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Corporate Governance Report

Last Update: December 23, 2021
Sumitomo Realty & Development Co., Ltd.
Kojun Nishima, Representative Director and President
Contact: General Affairs Department
Securities Code: 8830
<https://www.sumitomo-rd.co.jp/english/>

The corporate governance of Sumitomo Realty & Development Co., Ltd. (the “Company”) is described below.

I. Basic Views on Corporate Governance, Capital Structure, Corporate Profile and Other Basic Information

1. Basic Views

The Company 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 employees, customers, business partners, creditors, shareholders, etc. 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.

[Reasons for Non-compliance with the Principles of the Corporate Governance Code] [Updated]

The Company has been operating under the “Eighth Management Plan” and the current fiscal year is the final year of the plan. Currently, it is discussing the next medium-term management plan at the Board of Directors, the Executive Committee, etc. The Company is also considering the implementation system for the next plan, taking into account the Corporate Governance Code revised in June 2021. As soon as the details of the next medium-term management plan and its implementation system are finalized, we will announce them as well as the revised report at an appropriate time.

[Supplementary Principle 1.2.4] Creating an Infrastructure Allowing Electronic Voting and English Translations of Notice of Convocation of General Meeting of Shareholders

As the percentage of voting rights exercised at the general meeting of shareholders has stayed above 90% in past years, the Company has not taken measures to make the percentage higher. However, in light of the increased

efficiency in the exercise of voting rights by institutional investors, the Company plans to introduce electronic voting at the Ordinary General Meeting of Shareholders to be held in June 2022.

English translations of notice of convocation of general meeting of shareholders are posted on the Company's website and TDnet since before.

[Supplementary Principle 4.10.1] Voluntary Nomination Committee and Compensation Committee

As stated in the Basic Views, we believe that people from within the Company should be the core member of management and execution, and we are aiming to have a management system in which the Board of Directors, which is mainly composed of people from within the Company, bears responsibility for execution, and the corporate auditors take on the management supervision function. Hence, we have not established voluntary committees, but we have established the following system to obtain appropriate involvement and advice from independent outside directors and outside corporate auditors in order to ensure independence and objectivity in the nomination and compensation of directors and executive officers.

Regarding the nomination of candidates for directors and the appointment of executive officers, the candidates are narrowed down after several meetings of the Executive Committee, and decisions are made after thorough deliberation at the Board of Directors meetings, taking into account the independent and objective opinions of the independent outside directors and outside corporate auditors regarding the candidates. Independent outside directors and outside corporate auditors have opportunities to know relevant information such as the background, insights and achievements of internal directors and executive officers at several occasions such as meetings of the Committee of Outside Directors and Auditors, Briefings for Outside Directors, and meetings of the Board of Corporate Auditors.

Regarding the compensation for directors and executive officers, the total amount of compensation is determined based on a clear linkage to business performance, and the policy for the determination of the content of compensation, etc. for each individual is determined by a resolution of the Board of Directors, with the participation of independent outside directors and outside corporate auditors. In the determination policy, the compensation for each director and executive officer is fixed compensation only and the amount paid to each of them is determined upon agreement by the Chairman of the Board and Representative Directors, a total of four directors.

For details, please refer to [Disclosure Based on the Principles of the Corporate Governance Code], [Principle 3.1], (3) and (4).

[Disclosure Based on the Principles of the Corporate Governance Code] [Updated]

[Principle 1.4] Strategic Shareholdings

The Company may acquire and hold shares of business partners, etc., if it is deemed to contribute to the Company's sustainable growth and medium- to long-term enhancement of corporate value primarily from the standpoint of establishing and strengthening stable and long-term business relationships with business partners, etc.

Among the strategic shareholdings, the Company assesses major stocks in terms of whether or not to hold each individual strategic shareholding, comprehensively taking into account the benefits and risks from each holding in light of the aforementioned purpose of holding at important meetings such as meetings of the Executive Committee in which directors and executive officers participate.

