



Governance

Updated on February 16, 2024

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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 "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 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 doing so, 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 enhancement 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 are 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, and the motivation of juniors, who will acquire experience in the real estate business and eventually join the management team, should be maintained; hence we have a structure as a company with corporate auditors, where the Board of Directors bears responsibility for execution, and corporate auditors take on the management supervision function.

Six directors from within the Company, who are deeply familiar with the business content, are in charge of management and execution, while three outside directors and four corporate auditors for a total of seven persons, which accounts for over half of the 13 attendees of the Board of Directors meeting, 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.

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 and executive officer.

The maximum number of directors in the Board stipulated in

the Articles of Incorporation is 12. The Board of Directors is comprised of six 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 three outside directors with experience as a chairman, a president or other management executives, who have superior character and insight and understand the Company's management principles.

Corporate Governance

Corporate 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 14 executive officers who do not concurrently serve as directors. Compensation for executive officers who

are non-concurrent directors is not an employee salary, but 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 fiscal year, because they are considered to be comparable with directors.

Role and Structure of the Board of Corporate Auditors

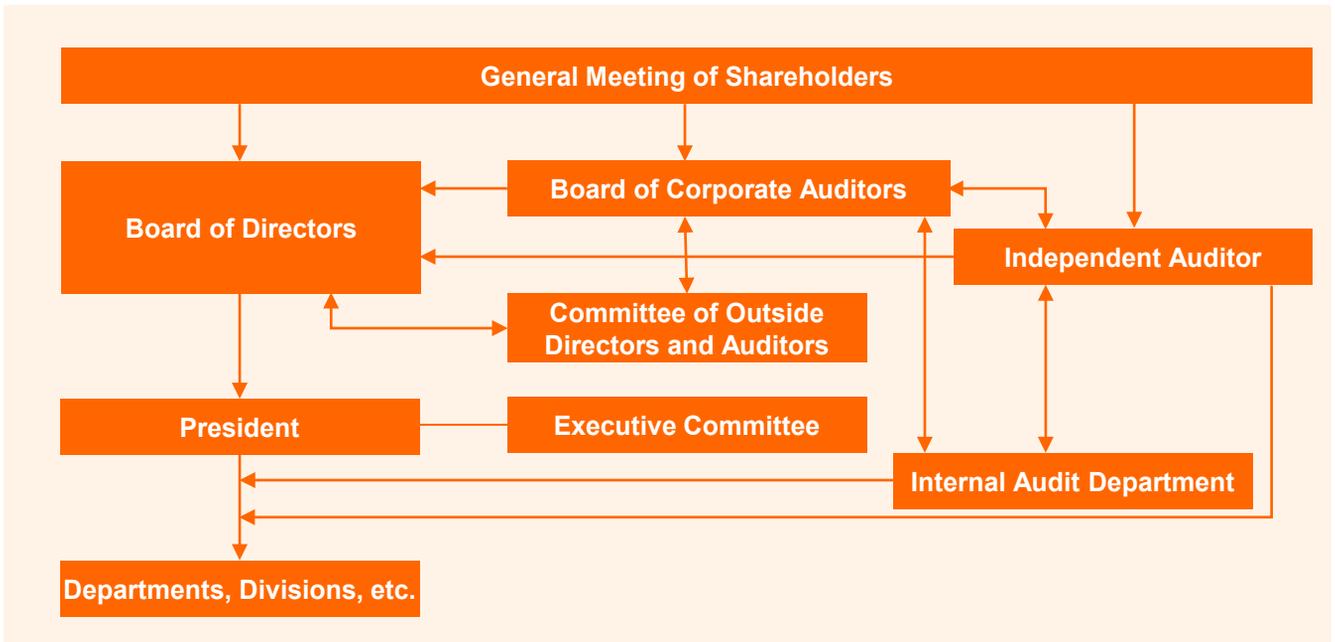
Corporate auditors are responsible to supervise whether directors are performing their duties properly by using the powerful authority endorsed by law.

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 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.

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.



