrangements
- Action 13: Re-examine Transfer Pricing Documentation
- Action 14: Make Dispute Resolution Mechanisms More Effective
- Action 15: Develop a Multilateral Instrument

(National Tax Agency Website)

Ensuring Fair Competition

➤ Issue Awareness and Action Plans

The Sumitomo Realty Group strives to maintain fair relationships with its business partners by complying with laws and regulations including the Antimonopoly Act and the Subcontract Act.

Response to Anti-Social Forces.

➤ Issue Awareness and Action Plans

The Company shall take a resolute attitude toward antisocial forces that threaten social order and safety, and have no relationships with such antisocial forces.

Designating the General Affairs Department as a division in charge of countermeasures against antisocial forces, the Company has appointed a person responsible for the prevention of unjust claims. Furthermore, the Company collects and manages information concerning antisocial forces by collaborating with the police and other relevant institutions, and shares such information internally along with cautionary notices.

Risk Management

Issue Awareness and Action Plans

The Sumitomo Realty Group recognizes that it is important for corporate management to prevent, mitigate, and avoid various business risks, as well as respond to emergencies that are expected to have a significant impact on corporate activities, based on an understanding of the various risks involved in business.

In addition to risk management by each business department, the Group strives to stabilize its business activities and increase corporate value by understanding, analyzing, and appropriately dealing with risks associated with management and businesses through the establishment of cross-sectional organizations.

Management Structure

In order to address various business risks, the Group has established the Risk Management Committee chaired by the Company's President. Among the risks of the Group, the risks associated with the business, such as investment risk and market risk, are monitored and addressed by the respective departments and subsidiaries properly, and important matters are discussed and determined at meetings of the Company's Board of Directors and other important

meetings such as management meetings.

Moreover, in order to address risks of large-scale disasters, etc. affecting business continuity, the BCP Subcommittee (hosted by the Company's General Affairs Department), a subordinate organization of the Risk Management Committee, monitors the status of development of business continuity planning (BCP) by the Group, and reports the result to the Risk Management Committee.

◆Examples of matters considered to be risks by the Company and are under the supervision of the Board of Directors (excerpt)

- Risk related to the spread of COVID-19
- Risk related to compliance
- Risk related to force majeure events, including disasters
- Risk related to suppliers
- Risk related to finance
- Risk related to information security
- Risk related to climate change
- Risk related to ESG*

*Risk related to ESG includes the following items:

Environment: Climate change, Conservation of Water Resources, Biodiversity, Waste, Environmental Pollution, Environmentally Responsible Supply Chain
 Society: Contribution to Local Communities, Disaster Prevention, Human Rights, Diversity, Working Environments, Product Safety & Quality
 Governance: Corporate Governance, Compliance, Anti-corruption, Tax Transparency, Risk management

Initiatives

Management and Business Risks

The Sumitomo Realty Group refers to external risk management standards such as ISO 31000, to individually identify the impact of various risks on its business activities, and take appropriate measures.

(1) Risk Related to the Spread of COVID-19

*From the Annual Securities Report for the year ended March 31, 2021

The COVID-19 pandemic, which began last year worldwide, is showing no sign of being contained. For the fiscal year ending March 31, 2022, the Group has announced its earnings forecast based on the assumption that there will not be a full recovery before the end of the fiscal year from the decline caused by COVID-19 in commercial facilities in the leasing business, such as hotels and event halls, and that the business environment will be similar to the previous year.

The Group is working to maintain sales levels while taking measures to prevent infections of customers or

employees in accordance with government policies and industry guidelines.

If, in addition to the above assumption, the COVID-19 pandemic continues to ebb and flow in Japan and other major countries overseas, causing intermittent declarations of a state of emergency, which extend the period of restrictions on people's movements and gatherings, sales at commercial facilities such as hotels and event halls may continue to decline. These factors may impact the Group's operating results and financial position.

Risk Management

Initiatives

Management and Business Risks

Initiatives against COVID-19

At the Sumitomo Realty Group, we prioritize health and safety of customers, business partners and employees and operate business only after we take measures according to government policies and industry guidelines in each of our businesses to ensure that customers can use our service without worries.

■ For our employees' safety

In order to protect our employees from infections while continuing our operations, we take the following measures.

- Requiring to wear face masks at all times and measure temperature every morning
- Requiring to refrain from taking business trips where possible, and actively use online conferencing
- Requiring to adopt staggered working hours or telecommuting
- Maintaining social distance in workplaces

■ For our customers' safety

In order to ensure that customers can feel safe while using our service, we take basic measures, such as requiring face masks and hand sanitizers in all of our businesses. In addition, we take the following infection prevention measures designed to suit characteristics of each business area.