For shares that are deemed to have lost their significance of continuous holding, the Company individually examines the significance of shareholding, and takes appropriate measures including the reduction of strategic shareholdings.

When exercising voting rights, the Company decides whether to approve or reject proposals individually, after deliberating such factors as the management policies and strategies of investee companies, comprehensively taking into consideration whether they contribute to the improvement of corporate value and the common interests of shareholders from a medium- to long-term perspective.

In addition, whether to approve or reject proposals that may have a significant impact on the common interests of shareholders is decided through dialogue with the investee companies.

[Principle 1.7] Related Party Transactions

Based on the disclosure requirements prescribed in the Accounting Standards Board of Japan's Implementation Guidance, the Company periodically requests reporting and verification every year, and the Board of Directors monitors the appropriateness of those transactions.

[Supplementary Principle 2.4.1] Ensuring Diversity in the Promotion to Core Human Resources

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 management 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.

[Principle 2.6] Roles of Corporate Pension Funds as Asset Owners

The Company's retirement benefit plan consists of pension benefits of contract-type corporate pension plans and lump-sum payment plans. The Company, as an asset owner, regularly verifies the management status of pension funds while entrusting the management to multiple institutions that have adopted the stewardship code. The Company also strives to enable the department in charge of corporate pension to perform appropriate activities such as monitoring of management institutions, by appointing personnel with necessary experience and qualities and training such personnel.

[Principle 3.1] Full Disclosure

(1) Management principles, management strategies and management plans

These are published on the Company's website and in securities reports and integrated reports.

(2) Basic views and basic policy on corporate governance

These are described in "I.1. Basic Views" of this report.

(3) Basic policy and process on determination of compensation for directors and executive officers

We introduced a performance-based compensation system, which the total annual compensation for all directors is set at just 1% of consolidated ordinary profit. We also introduced an executive officer system, which enables the appointment of officers comparable to directors necessary for business expansion. 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 policy for the determination of the content of compensation, etc. for individual directors and executive officers is established by resolution of the Board of Directors. In the determination policy, the compensation for each director and executive officer is fixed compensation only and the amount paid to each of them is determined upon agreement by the Chairman of the Board and Representative Directors, a total of four directors, in consideration of duties and level of contribution to performance of each of them.

(4) Policy and process on the nomination of candidates for directors and corporate auditors and the appointment and dismissal of executive officers

Regarding the nomination of candidates for directors and corporate auditors and the appointment of executive officers, we narrow down the candidates through several meetings of the Executive Committee, from among those who have a wealth of experience, high-level insight and sophisticated expertise that will contribute to the Company's sustainable growth and medium- to long-term increase of corporate value. The Board of Directors makes decisions after thorough deliberation, taking into account the independent and objective opinions of independent outside directors and outside corporate auditors. Independent outside directors and outside corporate

auditors have opportunities to know relevant information such as the background, insights and achievements of internal directors, executive officers and internal corporate auditors at several occasions such as meetings of the Committee of Outside Directors and Auditors, Briefings for Outside Directors, and meetings of the Board of Corporate Auditors.

Dismissal of executive officers is decided after thorough deliberation at the meetings of the Board of Directors, which are attended by independent outside directors and outside corporate auditors.

- (5) For candidates for directors and corporate auditors resolved in (4) above, their background and the reasons for their nomination are individually described in the Notice of Convocation of General Meeting of Shareholders.

[Supplementary Principle 3.1.3] Initiatives for Sustainability

The Company has been practicing Sustainability Management that inherits Sumitomo's Business Philosophy. Under the fundamental mission to "Create even better social assets for the next generation," we have identified our materiality as "Disaster resistant," "Environmentally friendly," "Together with the community" and "People friendly." We aim to contribute to addressing social issues, at the same time maximizing our corporate value by promoting ESG through our business activities. We will also contribute to the achievement of UN's Sustainable Development Goals (SDGs).

In regard to climate change, we recognize and support the importance of the Paris Agreement and other agreements related to global warming countermeasures, and we are working to significantly reduce greenhouse gas emissions through a range of measures, including renovating existing buildings so that high-efficiency equipment can be installed.