Corporate Governance

Initiatives to Strengthen Corporate Governance

Steps Taken to Strengthen Corporate Governance

- June 2002** Appointed two outside corporate auditors, making half of the four corporate auditors outside members
- April 2004** Reformed the management system, reducing the number of directors from 23 to 12
- June 2004** Introduced a fully performance-based compensation system for officers
Abolished the retirement benefit and bonus system for officers
- 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
- April 2020** Introduced an executive officer system
- June 2020** Appointed one female officer (outside corporate auditor)
- June 2023** Increased the number of outside directors to three / Appointed one female director

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. The number of outside directors has been increased to three including one female, in 2023.

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, a president or other management executives, in order to have them advise the management team and monitor the officers 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 three outside directors and four corporate auditors for a total of seven persons, which accounts for over half of the 13 attendees of the Board of Directors meeting, responsible for the management supervision function. In order to ensure that outside directors and outside corporate auditors can fully perform their roles, in fiscal 2022 the Company (i) held eight briefings for outside directors in which they were briefed on the agendas for the Board of Directors meetings, the content of discussions at Executive Committee, and other issues; and (ii) convened 14 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, comprised only 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 a whistleblowing report on officers, outside corporate auditors receive a report directly and share the information at the Committee of Outside Directors and Auditors.

Through these initiatives, we believe that the Company's corporate governance has achieved a certain level of quality.

Conflict-of-interest Transactions and Related Party Transactions

The Board of Directors monitors the appropriateness of conflict-of-interest transactions by directors, by requiring material facts pertaining to such transactions to be reported and approved in accordance with the Companies Act.

In addition, the Board of Directors monitors the

appropriateness of related party transactions by requiring periodical reporting and verification every year in accordance with the disclosure requirements prescribed in the Implementation Guidance on Accounting Standard by the Accounting Standards Board of Japan.

Corporate Governance

Policies for Appointment of Officers

Basic Policy

Regarding nomination of candidates for directors and corporate auditors, and appointment of 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 narrowed down to candidates through multiple meetings of the Executive Committee. The final decision is then made by the Board of Directors based on thorough deliberation, reflecting independent and objective

opinions of independent outside directors and outside corporate auditors. Independent outside directors and outside corporate auditors have sufficient opportunities to know relevant information such as the background, insights and achievements of internal directors, executive officers and internal corporate auditors 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 outside directors and outside corporate auditors, the Company has adopted the requirements for outside directors and outside corporate auditors prescribed in the Companies Act and the independence criteria set by the Tokyo Stock Exchange.

Name	Position	Independence	Supplementary explanation of the relationship	Reasons of appointment
Yozo Izuhara	Director	○	Mr. Izuhara served as Director, Chairman of the Company's business partner Nippon Sheet Glass Co., Ltd. until June 2010. However, since the transaction amount between said company and the Company in the most recent fiscal year was small, accounting for less than 1% of sales for both companies, the Company deems there is no impact on independence.	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.
Nobumasa Kemori	Director	○	Mr. Kemori served as Director, Chairman of the Company's business partner Sumitomo Metal Mining Co., Ltd. until June 2017. However, since the transaction amount between said company and the Company in the most recent fiscal year was small, accounting for less than 1% of sales for both companies, the Company deems there is no impact on independence.	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.
Chiyono Terada	Director	○	Ms. Terada served as President and CEO of the Company's business partner Art Moving Company Co., Ltd. until December 2019. However, since the transaction amount between said company and the Company in the most recent fiscal year was small, accounting for less than 1% of sales for both companies, the Company deems there is no impact on independence.	Ms. Terada founded Art Hikkoshi Center and had served as its President and Chairperson, etc., and she has extensive knowledge and wide discernment as a manager. The Company deems her to be suitable as an outside director.
Takashi Sakai	Corporate Auditor	○	Mr. Sakai served as Representative Director, Executive Vice-President of the Company's business partner Osaka Gas Co., Ltd. until March 2013. However, since the transaction amount between said company and the Company in the most recent fiscal year was small, accounting for less than 1% of sales for both companies, the Company deems there is no impact on independence.	Mr. Sakai has served as Executive Vice-President of Osaka Gas Co., Ltd. and President of Honshu-Shikoku Bridge Expressway Company Limited, and he has extensive knowledge and wide discernment as a manager. The Company deems him to be suitable as an outside corporate auditor.
Naoko Hasegawa	Corporate Auditor	○	Ms. Hasegawa worked for the Company's subsidiary Sumitomo Fudosan Fitness Co., Ltd. (currently Sumitomo Fudosan Esforta Co., Ltd.) from April 1987 to October 2002. However, since more than 20 years have passed since she resigned from said company and she has not been involved in execution of business of said company after her resignation, the Company deems there is no impact on independence.	Ms. Hasegawa has served as Executive Officer and Chief Business Ethics Officer of The Prudential Life Insurance Company, Ltd. and she has extensive experience and wide discernment in corporate management and corporate ethics. The Company deems her to be suitable as an outside corporate auditor.

