# Governance

- Corporate Governance
- Risk Management
- Compliance
- Business Continuity Management
- Responsible Advertising/Promotional Efforts
- Information Security
- Intellectual Property Management
- Return to Shareholders and IR Activities
Corporate Governance

Basic Policy

The Sumitomo Forestry Group utilizes timber friendly to people and the global environment and contributes to a prosperous society through all types of housing-related services according to the Sumitomo Spirit to be beneficial to society based on the principles of integrity and sound management. Therefore, we strive to ensure management transparency, sound and legal business practices as well as rapid decision-making and business execution.

By further enhancing and strengthening its corporate governance through these efforts, the Company aims to continuously increase its corporate value and conduct management that lives up to expectations of various stakeholders around the Group.

Integrated Report

Corporate Governance and Internal Control

Sumitomo Forestry introduced the executive officer system to separate decision making and management oversight from operational execution functions. Comprised of ten directors (nine male, one female) including two outside directors (one male, one female), the Board of Directors is structured to take quick decisions. The oversight function of the Board of Directors has been strengthened, the lines of operational responsibility clarified, and the Chairman of the Board of Directors no longer serves as an executive officer. Nomination and Remuneration Advisory Committee has been established to provide advice to the Board of Directors on selecting director and statutory auditor candidates and executive officers as well as compensation of directors and executive officers, for the purpose of ensuring transparency and fairness of decision-making. Sumitomo Forestry has a board of company statutory auditors.

In addition to attending important meetings within the Company, the statutory auditors provide oversight for the directors' execution of duties, through sharing information and opinions with auditors at Group companies and the staff in the Internal Audit Division, and by supervising staff assisting auditing operations.

As of June 21, 2019, ten directors (including two outside directors), five auditors (including three outside auditors) and 20 executive officers had been appointed to the Company. The Company notified Tokyo Stock Exchange, Inc. of the designation of the two outside directors and three outside statutory auditors as independent officers as required by its regulations.

Basic Policy on Corporate Governance

Corporate Governance Report

Directors and Executive Officers
Corporate Governance Structure

Board of Directors and Executive Committee

In principle, the Board of Directors meets once a month, making decisions and carrying out its supervisory function for important issues in accordance with its discussion standards. In addition to making decisions on all important items and confirming business results, it supervises the directors’ execution of their duties. Directors and statutory auditors are required to maintain an attendance rate of 75% or higher as a general rule.

The Executive Committee, which is an advisory body for the President, holds meetings twice a month, before the Board of Directors meeting to ensure that there is sufficient prior discussion on important issues. It is attended by those directors who also serve as executive officers, as well as the full-time statutory auditors as a general principle.

The Company ensures prompt decision-making and separation of supervision and operational execution functions, for effective performance of the Board of Directors. Board of Directors meetings were held 16 times while Executive Committee meetings were held 26 times in fiscal 2018.

Attendance of Directors at Meetings of the Board of Directors (FY2018)

<table>
<thead>
<tr>
<th>Name and Responsibility/Expertise*1</th>
<th>Board of Directors</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Chairman of the Board and Representative Director</strong></td>
<td>Ryu Yano</td>
</tr>
<tr>
<td>Name and Responsibility/Expertise*1</td>
<td>Board of Directors</td>
</tr>
<tr>
<td>-----------------------------------</td>
<td>--------------------</td>
</tr>
<tr>
<td></td>
<td>Attended Meetings (meetings)</td>
</tr>
<tr>
<td><strong>President and Representative Director</strong></td>
<td>Akira Ichikawa</td>
</tr>
<tr>
<td><strong>Representative Director</strong></td>
<td>Shigeru Sasabe</td>
</tr>
<tr>
<td><strong>Representative Director</strong></td>
<td>Tatsuru Satoh</td>
</tr>
<tr>
<td><strong>Director</strong></td>
<td>Ken Wada</td>
</tr>
<tr>
<td><strong>Director</strong></td>
<td>Toshiro Mitsuyoshi</td>
</tr>
<tr>
<td><strong>Director</strong></td>
<td>Akihisa Fukuda</td>
</tr>
<tr>
<td><strong>Director</strong></td>
<td>Tatsumi Kawata*2</td>
</tr>
<tr>
<td><strong>Outside Director</strong></td>
<td>Junko Hirakawa</td>
</tr>
<tr>
<td><strong>Outside Director</strong></td>
<td>Izumi Yamashita</td>
</tr>
</tbody>
</table>

*1 The areas of responsibility and expertise are current as of April 1, 2019.

*2 Figures for Tatsumi Kawata represents attendance since his appointment on June 22, 2018.
Structure of the Board of Directors

The Board of Directors is composed of 17 individuals in a structure built on expertise, such as knowledge, experience, skill, and diversity. Sumitomo Forestry considers diversity such as gender and nationality as well as expertise which includes those who have a wealth of experience and success in the operations of the Sumitomo Forestry Group, those who have a wealth of experience and success in business such as corporate management, industry and policy and those who have specializations such as law and accounting.

Nomination Procedure for Directors

Director candidates are selected at the Board of Directors from the pool of personnel with superior personality trait and acumen, and potential value to the Company, consulting with the Appointment and Remuneration Advisory Committee. Summaries of background and interlocking status of the directors are available on the website.

Analysis, Assessment and Results for the Effectiveness of the Board of Directors

We assessed the effectiveness of the Board of Directors this fiscal year through deliberation at the Board meeting by conducting an analysis of each Director, checking on how the Board has been fulfilling its role with respect to our Basic Policy on Corporate Governance, and exchanging opinions with the outside directors and outside statutory auditors about the Board of Directors.

Initiatives undertaken this fiscal year include a revision of the Board of Directors discussion standards, a narrowing of its agenda items, and the establishment of a venue in which each division can explain its business operations to outside directors individually, all of which helped deepen the discussions at the Board of Directors meetings. In addition, holding multiple informal discussions regarding medium to long-term business strategies with external directors has enabled constructive discussions of a new Medium-term Management Plan. Regarding the strengthening of governance to prevent violations (stronger risk management, internal controls, etc.) as instructed in the effectiveness assessment for fiscal 2017, we have planned to revise our investment and loan management while enhancing our monthly reporting to the outside directors.

As a result, evaluations have found that the overall effectiveness of the Board of Directors has been ensured.

Upcoming issues will include deepening discussions related to rebuilding our human assets strategy, expanding our domains of business, and responding to changes in business environment. Some members expressed the view that they would like to further strengthening our defensive governance practices in pursuit of these goals.

We will strive to further improve the effectiveness at Board of Directors meetings by continually working to heighten the level of discussion with awareness toward highlighted topics in the future.
Board of Statutory Auditors

The Board of Statutory Auditors meets to discuss and make decisions on important matters regarding audits. The five statutory auditors, including the three outside statutory auditors, utilize the deep insights and diverse perspectives they have acquired from their various business backgrounds to provide oversight for the directors’ execution of duties. The Board of Statutory Auditors met 14 times during fiscal 2018.

The appropriate human resources are also appointed as statutory auditors at our main subsidiaries for the purpose of improving the effectiveness of auditing and informational exchange at these companies. The Board of Statutory Auditors met six times during fiscal 2018.