We also recognize that climate change has the potential to have a significant impact on our business activities not only as a risk but also as an opportunity. With this in mind, we are working to address climate change issues in conjunction with our respective stakeholders including suppliers, business partners, tenants, and industry organizations.

Other initiatives for sustainability, such as disaster-resistant urban development, contribution to local community, respect for human rights and promotion of diversity are described on the Company's website and in the integrated reports.

[Supplementary Principle 4.1.1] Disclosure of Scope of Delegation to Management

The following matters shall be resolved by the Board of Directors:

- (1) Matters prescribed in the Companies Act and other laws and regulations
- (2) Matters prescribed in the articles of incorporation
- (3) Matters delegated by a resolution of the general meeting of shareholders
- (4) Other important management matters

The following matters shall be reported to the Board of Directors:

- (1) Status of execution of business and other matters prescribed in the Companies Act and other laws and regulations
- (2) Other matters deemed necessary by the Board of Directors

[Principle 4.9] Independence Standards and Qualification for Independent Outside 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.

[Supplementary Principle 4.11.1] View on the Balance between Knowledge, Experience and Skills among the Board of Directors, as well as on Diversity and Size

The policy regarding the Board of Directors is to prioritize that the Board as a whole has knowledge, experience and skills necessary for corporate management, and to maintain the appropriate balance, diversity and size to allow prompt decision-making.

As stated in "I.1. Basic Views," we believe that the management of the Company should be carried out by people mainly from within the Company. Therefore, the Board of Directors is comprised of eight directors from within the Company who 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.

The qualifications of each director are indicated in the biography and reasons for their nomination in the Notice of Convocation of General Meeting of Shareholders at the time of their election.

[Supplementary Principle 4.11.2] Disclosure of Concurrent Positions of Officers

Significant concurrent positions, etc. are described in the notice of convocation of the ordinary general meeting of shareholders. Please refer to the “Notice of Convocation of General Meeting of Shareholders” on the Company’s website.

[Supplementary Principle 4.11.3] Evaluation of Effectiveness of the Board of Directors

At the meeting of the Board of Directors held on March 15, 2021, analysis and evaluation of the structure and the operational status of the Board of Directors were performed, and it was confirmed that the effectiveness of the Board of Directors was secured appropriately.

[Supplementary Principle 4.14.2] Policy for Training Officers

The Company periodically briefs outside directors and outside corporate auditors on the industry to which the Company belongs, the Company’s history, business overview, financial information, strategies, organizations, etc. and offers all officers, including outside directors and outside corporate auditors, opportunities for gaining information necessary for them to fulfill their roles and responsibilities.

[Principle 5.1] Policy for Constructive Dialogue with Shareholders

The Company strives to provide 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 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.

Regarding dialogues with shareholders, the Company exercises due care concerning the handling of insider information, and gives feedback on the details of the dialogues as necessary at important meetings such as meetings of the Executive Committee attended by directors and executive officers and managerial personnel.

2. Capital Structure

Foreign Shareholding Ratio	More than 20% and Less than 30%
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[Status of Major Shareholders] [Updated]

Name/Company Name	Number of Shares Held	Percentage (%)
The Master Trust Bank of Japan, Ltd. (Trust account)	73,726,100	15.56
Custody Bank of Japan, Ltd. (Trust account)	24,624,500	5.20
Sumitomo Mitsui Banking Corporation	11,990,199	2.53
Custody Bank of Japan, Ltd. (Trust account 4)	10,948,900	2.31
Taisei Corporation	9,550,000	2.02
Daikin Industries, Ltd.	8,367,000	1.77
Shimizu Corporation	7,500,000	1.58
Obayashi Corporation	7,490,589	1.58
Maeda Corporation	7,244,000	1.53
SSBTC CLIENT OMNIBUS ACCOUNT	6,208,554	1.31