Corporate Governance

Officers' Compensation

Overview of Compensation System for Officers and Resolutions of the General Meeting of Shareholders concerning Officers' Compensation, etc.

At the Ordinary General Meeting of Shareholders held on June 29, 2004, a resolution was passed to set the total annual compensation for directors at just 1% of consolidated ordinary profit for the previous consolidated fiscal year. The number of directors as of the conclusion of that General Meeting of Shareholders was 12.

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 (hereinafter, directors and executive officers are collectively referred to as "directors, etc.>").

The monetary compensation for corporate auditors is determined to be within 6.5 million yen 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 five.

Policies Related to the Determination of the Content of Compensation, etc. for Individual Directors, etc., and Authorization for the Determination Thereof

The policy for the determination of the content of compensation, etc. for individual directors, etc. (hereinafter referred to as the "determination policy") is established by resolution of the Board of Directors. Under the determination policy, compensation for each director, etc., consists only of fixed compensation, and the specific content (payment amount, timing of payment, payment method, etc.) of the compensation for individual directors is determined by agreement between the Chairman of the Board and Representative Directors, based on a resolution of authorization by the Board of Directors. When making this agreement, each director's duties and level of contribution to performance are considered.

Whereas the total annual amount of directors' compensation is set at 1% of ordinary profit for the previous consolidated fiscal year, the full amount is not paid to the individual directors, etc., in the current fiscal year, and part of directors' compensation is retained without fixing the amount per director, etc., for future use as retirement benefits for directors, etc., and supplementation of declines in the compensation of directors, etc., due to downturns in business performance, etc.

With regard to compensation for directors, etc., in fiscal 2022, based on authority resolved by the Board of Directors at

a meeting held on June 29, 2022, the specific content (payment amount, timing of payment, payment method, etc.) of the compensation for individual directors was determined by agreement between Mr. Kenichi Onodera (Director – Chairman / Chairman of the Board), Mr. Kojun Nishima (Representative Director and President / Head of Office Leasing Business Division), Mr. Masato Kobayashi (Representative Director and Deputy President / Head of Condominium Sales Business Division), and Mr. Yoshiyuki Odai (Representative Director and Deputy President / Head of Corporate Planning Division).

These four directors are, respectively, the Chairman of the Board, Representative Director and President, Representative Director and Deputy President in charge of the business division, and Representative Director and Deputy President in charge of the management division, and as these persons received this authorization based on the judgment that they would be able to comprehensively examine and appropriately assess the duties and contributions to performance of each director by bringing in their respective viewpoints, the Board of Directors has judged that the content of the compensation of individual directors, etc., for the fiscal year under review is in line with the determination policy.

Corporate Governance

Officers' Compensation

Compensation etc. for Each Category of Officers

Amount paid to each director and executive officer

(FY2022)

Category	Amount paid (Million yen)	Amount by type of compensation (Million yen)				Number of officers eligible (Persons)
		Basic compensation	Stock options	Bonus	Retirement benefit	
Directors (excluding Outside Directors)	730	730	—	—	—	8
Executive Officers	420	420	—	—	—	9
Outside Directors	48	48	—	—	—	2
Total	1,198	1,198	—	—	—	19

Note: Whereas the total annual amount of compensation for directors including outside directors for fiscal year ended March 31, 2023 is fixed at 2,213 million yen, the full amount has not been paid to the individual directors and executive officers in the same fiscal year, and 1,014 million yen, the difference from the above-mentioned amount paid, has been retained as provision for future use such as their retirement benefits and supplementation of declines in their compensation due to future downturns in business performance, etc. Regarding the retained amount, the timing of payment and the amount for individual officers cannot be determined, and thus, the retained amount will become subject to calculation of compensation etc. of individual officers upon payment in the future or upon confirmation of future payment.