Attendance of Statutory Auditors at the Board of Directors and the Board of Statutory Auditors (FY2018)

<table>
<thead>
<tr>
<th>Name and Expertise</th>
<th>Board of Directors</th>
<th>Board of Statutory Auditors</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Attended Meetings</td>
<td>Attendance Rate (%)</td>
</tr>
<tr>
<td></td>
<td>(meetings)</td>
<td></td>
</tr>
<tr>
<td>Senior Statutory Auditor</td>
<td>13</td>
<td>100</td>
</tr>
<tr>
<td>Hitoshi Hayano*2</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Statutory Auditor</td>
<td>16</td>
<td>100</td>
</tr>
<tr>
<td>Noriaki Toi</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Outside Auditor</td>
<td>16</td>
<td>100</td>
</tr>
<tr>
<td>Yoshitsugu Minagawa</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Chief Counselor, Norinchukin Research Institute Co., Ltd.</td>
<td>16</td>
<td>100</td>
</tr>
<tr>
<td>Outside Auditor</td>
<td>13</td>
<td>100</td>
</tr>
<tr>
<td>Yoshimasa Tetsu*2</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Certified Public Accountant External Auditor, Daiwa Motor Transportation Co., Ltd.</td>
<td>13</td>
<td>100</td>
</tr>
<tr>
<td>Outside Auditor</td>
<td>12</td>
<td>92</td>
</tr>
<tr>
<td>Makoto Matuo*2</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Attorney at Law Outside Director of CAPCOM Co., Ltd. (Member of the Audit and Supervisory Committee) Outside Statutory Auditor of Solasia Pharma K.K.</td>
<td>12</td>
<td>92</td>
</tr>
</tbody>
</table>

*1 The expertise of each person is current as of April 1, 2019

*2 Figures for Hitoshi Hayano, Yoshimasa Tetsu and Makoto Matuo represent attendance since their appointment on June 22, 2018.
Outside Directors

In the selection procedure for outside directors and statutory auditors, determinations are based on the following standards of independence and professional criteria.

(1) Standards of Independence

Candidates must not be applicable to any of the below listed criteria to insure their independence to the Company.

1. **Company’s operations executives**
   
   Executive director, executive officer, operating officer, manager, or other directly hired person by the Company, its subsidiary, or its affiliate (herein; “operations executives”).

2. **Consultants**
   
   (1) Employee, partner, or any other staff hired by an auditing firm who provide auditing services for the Company or its subsidiaries.
   
   (2) Lawyer, certified accountant, tax accountant, or other consultant whose annual compensation and other forms of monetary benefits given by the Company or its subsidiaries, exclusive of director’s remuneration, has exceeded ten million yen in the past three years.
   
   (3) Employee, partner, associate, or other staff hired by a law, auditing, tax law, consulting or any other advisory firm whose major client is the Company or its subsidiaries. (The major client means a company’s received payment in a year by the Company or its subsidiaries has exceeded 2% of its consolidated total sales in the past three years.)

3. **Major shareholder (non-owner)**
   
   Person who directly and or indirectly holds 10% or more of the voting power of the Company; i.e. operations executive if a holder is a company.

4. **Major shareholder (owner)**
   
   Operations executive of a company which holds 10% or more of the voting power of the Company or its subsidiaries.

5. **Business Partners**
   
   (1) Client (major clients): person or operations executive of a client whose purchase exceeds 2% of the consolidated total sales of the Company
   
   (2) Supplier (of which the Company is a major client): person or operations executive of a supplier of which the Company’s purchase exceeds 2% of the consolidated total sales of the supplier

6. **Lender**
   
   Lender from which the Company’s borrowing exceeds 2% of the consolidated total asset of the company; i.e. operations executive in case of a company

7. **Recipient of contribution**
   
   Individual or operations executive of a corporate recipient of a donation from the Company or its subsidiaries whose annual average amount exceeds ten million yen or 2% of total income of the recipient in the last three years.

8. **Family**
   
   Spouse, next of kin within the second degree, or live-in member of a family of the person whose independency is rejected by this list of criteria

9. **Background Item**
   
   1 is applicable in at any time in the past 10 years, or Item 2 or 7 is applicable at any time in the past 5 years.

10. **Inter-assumption of outside executive officer**
    
    Executive director or statutory auditor of a company whose executive directors or statutory auditors include the Company or its subsidiary’s

Two of our current outside directors and three of our outside statutory auditors are considered independent based on the above list of independency criteria, not to pose a conflict of interest with general shareholders.
(2) Standards of Concurrent Board Positions

(i) When concurrently holding a board or statutory board member position of another publicly listed company, the number of concurrent board or statutory board member positions will be follows:
   (a) When serving as an executive director at another company exercising relevant execution of operations, only one company other than this Company;
   (b) In situations other than (a), up to four companies other than this Company.
(ii) An attendance rate at the meetings of the Board of Directors or Board of Statutory Auditors of at least 75%.

Nomination and Remuneration Advisory Committee

The Board of Directors establishes a Nomination and Remuneration Advisory Committee as an advisory body from which it seeks opinions to ensure fairness and transparency in matters including the selection of candidates for the Board of Directors and auditing posts, the selection of executive officers, the dismissal of board members, statutory auditors or executive officers, evaluations of the chief executive officer and other executive officers, and remuneration for board members and executive officers. The Nomination and Remuneration Advisory Committee will consist of the Chairman, the President, and all outside executives (two outside directors and three outside statutory auditors) where the majority must be outside executives, and the chairperson must be an outside director.

The Board of Directors determines the directors and executive officers’ remunerations within the amount specified by resolution of the general meeting of shareholders, taking into consideration the opinions stated by the Nomination and Remuneration Advisory Committee.

Risk Management Committee

Information regarding the Risk Management Committee is found in “Risk Management/ Risk Management Framework.”

In fiscal 2018, the Risk Management Committee, Compliance Subcommittee, and BCP Subcommittee met four times, twice, and four times, respectively, while the Board of Directors received four sessions of reporting.

Sustainability Committee

In response to matters including SDGs, final recommendations of TCFD and human rights issues, the new Sustainability Committee was established in fiscal 2018 based on the growing requirements for medium to long-term initiatives and informational disclosure about the Environment, Society and Governance (ESG).

The Sustainability Committee is made up of executive officers also appointed as director, and divisional managers with the President acting as the Committee chairperson. The Committee is convened four times a year to formulate and promote initiatives for medium to long-term ESG challenges related to the sustainability of the Sumitomo Forestry Group including climate change in addition to analyzing risks and opportunities, conducting progress management of the Mid-Term Sustainability Targets, which incorporate business strategies toward achieving the SDGs, including monitoring of implementation and effectiveness of the Our Values and Code of Conduct.

The content of all committee proceedings is reported to the Board of Directors to enable our business operations to become part of the solution for social issues.
Internal Audits

Sumitomo Forestry's Internal Audit Department draws on risk assessments in selecting about 60 business sites from among the roughly 200 business sites, including subsidiaries, each year to conduct internal audits. The sites are selected by specifying an order of priority based on the two perspectives of operational risk (business results, size, complexity of business, etc.) and control risk (risk management framework).

In the internal audits, the department checks on how a site is executing its operations and managing its office work, including its compliance with laws and regulations, and it reports its findings to the President, the executive officer in charge of internal audits and internal statutory auditors, as well as to the manager responsible for the site and the executive officer or director in charge of the business site. Furthermore, if any indications have been made, the department checks the improvement efforts implemented at the site, such as by examining documents and conducting quarterly follow-up reviews, in accordance with the necessary compliance to laws and internal regulations and reports on these to the President and to the executive officer in charge.

