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SOU Inc.

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Securities Code: 9270

<https://www.ai-sou.co.jp/en/>

This document provides an overview of SOU Inc. corporate governance.

I. Corporate Governance Philosophy, Capital Structure, Corporate Attributes, Other Basic Information

1. Basic Philosophy

“SOU: Now, that’s something new!”

The SOU Inc. mission is to help create a society bursting with innovative, original experiences through new interactions between people and goods, as well as to encourage the discovery of what makes everyone a unique individual.

In pursuit of this mission, our aim is to encourage the prosperity of our shareholders, customers, business partners, employees, and society at large, while we strive for sustainable growth and maximum corporate value.

Enhancing and strengthening corporate governance to achieve this aim is an important management issue, and we recognize that the establishment of a corporate governance system to ensure appropriate operations is a necessary management process. We are working to strengthen corporate governance with a focus on compliance in conjunction with improving management efficiency and business performance.

[Reasons for not implementing the principles in the Corporate Governance Code]

SOU Inc. adopts and implements the principles defined under the Corporate Governance Code.

2. Capital Structure

Percentage of Shares Held by Foreign Nationals	Less than 10%
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[Major Shareholders]

Name of Individual or Company	No. of Shares Held (Shares)	No. of Shares Held (%)
SF Property Management Inc.	3,684,100	57.90
Japan Trustee Services Bank, Ltd. (Trust Account)	687,800	10.81
BBH/SUMITOMO MITSUI TRUST (UK) LIMITED FOR SMT TRUSTEES (IRELAND) LIMITED FOR JAPAN SMALL CAP FUND CLT AC	232,100	3.65
Kouji Sakimoto	224,000	3.52
Shinsuke Sakimoto	224,000	3.52
Japan Trustee Services Bank, Ltd. (Trust Account 9)	181,100	2.85
Shigeki Okamura	140,000	2.20
The Master Trust Bank of Japan, Ltd. (Trust Account)	119,600	1.88
NORTHERN TRUST CO. (AVFC) SUB A/C NON TREATY	32,300	0.51
Trust & Custody Services Bank, Ltd. (Trust B Account)	32,000	0.50

Majority Shareholders (Excluding Parent Company)	SF Property Management Inc.
Parent Company	None

Supplementary Explanation

3. Corporate Overview

Stock Exchange Listing and Section	Tokyo - Mothers
Fiscal Year End	August
Industry Sector	Wholesale
Number of Employees at End of Previous Fiscal Year (Consolidated)	Between 100 and 499
Net Sales in the Previous Fiscal Year (Consolidated)	Between ¥10 billion and ¥99 billion
Number of Consolidated Subsidiaries at the End of Previous Fiscal Year	Less than 10

4. Guidelines on Measures to Protect Minority Shareholders During Dealings with Majority Shareholders

SOU Inc. does not conduct transactions with controlling shareholders or relatives within the second degree of kinship of said shareholders. The company has no plans to conduct transactions with said individuals in the future; however, the company may, after deliberating the details and validity of the transaction at a meeting of the board of directors, approve such transactions. Such transactions are predicated on an underlying necessity, as well as board deliberation related to transaction details and validity. Such transactions shall be subject to the same basic terms and conditions as normal transactions and allowed regardless as to the financial amount involved. Through this process, we strive to protect the interests of minority shareholders.

5. Other Special Conditions That May Have a Major Influence on Corporate Governance

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II. Administrative Organizational Structure Covering Decision-Making, Execution, and Supervision in Management Activities, and Other Corporate Governance Systems

1. Matters Related to Institutional Structure and Organizational Operations

Organizational Form	Company with Audit and Supervisory Committee
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[Director Relationships]

Number of Directors Under Articles of Incorporation	15
Director Term of Service Under Articles of Incorporation	1 year
Chairperson of the Board of Directors	President
Number of Directors	6
Appointment of External directors	Appointed
Number of External Directors	3
Number of External Directors Designated as Independent Officers	2

Relationships to the Company (1)

Name	Category	Relationship to the Company*										
		a	b	c	d	e	f	g	h	i	j	k
Masahide Kamachi	Certified Public Accountant											
Kiyohito Hamada	Certified Public Accountant											
Takashi Goto	Attorney											

* Categories of Relationships to the Company

* A Yes icon indicates a category applicable to said person currently or recently. A △ icon indicates a category applicable to said person in the past.