Total amount of compensation etc. for each category of officers and number of officers eligible

(FY2022)

Category	Total compensation (Million yen)	Amount by type of compensation (Million yen)				Number of officers eligible (Persons)
		Basic compensation	Stock options	Bonus	Retirement benefit	
Directors (excluding Outside Directors)	2,165	2,165	—	—	—	8
Corporate Auditors (excluding Outside Corporate Auditors)	32	32	—	—	—	2
Outside Directors / Outside Corporate Auditors	74	74	—	—	—	4
Total	2,278	2,278	—	—	—	14

Notes: 1. With the agreement of all directors, a portion of the amount of directors' compensation has been allocated to the nine executive officers.

2. The breakdown of total amount of compensation etc. for outside directors and outside corporate auditors is 48 million yen for outside directors and 26 million yen for outside corporate auditors.

Total Amount of Compensation of Persons with Total Compensation of 100 Million Yen or More

(FY2022)

Name	Category	Amount by type of compensation (Million yen)				Total compensation (Million yen)
		Basic compensation	Stock options	Bonus	Retirement benefit	
Kenichi Onodera	Director	150	—	—	—	150
Kojun Nishima	Director	150	—	—	—	150
Masato Kobayashi	Director	120	—	—	—	120

Corporate Governance

Initiatives for Promoting Diversity

For some time, we have been actively promoting diversity based on the recognition that the presence of diverse perspectives and values reflecting a variety of experiences, skills and attributes within the Company is an advantage that ensures 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 at Sumitomo Realty & Development, and are the source of the Company's growth.

In addition, for increasing employees' motivation, we believe that equal opportunity in promotion to managerial positions is the most important factor, 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 workers. As a result, mid-career hires account for more than 60% of managerial personnel, thus 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 newly hired in sales and engineering positions that

support our front line operations (25% in sales and 13% in engineering positions) in order to increase the number of female employees to be promoted in the future by increasing the ratio of women in our workforce. Secondly, we are also working to support women's career development. For example, in 2022, we implemented reforms to apply personnel systems centered on job evaluation-based pay to all employees, and created a system that enables employees with medium- to long-term gaps in their career owing to life events such as childbirth and raising children to immediately assume positions of responsibility with no disadvantage after returning to work. In July 2023, we established Diversity Promotion Office to focus on the development of future executive candidates. We are also actively working to engage female officers. As of the submission of this report, we have two female officers.

We believe that diversity in managerial positions should be ensured naturally as a result of fair employment policies, systems and appointments, such as those described above. 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 Administration Department, the 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 website for thorough information disclosure.

Policy for Constructive Dialogue with Shareholders

The Company strives to give an account 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 Investor Relations & ESG Section will 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.

We hold more than 100 individual meetings each year with

both domestic and foreign institutional investors to exchange views mainly on growth strategies, shareholder returns, capital efficiency, takeover defense measures, reduction of strategic shareholdings, and decarbonization initiatives.

Regarding dialogues with shareholders, we exercise due care concerning the handling of insider information, and share the contents of the dialogues, as necessary, at important meetings such as meetings of the Executive Committee attended by directors and executive officers in order to utilize them for the formulation of management plans and medium- to long-term outlook, etc.

Corporate Governance

Takeover Defense Measures

Basic Policy and Initiatives to Ensure It

(1) Aiming to surpass 300 billion yen in ordinary profit in the next medium-term management plan

With top priority placed on achieving objectives of the medium-term management plans it has formulated every three years, the Company has increased its corporate value as a result of having steadily implemented the plans. The Company has executed eight management plans, and has achieved increases in ordinary profit in 23 fiscal years, excluding the three fiscal years under the global financial crisis and the COVID-19 pandemic.

In the fiscal year ended March 31, 2023, the first year of the Ninth Management Plan, we achieved record ordinary profit for the second consecutive year and record profit for the tenth consecutive year, making a good start toward achieving the goals for the cumulative three-year period of the medium-term management plan.

For the fiscal year ending March 31, 2024, we aim to renew record-high profits with expecting higher profits in all business

segments of the mainstay office building leasing (Leasing segment), condominium sales (Sales segment), housing (Construction segment) and Brokerage segment.