Executive Remuneration

In accordance with laws and regulations, Sumitomo Forestry discloses the remuneration paid to officers (directors and statutory auditors) each fiscal year.

Total Remuneration Paid to Directors and Statutory Auditors (FY2018)

<table>
<thead>
<tr>
<th>Category</th>
<th>Number of Personnel</th>
<th>Total Amount (Million yen)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Directors</td>
<td>11</td>
<td>539</td>
</tr>
<tr>
<td>Auditors</td>
<td>8</td>
<td>78</td>
</tr>
<tr>
<td>Total</td>
<td>19</td>
<td>617</td>
</tr>
</tbody>
</table>

*1 It is a requirement in Japan to indicate the names and the amounts of directors who receive 100 million yen or more in remuneration in the annual securities report. However, there are no applicable individuals at this Company.

*2 One director and three statutory auditors who resigned at the conclusion of the 78th General Meeting of Shareholders held on June 22, 2018 are included in the above.

*3 Total amount of director’s remunerations do not include a compensation as an employee or a compensation for the execution of other duties.

*4 Total amount of director’s remunerations include the total bonus of 143 million yen as resolved by the 79th General Meeting of Shareholders held on June 21, 2019.

*5 Total amount of director’s remunerations include the cost of 9 million yen allocating stock options and 28 million yen allocating shares with restriction of transfer for eight directors (excluding outside directors).

*6 Upper limits of directors and statutory auditors’ remunerations are as below.

(1) The amount of remuneration for directors of no more than 40 million yen per month (no more than 5 million yen per month for outside directors) was approved at the 76th General Meeting of Shareholders held on June 24, 2016.

(2) The amount of remuneration concerning the allocation of shares with restriction of transfer of no more than 100 million yen per director (excluding outside directors) per year was approved at the 78th General Meeting of Shareholders held on June 22, 2018.
The amount of remuneration for statutory auditors of no more than 8 million yen per month was approved at the 74th General Meeting of Shareholders held on June 20, 2014.

*7 Of the total remuneration of directors and statutory auditors, the total amount paid to outside executives are shown in the table below. However, the table below includes two statutory auditors who resigned at the conclusion of the 78th General Meeting of Shareholders held on June 22, 2018.

Total Remuneration Paid to Outside Executives (FY2018)

<table>
<thead>
<tr>
<th>Number of Personnel</th>
<th>Total Amount (Million yen)</th>
</tr>
</thead>
<tbody>
<tr>
<td>7</td>
<td>55</td>
</tr>
</tbody>
</table>

Content Disclosed Regarding Remuneration Amount or Determination Policy of the Calculation Methods

Sumitomo Forestry Group regards the establishment of an executive remuneration system functioning as an appropriate incentive for directors and statutory auditors to be fundamental in achieving the Group's Corporate Philosophy.

1. Remuneration for Directors (Excluding Outside Directors)
   With the exception of outside directors, remuneration for directors comprises three types: monthly remuneration as basic remuneration, shares with restriction of transfer, and bonuses tied to business performance. We determine remuneration for each directorship position according to roles and responsibilities. While basic remuneration is paid as a fixed cash amount determined by directorship position, a certain percentage of the amount is paid in shares with restriction of transfer. The scope of the cash payment amount is determined by a resolution of the general meeting of shareholders, while the monetary amount to be paid in the form of shares with restriction of transfer is to be determined by the general meeting of shareholders at no more than 100 million yen per year.
   The purpose of remuneration in the form of shares with restriction of transfer is to provide medium to long-term incentive that heightens the desire to increase our corporate value and the sense of pride and motivation, while establishing a sense of values held in common with shareholders. Remuneration tied to business performance is determined with the approval of the general meeting of shareholders, with consideration given to consolidated recurring income excluding differences in actuarial calculations used in retirement benefits accounting, and current net income levels for parent company shareholders.

2. Remuneration for Outside Directors
   Remuneration for outside directors comprises only basic monthly remuneration.

3. Remuneration for Statutory Auditors
   Remuneration for statutory auditors comprises only basic monthly remuneration.

4. General Meeting of Shareholders Resolution on Remuneration for Directors
   • The amount of remuneration for directors of no more than 40 million yen per month (no more than 5 million yen per month for outside directors) was approved at the 76th General Meeting of Shareholders held on June 24, 2016.
   • A limit on remuneration for directors (excluding outside directors) through the allocation of shares with restriction of transfer of no more than 100 million yen per year was approved at the 78th General Meeting of Shareholders held on June 22, 2018.
   • The amount of remuneration for statutory auditors of no more than 8 million yen per month was approved at the 74th General Meeting of Shareholders held on June 20, 2014.

The retirement bonus system for directors was abolished at the conclusion of the 65th General Meeting of Shareholders held on June 29, 2005. In addition, we use the results of a survey conducted by a third party of directorship remuneration at domestic corporations in order to set directors’ remuneration at levels that are appropriate from the perspective of ensuring objectivity and appropriateness.
All of the officers and employees of the Sumitomo Forestry Group adhere to laws and regulations, social norms of behavior and corporate regulations to act with the highest regard for ethics. We have put in place policies even for tax practices and strive to maintain and enhance tax compliance through efforts that include awareness raising for employees.

The Group properly and effectively takes steps to reduce the tax burden while striving to optimize tax payments. In business dealings which may present a high tax risk, we make efforts to reduce the tax risk by preparing systems for sufficient prior examination as well as request advice and guidance such as that from tax experts as necessary. Moreover, we do not engage in any tax strategies through interpretations or applications which stray from the meaning of the law.

Our Group strives to maintain favorable communication with the tax authorities and remains sincere and honest in all of our correspondences based in facts. In the event an issue is pointed out by the tax authorities, we investigate the cause of the problem immediately and take the appropriate measures to properly correct or improve the problem to prevent recurrence, except in cases involving a formal objection or appeal related to the measures or view of the tax authorities.
Risk Management

Risk Management Framework

In order to reinforce its framework for managing business risks for the entire Group, Sumitomo Forestry has created the Risk Management Basic Regulations and has appointed the President of Sumitomo Forestry as the highest authority on risk management for the Sumitomo Forestry Group, executive officers in charge of head office departments and each division headquarters have been appointed authorities on risk management of their department, and general managers have been appointed to promote risk management. The Regulation encompasses risks in environmental, social, and governance aspects, comprehensively.

Based on these regulations, the Company also places the Risk Management Committee, comprised of the Company president as chairperson, together with all of executive officers. Each executive officer identifies and analyzes the priority risks to be addressed in their respective area of responsibility, including at Group companies, and formulates plans for managing those risks. These are then shared and discussed at quarterly meetings of the Risk Management Committee. The Committee primarily discusses responses to compliance-related risks and other short-term risks, as well as risks that have already emerged. Executive Officers and Directors attend this committee as it outlines and reports about the content of the activities to the Board of Directors to put in place systems representative of the business.

A Compliance Subcommittee and a BCM Subcommittee* have also been established under the command of the Risk Management Committee. These are chaired by the general manager of the General Administration Department, and are comprised of the executives in charge of risk management at each Group company. These subcommittees carry out specific activities for increasing effectiveness against “compliance risk” and against “business interruption risk”, which are both regarded as cross-sectional risks affecting the Group.

In fiscal 2018, the Risk Management Committee met four times, and confirmed the state of progress with respect to 45 priority risks. Also in fiscal 2018, the Compliance Subcommittee and BCP Subcommittee met twice and four times, respectively, and reports were also submitted to the Board of Directors four times.