* A ● icon indicates a category applicable to a close family member currently or recently. A ▲ icon indicates a category applicable to a close family member in the past.

a Executive of a listed company or its subsidiary

b Executive or non-executive director of the parent company of a listed company

c Executive of a fellow subsidiary of a listed company

d Person of a listed company considered major client, or an executive of said company

e Major client of a listed company or an executive of said company

f Consultant, accounting expert, or legal expert receiving a large monetary sum or other property other than corporate officer remuneration

g Major shareholder of a listed company (if the major shareholder is a corporation, an executive of said corporation)

h Executive (said person only) of a client (not covered by items d, e, and f) of a listed company

i Executive (said person only) of an entity with a mutual appointment of an outside member of the audit and supervisory board

j Executive (said person only) of an entity to whom a listed company making donations

k Other relationship

Relationships to the Company (2)

Name	Audit and Supervisory Committee Members	Independent Officers	Supplementary Explanation Related to Applicable Items	Reason for Selection
Masahide Kamachi	Yes		—	Masahide Kamachi has a wealth of experience and insight as a certified public accountant. He is well qualified to perform management oversight from an objective and independent standpoint based on legal, corporate, and social considerations without being unduly influenced by Company arguments. Accordingly, in our judgment, the presence of Mr. Kamachi will improve the transparency and strengthen the supervisory function of our board of directors. Accordingly, we have named him again as a candidate for outside director.
Kiyohito Hamada	Yes	Yes	—	As a certified public accountant, Kiyohito Hamada possesses a wealth of expert knowledge and experience related to corporate accounting. He also has experience in corporate management as a director with several corporations. In our judgment, Mr. Hamada is capable of accomplishing a significant role in the oversight of business execution as a member of the Audit and Supervisory Committee. Accordingly, we have named him again as a candidate for outside director. We believe Mr. Hamada meets the standards of independence, as there are no special interests between Mr. Hamada and the company that would have a potential conflict of interest with general shareholders of the company.
Takashi Goto	Yes	Yes	—	As a lawyer, Takashi Goto possesses a wealth of expert knowledge and experience (including experience in corporate management as a corporate director) in the law. Further, he combines significant knowledge and character for exercising administration over corporate management. In our judgment, Mr. Goto is capable of accomplishing a significant role in the oversight of business execution as a member of the Audit and Supervisory Committee. Accordingly, we have named him again as a candidate for outside director. We believe Mr. Goto meets the standards of independence, as there are no special interests between Mr. Goto and the company that would have a potential conflict of interest with general shareholders of the company.

[Audit and Supervisory Committee]

Member Composition and Attributes of Chairperson

	Total Number of Members	No. of Full-time Members	No. of Internal Directors	Outside Director	Chairperson
Audit and Supervisory Committee	3	0	0	3	None

Directors and Employees who Should Assist in the Duties of the Audit and Supervisory Committee

None

Reason for Adopting the Current System

Currently, there are no directors or employees who should assist in the duties of the Audit and Supervisory Committee. However, the personnel in charge of internal auditing and within the Corporate Planning Division are to assist in these duties as necessary. In the future, when the Audit and Supervisory Committee requests personnel who should aid in these duties, these personnel shall be deemed as appointed/assigned.

Coordination Among Members of the Audit and Supervisory Committee, Financial Statement Auditors, and Internal Auditing Division

The Audit and Supervisory Committee receives explanations of audit planning and reports on audit results from the accounting auditor, and monitors/verifies that the accounting auditor maintains an independent position and conducts appropriate audits. In addition, we share information once each quarter with internal auditing staff and the accounting auditor, share issues found in the audit process, and work to ensure appropriate audits. The Internal Audit Office regularly reports the results of internal audits to the representative director as well as to the Audit and Supervisory Committee, exchanging information on these occasions in the interest of mutual cooperation.

[Optional Committees]

Establishment of an Optional Committee Corresponding to a Nominating Committee or Compensation Committee

None

[Independent Officer Relationships]

Number of Independent Officers

2

Other Items Related to Independent Officers

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[Incentives]

Remunerative Incentives for Directors

Compensatory Stock Options, Etc.

Supplementary Explanation

The company has adopted a compensatory stock option system to increase incentive and motivation for improving corporate earnings. The company has adopted a restricted stock compensation plan so as to share the benefits and risks of share price fluctuations between company officers and shareholders, as well as to provide further incentives for contributing to share price increases and improvement in corporate value.