At the time of the announcement of the Ninth Management Plan in May last year, when the business environment outlook was uncertain due to the COVID-19 pandemic and the situation in the Ukraine, the Company has set its long-term vision to achieve 300 billion yen in ordinary profit by FY2030 at the latest through the contribution of earnings from operations of new buildings to be completed. However, the outlook for each business segment including the hotel and multipurpose hall businesses, which were affected by the COVID-19 pandemic, has improved compared to a year ago, and surpassing 300 billion yen in ordinary profit is now expected to be achievable during the next medium-term management plan (2026-2028), earlier than initially expected.

(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 "Sankaku Biru" (triangular building). The Company has experienced unprecedented economic crises such as the bursting of Japan's bubble economy and the 2008 global financial crisis in wake of the Lehman Brothers collapse, and various changes in the business environment such as Japan's bubble economy and business conditions under Abenomics policies. Still, the Company has consistently persisted with respect to unwaveringly implementing its management policies such that: (i) the Company will not pursue temporary gains by selling assets; (ii) the Company will develop sites and construct buildings; and (iii) the Company will hold ownership of the buildings constructed on sites it has developed to generate stable leasing income over the long-term by owning and leasing such buildings. The Company has consequently grown to become a building owner with a diverse portfolio of

more than 230 buildings located in central Tokyo, and cash flows from the leasing business exceeded 220 billion yen in the fiscal year ended March 31, 2023 (operating income of the real estate leasing business + depreciation).

The office building leasing business calls for comprehensive strengths 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 purchasing multiple small parcels of land to integrate them into a larger scale 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 corporation. As of March 31, 2023, unrealized gains from rental and other investment properties amounted to approximately 3.7 trillion yen having accumulated over the years.

(3) The necessity for the takeover defense measures

In the Ninth Management Plan, the Company has set forth the continuation and promotion of investment in leasing office assets in central Tokyo as its third target, and it aims to further expand its earnings base, increase its corporate value, and augment shareholder returns by successively completing concrete development plans, centered on redevelopment, with a gross floor area of over 700,000 tsubo (one tsubo is roughly 3.3m²), which constitutes more than 40% of the 1,700,000 tsubo in gross floor area for leasing as of March 31, 2022, and putting these buildings 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 economic conditions, given that it has always been buoyed by cash flows from the leasing business 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 exceed 200 billion yen, in order to confidently carry out such upfront investment without having to continually resort to interest-

Corporate Governance

Takeover Defense Measures

bearing debt. Moreover, it is likely to take another two or three medium-term management plan periods before the Company achieves full profitability given that the focus has been on large-scale redevelopment.

On the other hand, amid large-scale financial easing, appetite for investment in top-class domestic revenue-generating real estate has increased, and it cannot be denied that there is a risk that a large-scale acquisition will be forcefully conducted in a one-sided manner in relation to shares of the Company, which holds many top-class buildings in Tokyo. If the management policies of the Company, which aim to sustainably enhance corporate value through the steady accumulation of leasing assets that the Company has continued to build up over the past half a century, are rejected and a short-term management policy is adopted 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, cash flows from the leasing business that act as a stable revenue source will decrease as a result, thereby exposing the development plans to financial risk. As such, the Company is unable to rule out a possible threat of damage to the foundations 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 management policies. As such, until there is a general timeline for the generation of revenues from development plans covering over 700,000 tsubo, which is equivalent to over 40% of the current gross floor area in operation, and development plans that are not reflected in corporate value have decreased to a certain proportion, the Company needs to seek a mandate from its shareholders upon having ensured sufficient information and time for completing discussions in case an

investor seeking to orchestrate a takeover emerges.

In addition, under the Financial Instruments and Exchange Act of Japan, there is a tender offer system in place as a process for ensuring transparency and fairness for share transactions that affect the control of companies, and it is thus ensured that shareholders will have information and time to make an assessment. The tender offer period is however short, at 30 business days, and thus cannot be said to provide sufficient time for consideration. In addition, the Company believes issues remain in relation to the legal system, such as the fact that high-handed purchases and other abusive purchases cannot necessarily be eliminated because partial tender offers are permitted, and the fact that the tender offer system will not be applied in the first place if the purchaser only purchases shares through market transactions.