Against risks in environmental, social, and governance aspects specified in the Sumitomo Forestry Group Code of Conduct, tangible actions have been taken to increase effectiveness. With respect to climate change, for example, the latest information is considered together with information obtained from each department in order to evaluate risks and opportunities that are thought to have a severe financial impact at the corporate and departmental levels. In fiscal 2018, each business department joined together in conducting TCFD-based scenario analyses.

Items determined through this process to be priority risks in the medium to long term are discussed in the Sustainability Committee. The results are outlined and reported to the Board of Directors to build a system to reflect this information into the execution of our businesses.

During fiscal 2019, in order to respond properly to changes in the risks faced by the Sumitomo Forestry Group, the Company will strengthen its risk management framework by taking stock of its managed risks and by following a PDCA cycle in making continuous improvements with respect to the priority risks selected at the beginning of each period.

* The BCP Subcommittee was renamed to BCM Subcommittee in April 2019 in order to promote and strengthen the BCM system of the entire group, in and outside Japan.
Risk Management Structure of the Sumitomo Forestry Group

President

- Highest authority on risk management.
- Executive officer responsible for general administration (concurrently works as the person responsible for risk management at the head office).

Assistant to the Highest Authority on Risk Management

General Manager of the General Administration Department

- Office Manager

[Risk Management Unit]
- Each Field with Person Responsible for Risk Management (including supervising affiliated companies)

[Head Office]

- Executive Officer in Charge
  - Person Responsible for Risk Management
- General Manager
  - Person Responsible for Risk Management
  - Person designated by General Manager
    - Person in Charge of Risk Management

[Division]

- Divisional Manager
  - Person Responsible for Head Office Risk Management
  - Other Executive Officers (Deputy Divisional Manager, etc.)
    - Assistant to the Person Responsible for Head Office Risk Management
- General Manager
  - Person Responsible for Risk Management
  - Person designated by General Manager
    - Person in Charge of Risk Management
Risks in Operations

The following risks have been identified in operations as stated on the Security Reports.

1. Trends of housing markets
2. Changes of legislative regulations
3. Competition with other corporations
4. Capital and investment strategies
5. Market status of timber, building materials and other raw materials
6. Currency fluctuation
7. Quality assurance
8. Overseas operations
9. Obligatory retirement fund
10. Stock market
11. Natural disasters
12. Information security
13. Climate change and other environmental matters
14. Value falls of assets
15. Credit facility of business partners
16. Litigation risks
17. Funding risks

► Securities Reports/Internal Control Reports (in Japanese)
► Compliance
► Business Continuity Management

Risks Associated with Illegal Logging and Conversion Timber

Illegal logging is recognized as a crucial issue globally, and progress is being made to strengthen related laws and regulations in a number of countries and regions. Japan has announced the Act on Promotion of Use and Distribution of Legally-Harvested Wood and Wood Products (The Clean Wood Act) on May 20, 2016, which was enacted on May 20, 2017. Addressing stronger control of illegally harvested timber not only responds to the requirements of the world but it is also extremely important for the Sumitomo Forestry Group to continue businesses sustainably.

In addition to legality of the procured timber and timber products, sustainability of forests that produce timber has been in question recently. “Conversion timber” is timber generated during the conversion of natural forest areas to non-forest use (such as oil palm plantation). While the conversion to farm land is often discussed from the commodity side (oil palm, soy, rubber and cattle), conversion timber now poses sustainability risks to forestry industry.

► Smooth Response to the Clean Wood Act

Impact on the Sumitomo Forestry Group

The Sumitomo Forestry Group could jeopardize its own businesses that handle wood resources if it neglected its duty and dealt in illegally logged timber. Moreover, these actions would harm the image of the company and could directly damage our business performance such as compensation for damage and turnover.
Risk Countermeasures

The Sumitomo Forestry Group has been committed to responsible timber procurement, pioneering legislation in Japan and having established the Timber Procurement Philosophy and Policy in 2005, to bring contributions to a sustainable society via business activities of “wood” — a renewable resource. In 2015, Timber Procurement Philosophy and Policy was extended beyond timber and became subject to procurement of building materials, raw materials of products, and end products, and reestablished as Sumitomo Forestry Group Procurement Policy.

The Group's economically, socially and environmentally responsible procurement today is being carried out based on the policy. Furthermore, in order to tackle this emerging issue surrounding conversion timber, Sumitomo Forestry has set a target in its Mid-term Sustainability Targets, targeting FY2021, to 100% procure “sustainable timber,” which eliminate conversion timber.

Procurement Initiatives

Emerging Risks Associated with Carbon Accounting on Biomass Fuel

Biomass power generation using wood chips as fuel has long been considered as “carbon neutral” and as clean energy. While burning wood fuel generates methane and N2O and thus it is not “GHG neutral,” it is only required to report emissions other than CO2.

However, SBT initiative announced its updated criteria this April;
Bioenergy accounting: Direct emissions from the combustion of biomass and biofuels, as well as GHG removals associated with bioenergy feedstock1, must be included alongside the company’s inventory and must be included in the target boundary when setting a science-based target and when reporting progress against that target. If biogenic emissions from biomass and biofuels are considered climate neutral, the company must provide justification of the underlying assumptions.

Detailed information is not yet available from the initiative, nor the guidance on what could be the justification for biomass to be considered climate neutral.

Impact on the Sumitomo Forestry Group

Sumitomo Forestry operates four wood biomass power generation plants in Japan and is currently planning to add another in 2021, which would generate total of 177MW. If it is required to add CO2 emissions to currently reported methane and N2O from the biomass power generation operation, Sumitomo Forestry Group’s SBT emission reduction target would be extremely challenging.

Climate-related regulation changes in each regions/countries are unpredictable and may cause the company additional payment if carbon pricing incurs additional tax payment. Sumitomo Forestry’s corporate brand image of being an environmentally friendly company may also be negatively impacted.

Risk Countermeasures

Sumitomo Forestry continues to strive to reduce carbon emissions based on its Mid-term Sustainable Targets for each business units.

Also, Sumitomo Forestry is becoming more active in lobbying through the Forest Solution Group of the WBCSD (World Business Council for Sustainable Development) and CDP Japan Club, where Sumitomo Forestry serves as member.
Risk Associated to IPCC 1.5 Degree-C Special Report

Based on IPCC’ 1.5 Degree-C Special Report published in October 2018, SBT initiative announced its updated criteria in April 2019; new scope 1+2 targets shift from 2 degree-C to well below 2 degree-C or 1.5 degree-C. The companies will need to have their targets reviewed every 5 years to make sure these are in line with the latest climate science. By the end of 2024 at the latest, based on the current criteria, updated targets will need to be aiming at well below 2 degree-C.

Impact on Sumitomo Forestry

Sumitomo Forestry’s targets that were approved as an SBT targets in July 2018 is reportedly considered as “2 degree-C” target. Targets review every 5 years for Sumitomo Forestry is July 2022 at the latest. Currently approved target of reducing 21% by FY2030 compared to FY2017 is already a challenging one, requiring the company to invest heavily for overseas manufacturing facilities and to purchase renewable energy. In order to align with the updated criteria, each business units of the company, especially manufacturing and biomass energy power generation, faces additional cost and investment.