Controlling Shareholder (except for Parent Company)	—
Parent Company	None

Supplementary Explanation

3. Corporate Attributes

Listed Stock Market and Market Section	First Section, Tokyo Stock Exchange
Fiscal Year-End	March
Type of Business	Real Estate
Number of Employees (consolidated) as of the End of the Previous Fiscal Year	More than 1,000
Revenues (consolidated) as of the End of the Previous Fiscal Year	More than ¥100 billion and Less than ¥1 trillion
Number of Consolidated Subsidiaries as of the End of the Previous Fiscal Year	More than 50 and Less than 100

4. Policy on Measures to Protect Minority Shareholders in Conducting Transactions with Controlling Shareholder

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5. Other Special Circumstances which may have Material Impact on Corporate Governance

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II. Business Management Organization and Other Corporate Governance Systems regarding Decision-making, Execution of Business, and Oversight in Management

1. Organizational Composition and Operations

Organization Form	A Company with the Board of Corporate Auditors
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[Directors]

Maximum Number of Directors Stipulated in Articles of Incorporation	12
Term of Office Stipulated in Articles of Incorporation	2 years
Chairperson of the Board	Chairman of the Board
Number of Directors	10
Appointment of Outside Directors	Appointed
Number of Outside Directors	2
Number of Independent Directors	2

Outside Directors' Relationship with the Company (1)

Name	Attribute	Relationship with the Company*											
		a	b	c	d	e	f	g	h	i	j	k	
Yozo Izuhara	From another company									△			
Nobumasa Kemori	From another company									△			

* Categories for "Relationship with the Company"

“○” when the director presently falls or has recently fallen under the category;

“△” when the director fell under the category in the past

“●” when a close relative of the director presently falls or has recently fallen under the category;

“▲” when a close relative of the director fell under the category in the past

a. An executive officer of the Company or its subsidiaries

b. An executive officer or a non-executive director of a parent company of the Company

- c. An executive officer of a fellow subsidiary company of the Company
- d. A party whose major client or supplier is the Company or an executive officer thereof
- e. Major client or supplier of the Company or an executive officer thereof
- f. Consultant, accountant or legal professional who receives a large amount of monetary consideration or other property from the Company besides compensation as a director/corporate auditor
- g. Major shareholder of the Company (or an executive officer of said major shareholder if the shareholder is a legal entity)
- h. An executive officer of a client or supplier company of the Company (which does not correspond to any of d, e, or f) (the director himself/herself only)
- i. An executive officer of a company, between which and the Company outside directors/corporate auditors are mutually appointed (the director himself/herself only)
- j. An executive officer of a company or organization that receives a donation from the Company (the director himself/herself only)
- k. Others

Outside Directors' Relationship with the Company (2)

Name	Independent Director	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.

Voluntary Establishment of Committee(s) Corresponding to Nomination Committee or Compensation Committee	None
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[Corporate Auditors]

Establishment of Board of Corporate Auditors	Established
Maximum Number of Corporate Auditors Stipulated in Articles of Incorporation	N/A
Number of Corporate Auditors	4

Cooperation among Corporate Auditors, Independent Auditors and Internal Audit Office

In addition to reporting the audit results to the Corporate Auditors and the Independent Auditors, the Internal Audit Office exchanges opinions with them as appropriate to enhance and improve the efficiency of audits.

Appointment of Outside Corporate Auditors	Appointed
Number of Outside Corporate Auditors	2
Number of Independent Corporate Auditors	2

Outside Corporate Auditors' Relationship with the Company (1)

Name	Attribute	Relationship with the Company*												
		a	b	c	d	e	f	g	h	i	j	k	l	m
Yoshiyuki Norihisa	From another company										△			
Chiyono Terada	From another company										△			

* Categories for "Relationship with the Company"

“○” when the auditor presently falls or has recently fallen under the category;

“△” when the auditor fell under the category in the past

“●” when a close relative of the auditor presently falls or has recently fallen under the category;