Based on the above, the Company deems that in order to continue to sustainably enhance the corporate value of the Company in the future, the provision of procedures through the "Policy for Takeover Defense Measures Against Purchase Proposals That Undermine the Corporate Value of the Company (Policy on Large-Scale Purchase of Shares of the Company)" (hereinafter referred to as "the Policy"), continues to align 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. It was continued based on the resolution of shareholders' meeting of the 74th fiscal year dated June 2007, and was continued or renewed upon receiving approval from shareholders at the 77th, the 80th, the 83rd, the 86th and the 89th ordinary general meetings of shareholders. The term of the Policy will expire upon the conclusion of the 92nd ordinary general meeting of shareholders scheduled to be held in June 2025.

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 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 ("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 provides the Board of Directors necessary and sufficient information regarding the Large-Scale Purchase in advance, and commence the Large-Scale Purchase after a certain period of evaluation by the Board of Directors has elapsed. The Board of Directors shall take measures 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 shall consult with a Special Committee consisting of outside directors, outside corporate auditors, persons with corporate management experience, lawyers, certified public accountants, etc., and take such recommendation to the fullest account, when judging 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.

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.

* For details, please refer to "Notice of convocation of the 89th ordinary general meeting of shareholders." <https://www.sumitomo-rd.co.jp/english/ir>

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 implementation of 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

- | | |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <ol 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 | <ol 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 Group has established the Sustainability Committee chaired by the President, and its subordinate organization, the Internal Control Meeting (hosted by the Company's Internal Audit Department), monitors compliance promotion activities* of the Group and reports the result to the Sustainability Committee. The Internal Audit Department performs internal audits to check the business execution status of each department of the Group and the operational status of internal controls, prevent any illegal acts or misconduct, and provide suggestions for business improvement. Moreover, the

department and the independent auditor report the results of their audits to the corporate auditors and exchange opinions in an appropriate manner. These activities help to improve the quality and efficiency of the audit work of the corporate auditors, the independent auditor and the Internal Audit Department. The Group 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, business partners, and customers, which aims to enable early detection of compliance violations and appropriate response. 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 a compliance system by preparing 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,

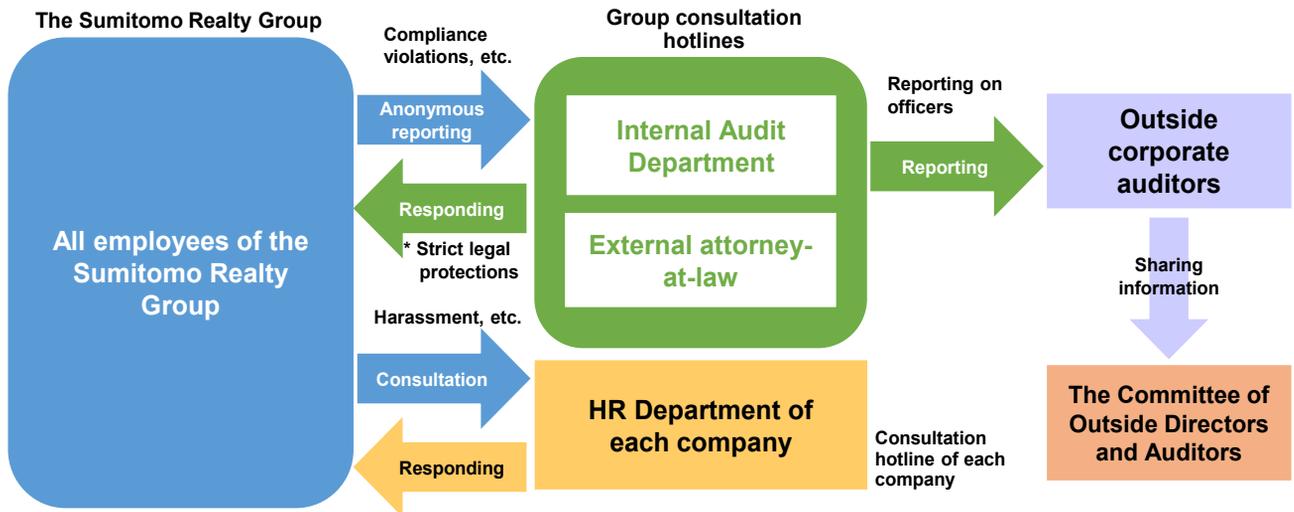
serves as the external point of contact.