Risk Countermeasures

In addition to current effort to reduce energy consumption, the company started actions to secure electricity from renewable energy sources. One of the sources would be to purchase electricity from solar-panels on each detached houses sold by the company in the past. Under the FIT Act of Japan (Feed-in Tariff for Renewable Energy) residential PV system owners have signed up for 10-year contract, which expires in November 2019 at the earliest.

While the current regulation does not allow Sumitomo Forestry to directly contract with each residential PV system owners, the company is undertaking studies for future plan as well as potential utilization of the “environmental value” from portion of power generated and consumed in-house.

New Business Plan Risk Assessment

All new business and project plans that are brought for deliberation to the Board of Directors and the Executive Committee, which is the advisory body to the president, Sumitomo Forestry conducts risk assessment for the following categories, taking into account the entire supply chain. If a risk is confirmed, a report is made regarding the risk and measures to deal with it, which is used to determine implementation. In addition, the same risk assessment is recommended for new business projects that are not brought for deliberation to these meetings because they can be implemented under the jurisdiction of the respective division or affiliated company.

- Environmental Aspects
  1. Greenhouse Gases
  2. Biodiversity Conservation (Including Verification of Protected Regions)
  3. Waste
  4. Water Resources
  5. Soil Contamination
  6. Noise
  7. Other

- Social Aspects
  1. Relationships with Companies We Do Business With
  2. Anti-Corruption in All Its Forms, Including Extortion and Bribery.
  3. Human Rights Considerations for Workers and Other Stakeholders
  4. Promotion of Employee Diversity
  5. Prohibition of Forced Labor and Child Labor
  6. Appropriate Working Hours and Wages
  7. Occupational Health and Safety (OHS)
  8. Impact on Local Communities (Including Concern for Local Residents and Administrations, Industry Organizations, NPOs, Municipal Citizens’ Groups and Indigenous People)
Risk Education

As ways to increase the sensitivity of risk in the executives and employees and in the corporate culture of the Sumitomo Forestry Group, the Group conducts e-learning each year for executives and employees as well as a risk management training for newly joined employees. In 2018, the Group introduced and shared examples from risks emerged in the past that should be noted beyond specific business departments in a meeting-type venue for people in charge of risk management at the Company and each Group company.

Rapidly Comprehending and Dealing with Risks

The Sumitomo Forestry Group operates Two-hour Rule system designed to quickly and accurately communicate information to management in the event of an emergency situation that may have a grave impact on company management. In addition to the regular reporting line, it utilizes communication via the Division responsible for risk management.

Through this system, management can take the best decision speedily, ensuring an initial response which avoids loss and controls the situation. Moreover, it serves a role in collecting and accumulating reported cases and assists in improved business practice and prevention of recurrence.

Furthermore, the structure is organized so that, by sharing information with the public relations departments, important situations are disclosed to stakeholders properly and in a timely manner.
The Sumitomo Forestry Group established the new Sumitomo Forestry Group Code of Conduct as a foundation for its policies and regulations based on its Corporate Philosophy and Our Values. The Sumitomo Forestry Group uses the Code of Conduct for compliance not only at its Group companies but also at its suppliers to prevent corruption such as bribery, engage in fair business practices, maintain informational confidentiality, build healthy relationships with politicians, and respect human rights.

Sumitomo Forestry established the Compliance Subcommittee as a subordinate organization under the Risk Management Committee, chaired by the general manager of the General Administration Department and comprised of the persons responsible for risk management, including those from the responsible departments at each Group company. As a cross-cutting organization across the Group, the subcommittee promotes responses to compliance risk. It has established the Group standard risk management system and tools to ensure compliance with the Construction Business Act of Japan and other laws throughout the Group, for efficient response to compliance risk.

During fiscal 2018, the subcommittee met twice, and continuing on with its Group-wide initiatives from the previous fiscal year, it worked to make continuous improvements to its compliance system, such as making a comprehensive examination of risks with respect to legal requirements, such as for business activities requiring government permits and licenses.

In addition, by acquiring the latest knowledge in the field through compliance seminars featuring external expert instructors, the Company endeavors to align the perspectives of those persons throughout the Group who are responsible for compliance, working bottom-up.

These activities are outlined and reported to the Board of Directors once every quarter to build a system to reflect this information into the execution of our businesses. In addition to making monthly activity reports to auditors and internal audit divisions, any particularly important initiatives or risk information that is common to the Group is shared with the auditors in each Group company via the meetings of Statutory Auditors of Sumitomo Forestry and its subsidiary companies. Thus, the Group has developed a system for promoting compliance in its lines of business execution using internal and external approaches.

In order to heighten awareness among each and every employee about compliance, Sumitomo Forestry Group conducts compliance training for new employees to promote their understanding about general compliance issues, such as traffic safety, and information security. In fiscal 2018, training was administered to a total of 365 new graduate recruits (Group total in Japan), and to 86 mid-career recruits (Sumitomo Forestry). Compliance training was also provided to groups of employees at specific levels, including “Training for New General Managers.”

Furthermore, two e-learning courses, “Compliance and Risk Management” and “Information Security” have been set as parts of compulsory courses to be taken by all employees who can use the internal website, and employees are required to take these courses annually (requires passing the test to measure effectiveness of the training). In addition, each Group company in Japan and overseas also has its own arrangements for training, such as for new employees.
The Sumitomo Forestry Group is committed to creating a workplace environment equipped with a self-corrective function for catching any misconduct concealed in day-to-day operations at an early stage. To this end, the Group established the Compliance Hotline (advice desks) in 2002 in order to prevent corruption such as anti-bribery, defined in the Sumitomo Forestry Group Code of Conduct.

The Group has two Compliance Hotlines, one within the Group (general manager of the General Administration Department is responsible) and one external to it (lawyer), ready to provide advice and receive reports via telephone or a dedicated email address. The Hotlines not only assist Group company employees but are available for anyone who works continuously for the Group, such as employees at partner building contractors. As well as stipulating in the relevant regulations and user manual about the protection of rights for persons seeking advice or making reports, and informing this on the Sumitomo Forestry intranet, the user manual is also distributed to all Group employees.

In fiscal 2018, the Compliance Hotlines were contacted with 14 times about such topics as the workplace environments and management of working hours. In cases where the facts were confirmed, in addition to implementing the necessary corrective measures, initiatives were promoted aimed at preventing recurrence including using these examples in training for managers.

Considering the current situation in which our Group is developing its business globally, we will be moving to establish a whistleblowing hotline with contact points accessible in languages other than Japanese.

Manual for Compliance Hotline

The internal auditing departments evaluate and investigate the appropriateness and validity of the management system at Sumitomo Forestry and its 200 operational sites from an independent standpoint. In fiscal 2018, roughly 60 sites were selected to conduct internal auditing. These internal audits not only examine simple imperfections but also point out issues related to compliance at each site and provide advice and guidance for improvement. In addition, in the event a compliance breach is found, the issue is reported to the President, executive officer in charge of internal auditing, the statutory auditor, and the executive officer/director supervising the business of the breach to put in place the necessary reform measures while offering advice on how to correct and improve the point of issues in the relevant departments.
Preventing Corruption

Based on the Sumitomo Forestry’s Regulations for Prevention of Bribery of Officials including Public Servants, we aim preventing corruption both in Japan and overseas. The rules stipulate that monetary and other forms of benefit offering, agreement, provision, and acceptance to or from government employees are forbidden. As our basic principles, notion to facilitation payments* as well as conditions and pre-approvals for political contributions are stated.