Persons Eligible for Stock Options

Internal directors, outside directors, employees, directors of subsidiaries, employees of subsidiaries

Supplementary Explanation

The company has adopted a compensatory stock option system to increase incentive and motivation for improving corporate earnings. The number of stock options granted is determined in general consideration of past contributions to earnings and expected future contributions to earnings.

[Matters Related to Director Compensation]

Disclosure of Individual Director Compensation	The company does not disclose individual compensation.
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Supplementary Explanation

No disclosure is made for individual compensation because there is no executive compensation that exceeds 100 million yen.

Policy for Determining Compensation Amount and Method of Calculation	Yes
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Information Disclosure for Regarding Policy for Determining Compensation Amount and Method of Calculation

Compensation is limited to the scope approved at the general meeting of shareholders. Director compensation is determined by the board of directors, while compensation for members of the Audit and Supervisory Committee is determined subsequent to negotiations with said members.

[Support System for Outside Directors]

All company outside directors are members of the Audit and Supervisory Committee. The company does not have employees assigned to assist members of the audit and supervisory board in their duties. However, personnel in charge of internal auditing and corporate planning may assist in these duties. Such assistance may take the form of information sharing and explaining committee and other materials via e-mail related to the contents of reports and decisions made within key committees that include the Executive Management Committee as well as contents of reports made to the Risk Management Committee. Further, personnel within the Legal Affairs Division, which serves as the secretariat, send materials regarding resolutions and matters for reporting by e-mail to the board of directors prior to board meetings, providing advance explanations and establishing a system for exchanging opinions at the Board of Directors and for smooth resolution of agenda items.

2. Matters on Functions Related to Business Execution, Auditing and Supervision, Appointments, and Remuneration (Overview of Current Corporate Governance System)

1. Board of Directors

The company's board of directors is composed of six members: three directors (excluding directors who are members of the Audit and Supervisory Committee) and three outside directors, all of whom are members of the Audit and Supervisory Committee. The board meets regularly once per month, as well as in special board meetings convened as necessary. The board supervises business operations and makes important management decisions, including company policies and business strategy. Directors who are Audit and Supervisory Committee members attend all board of director meetings to audit the state of business execution by the directors.

2. Audit and Supervisory Committee

The company's Audit and Supervisory Committee consists of three outside directors. In principle, this committee meets once each month. In addition, the committee exchanges information and opinions with the financial statement auditors and Internal Audit Office as necessary, working to substantially improve audits.

3. Executive Management Committee

In order to speed up and improve the efficiency of business execution, the Company holds, in principle, two meetings of the Executive Management Committee each month. This committee is comprised of directors (excluding directors who are Audit and Supervisory Committee members) and department heads, and formulates business strategies, checks progress, and shares issues between departments. It is the opinion of SOU Inc. that the executive management committee functions effectively as an entity for directing and communicating important business matters, as well as in promoting a unified awareness organization-wide.

4. Internal Audits

The company's internal audits are carried out systematically and comprehensively by the Internal Audit Office, which directly reports to the representative director, with all internal departments in scope. One member of the Internal Audit Office is assigned to this process. The Internal Audit Office conducts rigorous audits to confirm whether company's businesses are properly conducted based on internal regulations and rules. The office reports regularly to the representative

director, president and CEO, thereby improving management soundness and efficiency and working to strengthen internal controls. In addition, we share information with the Audit and Supervisory Committee and the financial statement auditor as appropriate to ensure mutual cooperation.

3. Reasons for Selecting Current System of Corporate Governance

In order to speed up decision making and improve the agility of the board of directors, and to further enhance corporate governance and enhance effectiveness through further strengthening of the monitoring system and supervisory function, the company transitioned to a company with an Audit and Supervisory Committee following approval by the 8th Ordinary General Meeting of Shareholders, held in November 2019.

III. Measures for Shareholders and Other Stakeholders

1. Efforts to Boost Participation in General Shareholders' Meetings and to Facilitate Exercise of Voting Rights

	Supplementary Explanation
Early Notification of General Shareholder Meetings	The company will strive to close financial records quickly to facilitate sending convocation notices as early as possible.
Scheduling Meetings to Avoid Peak Meeting Day	The company will endeavor to avoid scheduling general shareholders' meetings during the peak meeting days in Japan.