In addition, we have established consultation hotlines 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 hotlines.

Should a compliance violation be identified, we take appropriate action and then work to prevent a similar situation from reoccurring by alerting our employees through the intranet and other means. In addition, remedial measures are provided for victims.

Whistleblowing System



➤ Compliance Handbook

In order to be thoroughly acquainted with legal compliance, the Compliance Handbook, which describes appropriate behavior in terms of compliance in given situations, is posted on the Intranet at all times for employees to check anytime. We update the contents as needed, following the process where we check the adherence to the code of ethics, identify compliance violations, and verify the effectiveness based on feedback from the worksites.

➤ 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.

➤ 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

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 posted on the Intranet at all times for employees to check anytime, 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 awareness-raising activities 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 2022. 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 Group complies with tax laws in all countries where it operates in accordance with the spirit of the law, and pays taxes appropriately according to its profits. Furthermore, in order to address “Base Erosion and Profit Shifting (BEPS)” where multinational corporations artificially manipulate taxable income, we are committed to preventing fraud including tax evasion, in accordance with the 15-point action plan set out by the OECD.

➤ 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 FY2022 are shown below.

Area	Amount of tax payment (Million yen)
Japan	79,094
U.S.A., etc.	47
Total	79,141

* KPMG AZSA LLC audits the amount of tax payment of the Sumitomo Realty Group.

➤ 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)

The 15 actions set out by the OECD to deal with “Base Erosion and Profit Shifting (BEPS)” in which multinational enterprises artificially manipulate taxable income (2015 Final Reports)

- Action 1: Addressing the Tax Challenges of the Digital Economy
- Action 2: Neutralising the Effects of Hybrid Mismatch Arrangements
- Action 3: Designing Effective Controlled Foreign Company Rules
- Action 4: Limiting Base Erosion Involving Interest Deductions and Other Financial Payments
- Action 5: Countering Harmful Tax Practices More Effectively, Taking into Account Transparency and Substance
- Action 6: Preventing the Granting of Treaty Benefits in Inappropriate Circumstances
- Action 7: Preventing the Artificial Avoidance of Permanent Establishment Status
- Action 8: Assuring that Transfer Pricing Outcomes are in Line with Value Creation - Intangibles
- Action 9: Assuring that Transfer Pricing Outcomes are in Line with Value Creation - Risk and Capital
- Action 10: Assuring that Transfer Pricing Outcomes are in Line with Value Creation - Other High-risk Transactions
- Action 11: Measuring and Monitoring BEPS
- Action 12: Mandatory Disclosure Rules
- Action 13: Guidance on Transfer Pricing Documentation and Country-by-Country Reporting
- Action 14: Making Dispute Resolution Mechanisms More Effective
- Action 15: Developing 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 Administration 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 take measures 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 sustainably enhance 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 Company established the Sustainability Committee chaired by the Company's President. For monitoring and addressing the risks associated with the business, such as investment risk and market risk, the executive officers in charge of and responsible for respective departments and subsidiaries report them to the President and the Board of Directors. The President and the Board of Directors then discuss and respond to these risks. With the process above, we have established a system that the Board of Directors monitors the risk management and reviews the operational status as appropriate.

We have also established a system whereby the BCP Council responsible for the risks of large-scale disasters, etc. affecting business continuity, the Sustainability Promotion Council responsible for issues affecting corporate activities, including environmental problems and climate change, and for issues and risks related to human capital etc., and the Internal Audit Department responsible for the risks related to compliance, respectively discuss policies for the Group, monitor the status, and report the results to the Sustainability Committee.

◆ Examples of risks that the Company recognizes and the Board of Directors supervises

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

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 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 activities in order to ensure operational sustainability. Moreover, the BCP Council, a

subordinate organization of the Sustainability Committee, determines specific policies to manage BCP measures for the Group and monitors the status of such management.

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 activities.

Scenario assumed in a major earthquake

In order to prepare for the risk of major earthquakes, the Office Leasing Business Division 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: 7.3

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.

(2) 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 Sustainability 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.