Aiming at Group employees, the Group also facilitates dissemination of corruption and bribery prevention. One of the Company’s CSR targets was the establishment of separate regulations at consolidated subsidiaries in Japan during fiscal 2014. Consolidated subsidiaries overseas prepared regulations based on an aspect of the risk-based approach, implement staff training and promoted general awareness. Subsidiaries in China have already prepared and implemented regulations. Efforts to formulate regulations at consolidated subsidiaries in Indonesia and Vietnam moved forward in fiscal 2015 and, in fiscal 2016, those regulations were put in place at a consolidated subsidiary established in fiscal 2015. Efforts to formulate regulations at consolidated subsidiaries in Indonesia and Thailand moved forward in fiscal 2017. In fiscal 2018, progress was made in instituting regulations in each of our Group company, the North America, Australia and the Asian regions, as well as at our consolidated subsidiary in Papua New Guinea.

When new business partners and representative agencies are hired, the Company oversees that these new business partners pose no risks of bribery whilst conducting appropriate due diligence including on corruption status in the case of a merger with other companies.

In fiscal 2018, no violation of corruption and relevant laws was identified.

* Small amount of payment to facilitate regular administrative services

Promotion of Fair Competition and Appropriate Transactions with Subcontractors

For the purpose of promoting fair competition, Sumitomo Forestry published the Antimonopoly Act Guide Book, and via articles on its intranet website, e-learning and other methods, it works to enhance understanding and awareness regarding the intent and outline of the Antimonopoly Act and about the risk of cartels stemming from contact with competitors. There were no breaches or issues related to the Antimonopoly Act in fiscal 2018.

Given that the Group’s business activities are supported by many business partners, every year, Sumitomo Forestry also makes a comprehensive examination of its compliance with the Subcontract Act and the Construction Business Act of Japan for the purpose of promoting appropriate transactions with subcontractors.

Political Contributions Policy

The Sumitomo Forestry Group states in its Code of Conduct: “We shall maintain a healthy and transparent relationship with the government that is in conformance with all laws.” This statement has been included to ensure a healthy relationship with the government. The Sumitomo Forestry Group Code of Conduct Guidebook distributed to every employee working at Group companies in and outside Japan clarifies “As a general rule and in accordance with relevant laws and company regulations, only the division in charge is permitted to make political contributions” and “If circumstances require another division to make a political contribution, make sure that there is adequate prior consultation with the division in charge or top management.”
Restriction of Insider Trading

The Sumitomo Forestry Group adheres to the Financial Instruments and Exchange Act as well as other relevant laws to prevent insider trading. Regulations to prevent insider trading maintains and improves the trust society has for the company in the stock market by clarifying procedures to prevent insider training by executives and employees as well as the management of information and disclosure methods. In addition, executives and employees who have the potential to come into contact with insider information on a daily basis are required as policy to gain the prior approval of the General Manager of the General Administration Department if they plan to buy or sell company stock to ensure the appropriateness. The Group also has published an Insider Trading Prevention Manual and raises awareness through its internal websites in addition to reminding the executives and employees twice a year about the prevention of insider trading.

There were no breaches or issues related to insider trading in fiscal 2018.

Rejection of Influence from Anti-Social Forces

The Sumitomo Forestry Group’s Code of Conduct state that the “influence from anti-social forces will be met with a resolute attitude and no compromises will be tolerated” as its basic policy. The General Administration Department is designated as the division to coordinate overall response and systematically cooperates with external expert bodies such as the police and lawyers in order to gather information about anti-social forces, and when required, gives guidance in issuing warning notices. In addition, in accordance with the enforcement of laws of each prefecture for the exclusion of organized crime, Sumitomo Forestry takes appropriate action including standardization such that all contracts that domestic Group companies enter into with third parties include a clause to exclude anti-social forces.

To further strengthen its efforts, since fiscal 2013, the Company has requested that all business partners, including its existing contracted partners, provide declarations guaranteeing that neither they nor their parent, subsidiary or subcontracting companies are anti-social forces.

Prevention of Traffic Accidents and Violations

Given that the Sumitomo Forestry Group has a fleet of about 7,000 vehicles used for either work or commuting in Japan, it promotes use of a standard Group system for managing safe driving to manage the risks associated with traffic accidents and violations.

Specifically, as well as establishing related rules, standardizing accident report forms, and acquiring Certified Driving Records*, Sumitomo Forestry has rolled out a Safe Driving Management System to each Group company which centrally manages basic driver and vehicle information (licenses, traffic violation histories, vehicle inspections, insurance, etc.), and has established systems for ensuring that the fulfillment of statutory obligations and driver instruction are carried out in a timely and appropriate manner.

Sumitomo Forestry also holds monthly meetings for the Safe Driving Working Group, which is comprised of safe driving coordinators from Head Office and business divisions. The group shares and analyzes the state of traffic accidents and violations, helping in the formulation of prevention measures and educational activities.

Furthermore, Sumitomo Forestry also conducts hands-on vehicle training such as daily inspections, basic driving and slalom driving in addition to training to teach the potential of personality and other factors that influence driving as well as driving skills for the future based on a driving aptitude assessments, targeting new employees who are at a greater risk of accident due to insufficient driving skills and experience. Training is also provided to give participants hints on how to avoid traffic accidents so that they can reaffirm their mental readiness for safe driving.

* A certificate issued by the Japan Safe Driving Center showing a driver’s violations and administrative disciplinary actions, etc.
Business Continuity Management

Business Continuity Management System

To counter risks which could significantly impact Head Office functions and are beyond a company's capacity to prevent, such as natural disasters and pandemic influenza, Sumitomo Forestry has established the BCM Subcommittee*. The subcommittee sits under the Risk Management Committee, is chaired by the general manager of the General Administration Department and is comprised of the persons responsible for risk management including Group company, which enhances business continuity management system (BCM) and promotes initiatives based upon business continuity plans (BCP). Since Sumitomo Forestry Group companies are an integral link in the supply chain of one another's business, each Group company is committed to constantly improving the resilience of the whole Group, and tackling Group-wide issues with the intention of enhancing business continuity.

In fiscal 2018, Sumitomo Forestry held four BCP Subcommittee meetings. Critical initial responses in the event of a powerful earthquake, such as Tokyo Inland Earthquake was reviewed; in the meantime various training programs were planned and implemented.

* The BCP Subcommittee was renamed to BCM Subcommittee in April 2019 in order to promote its BCM system in the entire Group, and improving business continuity with responding to variety of crises, expanding alternative locations, and strengthening disaster recovery headquarters functions.

Measures for Employee Safety and Systems for Business Continuity

Portable Guide for Risk Responses, Safety Confirmation and Information Communication System

Sumitomo Forestry Group distributes Portable Guides for Risk Responses to all Group employees in Japan, promoting the basic response procedure to take in the event of a disaster. A safety confirmation system has also been introduced, allowing the safety of employees to be checked quickly in the event of a natural disaster. Safety confirmation drills are conducted at domestic Group companies every year, and in fiscal 2018, a sum of 14,763 employees have participated in them.