■ Measures taken for each business

Business	Measures
Building Leasing	<ul style="list-style-type: none"> • Urging users to maintain social distance in the elevators using posters • Suspending the use of air hand-dryers in bathrooms • Regular checks on ventilation efficiency and improvement, using results of air environment measurement
Condominium Sales Housing Construction Real Estate Brokerage	<ul style="list-style-type: none"> • Introducing reservation-only system • Use of acrylic panels to prevent droplet infection at sales offices • Introducing online customer service
Hotel Management	<ul style="list-style-type: none"> • Sanitization of rooms using ozone sterilizers and air purifiers set up in all rooms • Requiring guests to fill out a medical questionnaire form at check-in
Multipurpose Hall	<ul style="list-style-type: none"> • Providing rental of thermographic cameras • Proposal of layouts that maintain a certain distance between visitors • Measures to minimize contact between visitors at venues, including use of dedicated elevators and reserving of entire floors
Fitness Club Management	<ul style="list-style-type: none"> • Temperature measurement device with facial recognition installed • Limiting the number of lockers used and increasing the frequency of ventilation of each area • Remote studio lessons

◆ Remote Condominium Sale Service Started

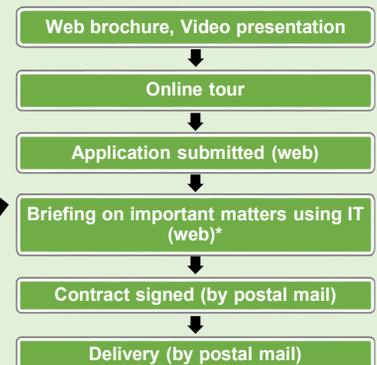
As a new way of selling newly built condominium units during and after the coronavirus pandemic, we introduced a remote condominium sale service for our sales business from June 1, 2020, in which the entire purchase process is completed without having to directly face sales staff, from a tour of the unit to its delivery.

The service allows customers to purchase condominiums safely, at their request, by avoiding directly facing sales staff in all phases of purchase, from the initial step of collecting information about a unit, tour of the model room, submission of application/signing of the contract, briefing on important matters to delivery.

■ Example of services offered online

- Introduction of unit, Information on surrounding environment
- Video of the model rooms
- Route from nearest station to the building (video)
- Detailed financing plans; housing loan consultation
- Questions and answers, etc.

【Flow of remote condominium sale service】



*A pilot experiment by the Ministry of Land, Infrastructure, Transport and Tourism for briefing on important matters using IT (started from October 1, 2019).

Risk Management

Initiatives

Management and Business Risks

(2) Risk related to Finance

In the real estate leasing and sales businesses we operate, investment is made up front, and revenue is not claimed until we first purchase land and the building is completed. This means we need to secure a stable supply of operating funds by borrowing from banks or issuing bonds. To achieve this, we strive to stabilize funding by extending the period of and promoting fixed interest rates for consolidated interest-

bearing debts while working to solidify stable relationship with diverse financial institutions.

However, a rapid and significant change in the financial environment, a change in the operational situation of lenders, etc. may inflict a negative impact on the Group's earnings performance or financial position in the forms of rises in borrowing rates and deteriorated cash flows.

【Consolidated interest-bearing debts, etc. in recent fiscal years】

(Million yen)	2015	2016	2017	2018	2019
Consolidated interest-bearing debts	3,158,901	3,370,474	3,473,512	3,342,786	3,440,908
Consolidated equity	888,099	1,007,347	1,114,975	1,202,103	1,294,998
Debt-to-equity ratio*	3.3	3.1	2.9	2.6	2.5
Percentage of long-term debts	98%	98%	98%	99%	96%
Percentage of debts bearing fixed interest rates	94%	95%	94%	96%	95%

* Consolidated interest-bearing debts / Consolidated equity

(3) Risk related to Compliance

Businesses operated by the Group are subject to wide-ranging laws and regulations, including the Building Lots and Buildings Transaction Business Act, the Construction Business Act, the Building Standards Act and the Labor Standards Act. We closely monitor any change in them and work to ensure timely and appropriate compliance. The Internal Control Meeting, subordinate to the Risk Management Committee, monitors the Group's compliance promotion activities, while the Internal Audit Department conducts internal audit on entities including subsidiaries and operates

multiple whistleblowing desk in and outside the Company, aiming to detect and deter misconduct and illegal acts.

Still, there is possibility that the Group's business performance and financial position may be affected through impacts of changes to laws, etc. on business activities. Furthermore, if the Group and its officers and employees commit compliance violation, the Group's business performance or financial position may be affected as confidence in the Group is undermined and demand for the Group's products decreases.