“▲” when a close relative of the auditor fell under the category in the past

- An executive officer of the Company or its subsidiary
- Non-executive director or accounting advisor of the Company or its subsidiary
- An executive officer or non-executive director of a parent of the Company
- Corporate auditor of a parent of the Company
- An executive officer of a fellow subsidiary company of the Company
- A party whose major client or supplier is the Company or an executive officer thereof
- Major client or supplier of the Company or an executive officer thereof
- Consultant, accountant or legal professional who receives a large amount of monetary consideration or other property from the Company besides compensation as a corporate auditor
- Major shareholder of the Company (or an executive officer of said major shareholder if the shareholder is a legal entity)
- An executive officer of a client or supplier company of the Company (which does not correspond to any of f, g, or h) (the corporate auditor himself/herself only)
- An executive officer of a company, between which and the Company outside directors/corporate auditors are mutually appointed (the corporate auditor himself/herself only)
- An executive officer of a company or organization that receives a donation from the Company (the corporate auditor himself/herself only)
- Others

Outside Corporate Auditors' Relationship with the Company (2)

Name	Independent Corporate Auditor	Supplementary Explanation of the Relationship	Reasons of Appointment
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	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.

		impact on decisions of shareholders and investors.	
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.

[Independent Directors/Corporate Auditors]

Number of Independent Directors/Corporate Auditors	4
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Matters Relating to Independent Directors/Corporate Auditors

[Incentives]

Incentive Policies for Directors	Performance-based Compensation
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Supplementary Explanation

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

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.

Recipients of Stock Options	
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Supplementary Explanation

[Director Compensation]

Disclosure of Individual Directors' Compensation	Selected Directors
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Supplementary Explanation

Compensation for Board of Directors and Board of Corporate Auditors in fiscal 2020 was as follows:

- (1) Total Amount of Compensation for Each Category of Directors and Corporate Auditors, Total Amount of Compensation by Type of Compensation, and Number of Officers Eligible

Category	Total Amount of Compensation (Millions of Yen)	Amount by Type of Compensation (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

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

(2) Total Amount of Compensation of Persons with Total Compensation of 100 Million Yen or More

Name	Category		Amount by Type of Compensation (Millions of Yen)				Total Compensation (Millions of Yen)
			Basic Compensation	Stock Options	Bonus	Retirement Benefit	
Kenichi Onodera	Director	Company submitting report	120	—	—	—	120
Kojun Nishima	Director	Company submitting report	120	—	—	—	120

Policy on Determining Compensation Amounts and Calculation Methods	Established
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Disclosure of Policy on Determining Compensation Amounts and Calculation Methods

The policy for the determination of the content of compensation, etc. for individual directors (hereinafter referred to as the “determination policy”) is established by resolution of the Board of Directors. In the determination policy, the compensation for each director and executive officer is fixed compensation only and the amount paid to each of them is determined upon agreement by the Chairman of the Board and Representative Directors, a total of four persons, in consideration of duties and level of contribution to performance of each of them. Whereas the total annual amount of directors' compensation for current year is set at 1% of consolidated ordinary profit for the previous consolidated fiscal year, the full amount is not paid to the individual directors in the current fiscal year. In recent years, around 50% of the total is paid, and the remainder is retained, without fixing the amount per director, for future use as retirement benefits for directors and supplementation of declines in directors' compensation due to downturns in business performance.

[Supporting System for Outside Directors (Outside Corporate Auditors)]

Outside directors and outside corporate auditors fulfill their roles by expressing objective opinions on governance from an independent standpoint from the Company without being influenced by executives responsible for operational execution. They also work together to improve auditing by, for example, exchanging opinions as needed with other directors and corporate auditors as well as the Internal Audit Department and the independent auditors. At the same time, they provide timely advice and guidance to internal departments associated with internal control.

2. Matters on Functions of Business Execution, Auditing and Oversight, Nomination, Compensation Determination, etc. (Overview of Current Corporate Governance System)

(1) 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.

It 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.