Furthermore, we have been operating a crisis management portal site since October 2016 as an information communication tool indispensable to business continuity from the moment disaster strikes through the recovery. This portal site allows employees Group-wide to confirm notices from the company and disaster information with only access to the Internet even when verbal communication networks and transportation infrastructure are down. Members and other staff entrusted with the responsibilities at each division, base and affiliate company can also share information through SNS functionality on the portal site to regularly confirm safety and conduct information communication training.
Disaster Prevention and Damage Mitigation Measures

By way of preparation for employees walking long distances back home on foot or those stranded at the office unable to return home in the event of a massive earthquake, Sumitomo Forestry has stipulated a minimum stockpile of common emergency supplies for each workplace, and has had these distributed to all Group bases. In particular, at bases in large metropolitan areas (Tokyo, Osaka, and Nagoya), where it is expected there would be large numbers of stranded employees, enough supplies have been stored for employees to stay at the office for up to three days.

Also, when selecting new offices and other facilities, rather than deciding merely on cost and convenience, the person responsible for disaster prevention at Head Office gets involved, and measures for preventing disasters and reducing damage are implemented, such as measures for preventing office equipment from falling over and multifunction printers on wheels from rolling.

Furthermore, Sumitomo Forestry has also implemented measures from a perspective of data integrity, such as backing up data at locations physically distant from the data center.

BCP Simulation Training

In order to overcome the chaos immediately after a large-scale earthquake strikes and to transition quickly to action for business continuity, it is vitally important that the people in charge can make an initial response and can make decisions according to the situation at hand. For this reason, since fiscal 2011, the Sumitomo Forestry Group has continued to conduct BCP Large Scale Earthquake Countermeasures Simulation Training, targeted at the persons in charge at each Group company. The aim of this training is to get participants to experience a simulated “crisis” in an earthquake and to acquire an awareness of the issues, by getting them to make spur of the moment decisions again and again based on rigorous hypothetical scenarios. During the training, since Group companies from neighboring areas are assembled together in one place, another aim of the exercise is to share an awareness of risks and to strengthen cooperation among them in an emergency. To date, a cumulative total of more than 550 people have participated in this training.

Systems have also been developed so that, in situations where employees find getting to work difficult, payment of salaries, payments to business partners and other important business operations can still be carried out from a site designated in advance, an employee dormitory, their home or other remote locations while maintaining a high level of security. Simulation drills to check back-up office operations are also conducted every year.

In fiscal 2018, we conducted first-response and rescue training to learn techniques using crowbars on-site (simulating the aftermath of serious earthquakes when no immediate emergency dispatch can be anticipated), simple triage and rapid treatment (JumpSTART Triage) for injured victims, and transport techniques for injured victims.

Strengthening Supply Chain Business Continuity Plan

In readiness for potential disruption of its housing and construction business supply chain following a disaster, Sumitomo Forestry shares the specifications and processes for property construction along with site progress status information with business partners including component makers and building contractors. By enabling advanced procurement of materials and production in this way, the Company is striving to reduce the risk of a disruption to operations.

The Company plans to work on further reducing risk of business disruption by considering reporting method for suppliers reporting the status of the disaster and systematization of history management in cases the suppliers are affected by natural disasters such as earthquakes or calamities such as fires.

Sumitomo Forestry also reviews its suppliers of building and construction materials, with supplier evaluations conducted every year for determining whether to continue business with them. Business continuity items, such as systems for ensuring alternative supply routes during a disaster, have been added to these evaluations.
Sumitomo Forestry has setup call centers in Tokyo and Fukuoka, thereby facilitating 24-hour after-sales service.

Sumitomo Forestry has also developed a mechanism whereby any call center can back up the functions of another call center in the event it is affected by a disaster. Through a unified emergency system, the Group can share damage information pertaining to owners nationwide, enabling us to respond quickly to disaster and requests for repairs.
Responsible Advertising/Promotional Efforts

Basic Policy

In keeping with the Sumitomo Forestry Group Code of Conduct, Sumitomo Forestry Group complies with relevant legislation, including the Copyright Act, Trademark Law, Building Lots and Buildings Transaction Business Law, and the Act against Unjustifiable Premiums and Misleading Representations. Out of consideration for the perspectives of our diverse stakeholders, we also engage in accurate and appropriate advertising and promotional efforts that do not cause misunderstanding or offense.

Observance of Laws, Standards and Norms

In order to ensure thorough observance of laws, standards and norms, Sumitomo Forestry has a system which the Corporate Communications Department, the Legal Group in the General Administration Department and the Intellectual Property Department cooperate to confirm and verify the content of advertisements as required.

Sumitomo Forestry did not violate any of the various laws and regulations related to advertising in fiscal 2018. Furthermore, Sumitomo Forestry holds monthly meetings of the Brand Communication Committee, comprised of advertising personnel from relevant departments and relevant Japanese affiliates, in addition to study sessions for preventing non-compliance in an effort to raise awareness. Through these efforts, Sumitomo Forestry made certain of prior checks, and endeavored to ensure customers were not misled by unreliable information.

Initiatives to Improve Company-Internal Literacy

In fiscal 2018, the Brand Communication Committee held a study session about the Act on the Protection of Personal Information and the Copyright Act. This session brought understanding of the content of laws related to advertising and labeling as well as violations that can easily occur by providing explanations that included an introduction of specific examples.

A web discussion session is also held once a quarter. Additionally, the Committee created website management guidelines and provided relevant division and Group company website teams in Japan with information and instructions on personal information and information security.
Information Security

Information Security Policy

In order to ensure the confidentiality, integrity and availability of its information systems, the Sumitomo Forestry Group has raised the security level of its systems while maintaining the “regulation” aspects and “technology” aspects of information security in a mutually complementary manner.

Based on the recognition that the protection of customer information in particular is of utmost importance, the Group continues to conduct employee training to ensure dissemination of the rules, and verifies their level of awareness.

In terms of the regulation aspects, we have formulated Sumitomo Forestry Group Information Asset Protection Guidelines for all Group companies in Japan and created a check list based on these guidelines at the same time.

The person responsible for the department in charge of information systems at each Group company conducts checks of the information security level every year. In fiscal 2012, the Group also formulated guidelines for Group companies outside of Japan.

As for education on information security, Sumitomo Forestry has made it compulsory for all Group employees with access to its intranet (including temporary and part-time employees) to take an e-learning course on an annual basis.

On the other hand, with respect to the technology aspects of information security, the Group has introduced encrypted start-ups and restrictions on the data export from computers that are taken outside the Company.

Systems for Protecting the Privacy of Customers
(Protection of Personal Information)

Sumitomo Forestry has formulated internal rules to safeguard the personal information of customers, such as the Personal Information Protection Policy and the Personal Information Protection Regulations. In addition, the executive officer responsible for general administration is designated as chief executive in charge of protection of personal information, head of each department as a supervisor and placed an information security officer in each department. In these ways, the Company has established a protection system covering Head Office through to each office.

The Company has also established a help desk for inquiries regarding the handling of personal information within the Customer Service Department. In addition, collective training is provided for the head and general administration representative for each organization. E-learning is provided for all other employees and efforts are made to increase awareness at subcontractors, in order to prevent the leaking of personal information. It is also mandatory for employees at Group companies to undertake the e-learning training.

► Personal Information Protection Policy
Systems for Managing Information Security

Under the supervision of the executive officer in charge of IT solutions, the general manager of the IT Solutions Department promotes information security measures for the Sumitomo Forestry Group, such as the formulation and management of rules and regulations, the proposal and implementation of technical measures, the education and training of employees, and the investigation of accidents and implementation of countermeasures.

Furthermore, the person responsible for each department provides guidance and management for the execution of that department's operations as the information security supervisor, and assigns an information security officer who is the working-level manager for the department's information security.