(4) Risk related to Information Security

The Group's businesses hold large amounts of important information, including personal data. The Group has cybersecurity measures in place to prevent information leaks and trains employees on information security.

However, if information is leaked due to cyberattacks or negligence on the part of our employees, the Group's business performance or financial position may be affected due to payment of compensation for the damage or decreases in demand for its products as confidence in the Group is undermined.

Risk Management

Initiatives

Management and Business Risks

(5) Risk related to Force Majeure Events, including Disasters

In order to be prepared for force majeure events, including disasters, the Group strives to improve its business continuity by adopting base isolation and quake-absorption structures at its properties and equipping facilities with emergency generators to ensure uninterrupted operation. We also create manuals and carry out disaster drills based on

expected scenarios in our business activity in order to ensure operational sustainability.

However, if a force majeure event occurs in an extent that far exceeds our assumptions, the Group's business performance or financial position may be affected as it faces costs to reconstruct its properties or slowdown in business activity.

Scenario Assumed in a Major Earthquake

To prepare for the risk of major earthquakes, the Building Development Division of Sumitomo Realty has formulated a scenario, which assumes the earthquake's impact on company assets, roads, traffic conditions, etc., based on the scale of the earthquake assumed by the "Tokyo Inland Earthquake Working Group." The Division carries out periodic disaster drills based on this scenario.

【Overview of the assumed earthquake】

Magnitude: M7.3

Seismic intensity: 6 upper

Epicenter: Depth of 30 to 50 km in the Northern Part of Tokyo Bay

Aftershocks: Strong aftershocks of around seismic intensity 4 to 5 will continue.

【Public transportation (trains and buses) damage scenario】

- Services will completely halt for 24 hours immediately following the earthquake.
- Even after the resumption of some services, commuting times are expected to take at least twice as long as under normal circumstances.

(6) Risk related to Climate Change

The Group aims to respond to physical risks associated with climate change such as storm and flood damage, as well as transition risks entailed by various systems for curbing climate change and changes in the business environment. We have established the Sustainability Committee chaired by the Company's President to control and promote responses to environmental issues through the business activities of each department of the Group. In particular, we are promoting decarbonization to mitigate climate change, focusing on saving energy

through the development of new properties with high environmental performance, raising awareness for saving energy in the operation of our properties, and renovating existing buildings to improve their environmental performance.

However, the Group's operating results and financial position may be affected by a rise in construction costs, operational costs, etc. due to events such as restrictions that exceed our assumptions and drastic changes in the business environment.

Risk Management

Initiatives

Management and Business Risks

(7) Risk related to Suppliers

In the real estate business, many suppliers are involved in each phase of the business, including the construction companies, and personnel involved in operation after the building's completion such as cleaning staff, service staff, security staff, and operators responsible for facility maintenance and

inspections.

While we handle and respond to risks related to suppliers in the following manner, the Group's operating results and financial position may be affected by suppliers due to unforeseen circumstances.

➤ Supplier Due Diligence

When starting a new transaction, the Sumitomo Realty Group examines the potential risks in terms of various items such as legal compliance, environmental pollution, human rights violations, occupational health, corruption including money laundering and bribery, and relationships with antisocial forces, as necessary, in order to mitigate the risks related to suppliers.

➤ Supplier Management in Existing Businesses

At the Sumitomo Realty Group, our employees manage the suppliers at the development sites, building administration sites, etc. of all the properties. We assess the risks associated with our businesses from a broad perspective that encompasses environmental quality, occupational health, labor standards, corrupt practices, and other factors, and take corrective measures as necessary.

➤ Thoroughly Communicating and Enforcing the Sustainable Procurement Guidelines

The Sumitomo Realty Group established the Sustainable Procurement Guidelines to promote a sustainable society throughout our supply chain. All business partners are requested to cooperate with the guidelines, and we shall strive to prioritize procurement from business partners taking initiatives on sustainability.

➤ Mitigation of Risks through Supplier Training

In an effort to prevent risks related to suppliers, the Sumitomo Realty Group conducts supplier training to mitigate the risks, especially in the high-risk areas such as health and safety. Through the training, we strive to educate suppliers by sharing examples of hazards as well as examples of effective countermeasures. In fiscal 2020, we conducted training for 5,864 business partners.

◆ The Sustainable Procurement Guidelines

(Excerpts of each item only)

Details of the guidelines is available on <http://www.sumitomo-rd.co.jp/sustainability/pdf/guidelines.pdf>

- | | |
|---|--------------------------------------|
| 1. Compliance with Laws and Regulations | 4. Consideration for the Environment |
| 2. Respect for Human Rights | 5. Ensuring and Enhancing Quality |
| 3. Ensuring the Corporate Ethics | 6. Securing Information Security |