We are improving the rationality of management decisions by receiving ideas and advices from these two outside directors, based on their global perspectives and not bound by the established concepts of the industry. In order for outside directors to deepen their understanding of the Company's management conditions and issues, we held eight Briefings for Outside Directors during fiscal 2020 to explain the agenda of the Board of Directors and the content of discussions at meetings of the Executive Committee.

(2) 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 because they are considered to be comparable with directors.

(3) Corporate Auditors and 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.

The two full-time corporate auditors from within the Company are quite familiar with the internal circumstances of the Company, and they enhance the effectiveness of audits due to their high information-gathering abilities.

The two outside corporate auditors have extensive experience in management at other companies, and the Company deems they are suitable as outside corporate auditors in view of their character and insight as well. Both of them exchange opinions with the full-time corporate auditors, the Internal Audit Department, and the Independent Auditors as appropriate, and express their opinions to Board of Directors from an independent standpoint, ensuring the objectiveness of audits.

The Board of Corporate Auditors held meetings 13 times during fiscal 2020 to receive reports from the Independent Auditor and the Internal Audit Department, and to interview the head of each Department on their respective management status.

(4) Committee of Outside Directors and Auditors

In order for outside directors and outside corporate auditors to fully perform their roles, 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.

(5) Internal Audit Structure

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 of the Independent Auditors, the Internal Audit Department reports directly to the corporate auditors to enhance and improve the efficiency of audits by the corporate auditors.

3. Reasons for Adoption of Current Corporate Governance System

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 a Board of Corporate Auditors, where the Board of Directors bears responsibility for execution, and corporate auditors take on the management supervision function.

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 stated in “II.2. Matters Relating to Functions of Business Execution, Auditing and Oversight, Nomination, Compensation Decision, etc. (Overview of Current Corporate Governance System).” We believe that the Company’s corporate governance is sufficiently functioning, as its effectiveness is being reflected in our business results.

III. Implementation of Measures for Shareholders and Other Stakeholders

1. Measures to Vitalize the General Meeting of Shareholders and Smooth Exercise of Voting Rights

	Supplementary Explanations
Early Notification of General Meeting of Shareholders	Notice of Convocation was sent out three weeks before the General Meeting of Shareholders in 2021.
Provision of (Summarized) Notice of Convocation in English	The Company creates English-language translation of Notice of Convocation.
Other	Notice of Convocation is posted on the Company’s website.

2. IR Activities

	Supplementary Explanations	Explanation by Representative
Regular Investor Briefings for Analysts and Institutional Investors	Financial results briefings are held twice each fiscal year for analysts and institutional investors, and the President and other management present earnings reports.	Yes
Posting of IR Materials on Website	Financial results, securities reports, integrated reports and other information for investors is posted on the Company’s website. https://english.sumitomo-rd.co.jp/ir/	
Establishment of IR-related Department (Manager)	The Company has established ESG Promotion Office within Corporate Planning Department as an office responsible for Investor Relations.	

3. Measures to Ensure Due Respect for Stakeholders

	Supplementary Explanations
Other	Regarding the Company’s management, the Company believes that not only fully respecting the position of our stakeholders such as our employees, customers, business partners, creditors and shareholders, but also aiming at maximizing corporate value while contributing to the resolution of various social issues including the environment through each business, will lead to the interests of all stakeholders.

IV. Matters related to the Internal Control System

1. Basic Views on Internal Control System and the Progress of System Development

Basic Policy

The Company considers that establishment of internal control systems is one of the important management issues concerning the improvement of corporate value and sustainable development of the Company and its subsidiaries (hereinafter referred to as the “Group”) as a whole. With regard to the matters listed below, the Company shall establish systems in which roles and responsibilities of the Group’s directors and employees are clarified, and through operation and appropriate review of such systems, the Company shall strive to establish appropriate systems for governance of the Group’s directors and employees.

- (1) Systems for ensuring that the execution of duties of the Group’s directors and employees complies with laws and regulations and with the articles of incorporation

In order to enhance and strengthen internal control of the Group, 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 including those of subsidiaries, and several contacts for whistleblowing are established within and outside the Company to detect and prevent any misconduct or illegal acts.