(3) 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. Based on the TCFD Framework, we organize, analyze and disclose the financial impacts brought by climate change and responses to those impacts from the four perspectives of governance, strategy, risks, and targets. In addition, the Sustainability Promotion Council, a subordinate organization of the Sustainability Committee, promotes various initiatives. As a supplier of social assets, we are promoting decarbonation

initiatives as climate change measures through our business activities. We are particularly focusing on the development of new properties and products with high environmental performance, raising awareness for saving energy in the operation of our properties, and renovating existing buildings to improve their environmental performance, etc.

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

Risk Management

Initiatives

Management and Business Risks

(4) Risk related to Suppliers

The Group promotes its business involving many suppliers, including the construction companies, and personnel involved in operation of the leasing assets such as cleaning staff, service staff, security staff, and operators responsible for facility maintenance and inspections. To reduce the risks associated with suppliers, the Company's employees conduct due diligence at the beginning of a transaction with a new supplier, make all parties thoroughly aware of our

"Sustainable Procurement Guidelines," supervise transactions, provide safety training to suppliers, and engage in other activities under the Sustainability Promotion Council, a subordinate organization of the Sustainability Committee.

However, the Group's operating results and financial position may be affected by suppliers due to unforeseen circumstances.

➤ Supplier Due Diligence

When starting a transaction with a new supplier, the Group examines the potential risks in terms of various items such as legal compliance, environmental pollution, human rights violations, occupational health, corruption in all its forms such as 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 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

In order to promote a sustainable society throughout our supply chain, the Group established the Sustainable Procurement Guidelines for compliance, respect for human rights, anti-corruption, environmental consideration, etc.

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 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 2022, we conducted training for 3,969 individuals from our business partners.

◆The Sustainable Procurement Guidelines

(Excerpts of each item only)

The full text of the guidelines is available on our website:

<https://english.sumitomo-rd.co.jp/sustainability/management>

- | | |
|-----------------------------------------|--------------------------------------|
| 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 |

Risk Management

Initiatives

Management and Business Risks

(5) 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.

Basic Policy on Information Security

The Group recognizes the importance of information security, including cybersecurity. In order to protect the social credibility in our business activities and realize sustainable enhancement of our corporate value, with the Head of Corporate Planning Division as a responsible official, we continue to strengthen and improve our initiatives concerning information security.

1. Information Security Management System

We are committed to identifying information security risks and taking measures against them, under the leadership of Information & Technology Section within the Corporate Planning Department of the Corporate Planning Division, which is in charge of information security.

2. Compliance with Laws and Regulations

We comply with laws, regulations, rules and other social norms related to information security.

3. Management of Information Assets

We appropriately manage personal information and other information assets held by us, based on our Information Management Rules, and strive to prevent leakage, loss and misuse of such information.

4. Education and Awareness Raising on Information Security

We ensure that our officers and employees fully understand the importance of appropriately managing information assets, and continue to conduct education and raise awareness to help them acquire the necessary knowledge and judgment.

Risk Management

Initiatives

Management and Business Risks

(6) 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)	FY2018	FY2019	FY2020	FY2021	FY2022
Interest-bearing debts	3,342,786	3,440,908	3,561,293	3,559,993	3,938,021
Equity	1,202,103	1,294,998	1,503,021	1,634,049	1,799,372
ND/E ratio*	2.6	2.5	2.2	2.1	2.1
Long-term debt ratio	99%	96%	96%	98%	95%
Fixed-interest rate debt ratio	96%	95%	94%	96%	86%

* Net interest-bearing debts / Equity

(7) Risk related to the Spread of COVID-19

While the COVID-19 pandemic has wound down and economic and social activities have normalized, we will continue to implement appropriate measures based on the knowledge we have accumulated thus far. We will strive to secure revenue by undertaking necessary preventive measures for our customers and employees in the event of resurgence.

Furthermore, if the spread of COVID-19 resurges in Japan and other major countries overseas, causing prolonged period of restrictions on people's movements and gatherings, the Group's business performance and financial position may be affected by decline of revenue from commercial facility business such as hotels and event halls.

◆ For our customers' safety

In the event of a resurgence, in order to ensure that customers can feel safe while using our services, we will take basic measures, such as wearing face masks and setting up hand

sanitizers in all of our businesses. In addition, we take the infection prevention measures in accordance with the characteristics of each business and the situation.