2. Investor Relations Activities

	Supplementary Explanation	Explanation from Representative
Creation and Announcement of Disclosure Policy	The company publishes information on our corporate investor relations webpages.	
Regular Investor Briefings for Individual Investors	The company aims to hold regular briefings, including the use of online channels and other mechanisms.	Yes
Regular Investor Briefings for Analysts and Institutional Investors	Financial results briefings are held during the second quarter, as well as after announcements of financial results.	Yes
Posting of IR Materials on Website	The company publishes financial data, timely disclosure documents, voluntary disclosure documents, and other information on our corporate investor relations webpages.	
Establishment of Investor Relations Department	The IR Office is in charge of investor relations, with the head of the IR Office as the responsible party.	

3. Respecting the Position of Stakeholders

	Supplementary Explanation
Formulation of Guidelines for Providing Information to Stakeholders	In keeping with the disclosure policy published on our corporate investor relations webpages, our policy to provide timely and appropriate information actively to all stakeholders through financial documents, financial briefings, and other information published through our investor relations webpages.

IV. Matters Related to Internal Control Systems

1. Basic Philosophy and Creation of Internal Control Systems

1. Systems for Ensuring the Execution of Duties by Company and Subsidiary Directors and Employees Complies with Laws, Regulations, and Articles of Incorporation

Our basic management philosophy is for sustainable growth and ongoing corporate value improvement in order to achieve our social responsibility to shareholders, customers, business partners, local communities, employees, and all other stakeholders. To this end, we have established Compliance Rules to ensure officers and employees observe a strict compliance with laws, regulations, and our articles of incorporation. Further, our Internal Audit Office conducts internal audits of the company and our subsidiaries. We strive to build stronger internal control systems, improving our risk management structure, which includes an internal reporting system.

2. Systems for the Storage and Management of Information Related to the Execution of Duties by Directors

The company practices the appropriate storage and management of the proceedings of the general meeting of shareholders and meetings of the board of directors, as well as important information and documents related to management and business execution in compliance with laws, regulations, records management rules, approval regulations, and other internal rules and related manuals.

3. Rules and other Systems to Manage the Risk of Loss by the Company and its Subsidiaries

(1) The company has established the Risk Management Committee, chaired by the president, which makes determinations on systems and policies for risk management and evaluates and, if necessary, improves risk management structures within the company group, including subsidiaries. The company's Legal Affairs Division serves as the risk management division, controlling risk management activities and verifying/revising the Risk Management Rules.

(2) The company shall establish an emergency response system, including a business continuity plan, to prepare against large-scale disasters.

4. Systems to Ensure Company and Subsidiary Directors Execute Duties Efficiently

(1) To ensure directors of the company and its subsidiaries execute their duties efficiently, the company has established Board of Directors Rules, which provides for the operation of the board of directors. Regular Board of Director meetings are held once a month to make important decisions and oversee the status of business execution. Extraordinary board of director meetings are also held when deemed necessary.

(2) The board of directors shall use technology-based information systems for rapid and accurate access to business information.

5. Systems for Ensuring the Execution of Duties by Employees Complies with Laws, Regulations, and Articles of Incorporation

(1) The company has established Compliance Regulations and Code of Conduct to ensure employees comply strictly with laws, regulations, and the articles of incorporation. The company also maintains a system for the ongoing improvement of internal control functions related to compliance.

(2) The company has established Internal Reporting Regulations to provide a system for internal reporting related to any acts discovered that are in violation of compliance. The company has established an internal contact point, as well as a third-party agent (consulting attorney), to whom reports may be made.

6. Systems to Ensure Appropriate Business Management for the Corporate Group, Consisting of the Company and its Subsidiaries

The general manager of the company's general affairs department is responsible for overseeing business operations of affiliated companies according to the Affiliated Company Management Rules. Further, the internal audit office conducts regular audits of affiliated companies according to the Internal Audit Rules.

7. Matters Related to Directors and Employees Requested to Assist the Audit and Supervisory Committee in the Execution of its Duties ("Assistants"); Matters Related to Assistant Independence from Directors (Excluding Directors who are Audit and Supervisory Committee Members); Matters Related to Ensuring Practicability of Instructions to Assistants

(1) The company does not have directors or employees assigned to assist members of the Audit and Supervisory Committee in their duties. However, the company may appoint or assign directors or employees for such purposes.