- (2) Systems for retention and management of information concerning the execution of duties of the Company’s directors

Minutes of meetings of the Board of Directors of the Company, requests for managerial decision, and other documents (including electromagnetic records) are prepared, and these documents are retained and managed by the respective responsible departments in accordance with the Criteria for Document Retention Periods and the Information Management Rules.

- (3) Rules and other systems related to management of risks of losses of the Group

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 meetings of the Executive Committee. 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 management of business continuity planning (BCP) by the Group, and reports the result to the Risk Management Committee.

- (4) Systems for ensuring that the execution of duties of the Group’s directors is performed efficiently

The Group’s directors direct and supervise business operations of the respective departments and subsidiaries in accordance with the Company’s management plan.

Moreover, the Group’s employees efficiently perform their duties under the direction and supervision of the Board of Directors and heads of respective departments, etc.

- (5) Systems for ensuring appropriateness of business operations of the corporate group consisting of the Company and its subsidiaries and systems related to reporting of matters concerning the execution of duties to the Company

The Company periodically receives reports from each subsidiary on the execution of duties, such as the status of business execution and financial conditions, and provides advice and guidance concerning business operations properly, depending on the nature of the matter in question.

Moreover, the Company’s Corporate Auditors and the Company’s Internal Audit Department audit each subsidiary, as necessary.

- (6) Particulars related to employees when the Company’s Corporate Auditors request that employees be appointed to assist with the duties of the Corporate Auditors and particulars related to ensuring independence of such employees from directors and effectiveness of the instructions of the Company’s Corporate Auditors to the employees

If the Company’s Corporate Auditors make requests to personnel of the Company’s Internal Audit Department

concerning matters necessary for audit practices, such personnel shall proactively offer cooperation. In such a case, the personnel who provide assistance shall not be in the chain of command of directors or any other personnel concerning the matters for which they are requested to provide assistance.

(7) Systems for reporting to the Company’s Corporate Auditors by the Group’s directors etc. and employees or by a person who received reports from such persons and other systems related to reporting to the Company’s Corporate Auditors

When the Group’s directors, etc. and employees or a person who received reports from such persons report to the Company’s Corporate Auditors, or when they are requested by the Company’s Corporate Auditors to report, necessary reports shall be provided swiftly and persons who make reports shall not be treated disadvantageously for reasons of making such reports.

Moreover, the Independent Auditor and the Company’s Internal Audit Department shall report to the Company’s Corporate Auditors concerning the audit status properly.

(8) Particulars related to policies concerning the procedures for advance payment or reimbursement of expenses that arise with regard to the execution of duties of the Company’s Corporate Auditors or any other processing of expenses or obligations that arise with regard to the execution of duties

When, concerning the execution of duties, a Corporate Auditor of the Company requests advance payment or reimbursement, etc. of expenses in accordance with the Japanese Corporate Law, the Company shall process such expenses or obligations, excluding any cases deemed unnecessary for the execution of duties of the said Corporate Auditor.

(9) Other systems for ensuring that audits by the Company’s Corporate Auditors are performed effectively
 Opportunities are ensured for the Company’s Corporate Auditors to attend meetings of the Board of Directors and other important meetings so that they can comprehend the Group’s important issues, etc., and state opinions, as necessary.

2. Basic Views on Eliminating Anti-Social Forces and the Progress of Development

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.

V. Other

1. Adoption of Takeover Defense Measures

Adoption of Takeover Defense Measures	Adopted
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Supplementary Explanation
 “The Policy on Large-Scale Purchase of Shares of the Company (Takeover Defense Measures)” (hereinafter referred to as the “Policy”) was adopted based on the decision of the meeting of its Board of Directors dated May 17, 2007. Subsequently, it 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. Details of the Policy is posted on the Company’s website. http://www.sumitomo-rd.co.jp/uploads/2019.05.16_release_2.pdf

2. Other Matters Concerning the Corporate Governance System, etc.

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, the Finance and Accounting 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.