The Group also holds regular meetings of the Affiliated Companies IT Managers Council, which is attended by the persons responsible for departments in charge of information systems at Group companies in Japan. The council checks the content of the guidelines and promotes the introduction of security systems.

Initiatives to Strengthen Information Security

Investments in information security was continued to made in fiscal 2018 to strengthen security by building a defense in depth system based on the growing threats to information security such as the multiple leaks of personal information and the advanced email attacks occurring in recent times. In addition to these investments, the Sumitomo Forestry Group has conducted advanced email attack training for all of its employees.

Since May 2016, we are also enhancing the response for consultations from employees founded in issues related to cyberattacks and strengthening information security education for employees centered upon the Information Security Office established at Sumitomo Forestry Information Systems Co., Ltd.
The proper protection and use of copyrights, trademarks and other intellectual property rights have a major impact on business competitiveness, while illegal actions such as intellectual property rights infringement is one of major risks in corporate management. The Sumitomo Forestry Group strives to properly manage intellectual property, including the protection of intellectual property at the right time based on the unique characteristics of each business and consult with others as necessary, to sustain and improve competitiveness.

Sumitomo Forestry established the Intellectual Property Department and it employs a number of patent lawyers on its department staff. The Intellectual Property Department provides a wealth of support that includes education to cultivate knowledge about intellectual property in employees, legal consultation about the infringement and violation of intellectual property rights, assistance for the execution of various contracts related to intellectual property as well as the creation of intellectual property in Tsukuba Research Institute and each division in addition to filings and the protection of the intellectual property that is created.

Sumitomo Forestry Group conducts intellectual property classroom training for employees under a systematic program that compiles content appropriate to each department. The purpose is to systematically teach the correct knowledge and fundamental actions for handling intellectual property from the perspectives of compliance and risk management. In fiscal 2018, Sumitomo Forestry held 11 training sessions on intellectual property for employees in charge of research and development as well as marketing and planning at the Tsukuba Research Institute, business departments and affiliate companies in an effort to ensure thorough compliance and risk management.

We have also established an environment in which all Sumitomo Forestry Group employees can access intellectual property-related classes that places emphasis on aspects of compliance at all times through our e-learning website. This course is a mandatory course that must be taken by each Sumitomo Group employee every year.
In recent years, institutional investors have shifted the way to evaluate a company. One emphasis from this perspective of evaluation is engagement. The dialogue between companies and their shareholders as well as investors is growing in terms of strategies and efforts to improve corporate value. Trends to promote even broader engagement are growing after the publishing of the Stewardship Code even in Japan.

The Sumitomo Forestry Group places great importance on engagement from the perspectives of properly assessing the corporate value and earning trust from the market. The Group discloses a wide range of information, including non-financial information, in a timely and transparent manner to facilitate understanding among stakeholders of our management policies and business strategies, while regularly feeds back the opinions and requirements of investors who are a vital stakeholder into operations to put in place measures toward sustainable growth.

### Basic Policy on Returns to Shareholders and Retained Earnings

Acknowledging that providing returns to shareholders is one of its most important tasks, Sumitomo Forestry has adopted a basic policy of paying stable and continuous returns.

Going forward, in addition to improving return on equity (ROE) and enhancing shareholders' equity by making good use of retained earnings for effective investment and research and development activities that help improve long-term corporate value, Sumitomo Forestry will continue to pay an appropriate level of shareholder returns in line with earnings while reflecting an overall balanced consideration of factors such as business fundamentals, financial conditions and cash flow.

### Dividends in Fiscal 2018

In fiscal 2018 (year ended March 31, 2019), a year-end dividend of 20 yen per share and an interim dividend of 20 yen per share were issued. This corresponds to a full-year dividend of 40 yen per share.

### Share Distribution by Shareholder Type (As of March 31, 2019)

* Digits below unit values displayed are cutoff on the chart.
Information Disclosure and Communication

Basic Policy on Information Disclosure and Communication

In the interest of greater management transparency, Sumitomo Forestry takes a proactive approach to information disclosure.

We strive to provide reporting and explanations in an easy to understand manner at the General Meeting of Shareholders held in June every year. We also publish a wealth of IR information in Japanese and English such as information about the settlement of accounts and monthly order information in the housing businesses that includes short financial statements, factoring and a summary of financial results and forecasts on our website.

In addition, we also publish our CSR initiatives in Japanese and English online.

We have been publishing the Integrated Report since fiscal 2017 in place of the Annual Report published up until now in order to strengthen informational communication for both financial information and non-financial ESG information about the initiatives to improve corporate value throughout the Group. Besides the integrated report and the Japanese language report for shareholders on business activities, we also strive to actively provide information that includes the publishing of notifications for our Ordinary General Meeting of Shareholders in both English and Japanese in print and online forms.

IR Materials (Link to IR Information)

Two-Way Communication with Shareholders and Investors

Basic IR Policy

General Meeting of Shareholders

Sumitomo Forestry holds its Ordinary General Meeting of Shareholders every June. Through various initiatives, the Company endeavors to get as many shareholders as possible to participate at the meetings and exercise their right to vote. These initiatives include sending out and posting online convocation notices (in Japanese and English) earlier than legally required, scheduling the meeting to avoid the date when most other shareholder meetings are held, and accommodating shareholders who wish to cast their votes online or via mobile phone.
Individual Meetings

Sumitomo Forestry holds individual meetings with security analysts and institutional investors following the announcement of its quarterly results. In fiscal 2018, we conducted a total of 183 consultations in Japan and overseas. In addition, we will also regularly hold forums such as small meetings and on-site briefings.

IR Informative Meetings for Individual Investors

Sumitomo Forestry holds regular IR informative meetings for individual investors. During fiscal 2018, many investors attended the meetings held in Osaka and Tokyo. The meetings presented the growth strategy of the Sumitomo Forestry Group in addition to its business operations while its exhibition booth at the venue provided those investors who have requested with briefings on customized housing, rental housing, renovation, and private-pay elderly care facilities.

IR Activities for Overseas Institutional Investors and Shareholders

Sumitomo Forestry management team visits institutional investors and shareholders in Europe and North America in fiscal 2018 in addition to engaging in efforts such as the distribution of English versions of financial information to all of our institutional investors and shareholders overseas.

These efforts offer us the chance to exchange ideas in addition to explain aspects of our business such as our business performance and business strategies.

We also provide many opportunities for dialogue by participating in conferences held in Japan and overseas.

Issuance of Green Bonds

Sumitomo Forestry Group promotes initiatives informed by an awareness of the global environment in all of the activities it pursues. In September 2018, as part of this initiative, Sumitomo Forestry issued ten billion yen of Convertible Bonds with Stock Acquisition Rights in accordance with the Green Bond Principles and with a second party opinion received from a leading evaluation agency (hereinafter “Green CBs”). The purpose was to refinance the reduced amount of cash on hand resulting from our acquisition of forest assets in New Zealand in fiscal 2016. This was the first instance of the issuance of Green CBs worldwide, and it was this advanced initiative that was highly evaluated and won the New Products category at the 4th Green Bond Pioneer Awards hosted by the Climate Bonds Initiative as a result. We were the first Japanese company to receive a Green Bond Pioneer Award. Issuance of Green CBs will contribute to activating ESG investment markets and expanding the base within and outside of Japan.

- Second party opinion provided by evaluation organization Vigeo Eiris
- Environmental benefits: ex-post estimates of outputs and impacts