(2) The appointment or transfer of directors or employees assisting members of the Audit and Supervisory Committee requires approval by the committee.

(3) Directors and employees assigned to assist in the duties of the Audit and Supervisory Committee shall be considered as under the authority of the committee, and directors (excluding directors who are members of the Audit and Supervisory Committee) shall not have the authority to direct said directors or employees. Evaluations of these employees or directors shall reflect the opinions of Audit and Supervisory Committee members.

8. System for Directors (Excluding Directors who are Members of the Audit and Supervisory Committee) and Employees to Report to the Audit and Supervisory Committee, Other Systems Related to Reporting to the Audit and Supervisory Committee

(1) Members of the Audit and Supervisory Committee attend meetings of the board of directors, as well as important meetings such as those of the Executive Management Committee, and receive reports related to matters of importance to the company, matters that may have a negative impact on the company, and other matters.

(2) Directors who are members of the Audit and Supervisory Committee shall receive reports as necessary from the Corporate Planning Department and the Internal Audit Office.

(3) Directors and employees report important matters discussed at board of director meetings and other important

meetings, the status of internal audits, and other important matters deemed necessary to the Audit and Supervisory Committee.

(4) Directors and employees shall provide necessary reports and information promptly to the Audit and Supervisory Committee upon request.

9. System for Directors, Members of Audit and Supervisory Committees, Employees of Company Subsidiaries, and Persons Receiving Reports from Such Individuals to Report to the Audit and Supervisory Committee; Other Systems Related to Reporting to the Audit and Supervisory Committee

Directors, members of Audit and Supervisory Committees, and employees of company subsidiaries shall report promptly to the Audit and Supervisory Committee upon discovery of important matters having a material impact on subsidiary management or business performance or significant violations of laws, regulations, or articles of incorporation that may cause significant damage to the company. Directors, members of Audit and Supervisory Committees, and employees of company subsidiaries shall provide necessary reports and information promptly to the Audit and Supervisory Committee upon request.

10. System to Ensure Individuals Reporting to the Audit and Supervisory Committee are not Subjected to Disadvantageous Treatment

The company's Internal Reporting Rules provide that individuals submitting reports shall not be subjected to any manner of disadvantageous treatment. This rule applies likewise to individuals providing reports to the Audit and Supervisory Committee as described in the paragraph above.

11. Policy on Matters Regarding Expense Prepayments, Redemptions, Other Expenses, or Disposition of Debt Resulting from the Execution of Duties by Members of the Company's Audit and Supervisory Committee

When a member of the Audit and Supervisory Committee requests that the company prepay expenses, the company shall promptly pay such expenses or debt to said member following a discussion with the department in question, except where such expense or debt is proven unnecessary to the execution of duties by said member.

12. Other Systems to Ensure Internal Audits by Members of the Audit and Supervisory Committee are Performed Effectively

Members of the Audit and Supervisory Committee hold regular conferences with the representative director to ensure communication and exchange opinions. Further, members of the Audit and Supervisor Committee share information and exchange opinions with financial statement auditors and the Internal Audit Office as necessary for ongoing substantive improvements in audits.

13. Systems to Ensure Reliability of Financial Reporting

We recognize the close interconnection among the four objectives of our system of internal controls from the standpoint of financial reporting reliability: operational effectiveness and efficiency, financial reporting reliability, compliance with laws and regulations related to business activities, and asset maintenance. Accordingly, company management works to establish, evaluate, and continuously improve internal controls related to financial reporting through enacting internal control systems and reporting of overall audits by internal auditors, etc.

2. Philosophy and Systems for Dealing with Anti-Social Forces

The company rejects and eliminates relationships with anti-social forces and their organizations that may threaten social order and safety. Further, directors and employees constantly remain vigilant of anti-social forces. When a case arises, they cooperate closely with related government institutions and legal specialists and establish a system whereby the total organization can promptly handle situations in keeping with the Rules for Response to Anti-Social Forces and the Manual for Response to Anti-Social Forces.

V. Other Matters

1. Anti-Takeover Measures

Anti-Takeover Measures	None
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Supplementary Explanation

The company has not adopted anti-takeover measures at present; however, we believe this topic merits further investigation in the future.

2. Other Matters Related to Corporate Governance

We have attached diagrams of our corporate governance structure and timely disclosure administrative procedures for reference.



