

Governance

Governance

Board of Directors and Statutory Auditors (as of June 23, 2015)



From left: (front) Hitoshi Hayano, Akira Ichikawa, Ryu Yano, Junko Hirakawa (back) Akihisa Fukuda, Tatsuru Satoh, Shigeru Sasabe, Ken Wada, Toshiro Mitsuyoshi

Directors

Ryu Yano *Chairman of the Board

Apr. 1963 Joined the Company
 Dec.1986 General Manager of Overseas First Department
 Dec.1988 Director
 Jun. 1992 Managing Director
 Jun. 1995 Representative Director (current position)
 Senior Managing Director
 Apr. 1999 President/Director
 Jun. 2002 President and Executive Officer
 Apr. 2010 Chairman of the Board (current position)

Akira Ichikawa *President / Director

Apr. 1978 Joined the Company
 Apr. 2007 General Manager of Corporate Planning Department
 Jun. 2007 Executive Officer
 Jun. 2008 Director
 Apr. 2010 Managing Executive Officer
 Representative Director (current position)
 President/Director (current position)
 President and Executive Officer (current position)

Hitoshi Hayano *Director

Apr. 1977 Joined the Company
 Apr. 2003 General Manager of Corporate Planning Department
 Jun. 2005 Executive Officer
 Apr. 2006 Managing Executive Officer
 Jun. 2006 Director
 Apr. 2007 Divisional Manager of Real Estate Business Division
 Apr. 2010 Divisional Manager of Housing Division
 Apr. 2011 Representative Director (current position)
 Senior Managing Executive Officer
 Apr. 2014 Executive Vice President and Executive Officer (current position)
 Divisional Manager of Lifestyle Service Division and Forestry & Environment Division
 Apr. 2015 Divisional Manager of Lifestyle Service Division and Environment & Resources Division (current position)

Shigeru Sasabe Director

Apr. 1977 Joined the Company
 Apr. 2007 General Manager of Personnel Department
 Jun. 2008 Executive Officer
 Sep. 2008 General Manager of General Administration Department
 Apr. 2010 Managing Executive Officer
 Jun. 2010 Director (current position)
 Apr. 2012 Divisional Manager of Lifestyle Service Division
 Apr. 2014 Senior Managing Executive Officer (current position)
 Divisional Manager of Overseas Business Division (current position)

Ken Wada Director

Jul. 1983 Joined the Company
 Apr. 2004 General Manager of Marketing Strategy Department, Housing Division
 Apr. 2007 General Manager of Fukuoka Branch, Housing Division
 Apr. 2008 Deputy Divisional Manager of Housing Division
 Jun. 2008 Executive Officer
 Apr. 2010 Managing Executive Officer
 Jun. 2011 Director (current position)
 Apr. 2014 Senior Managing Executive Officer (current position)
 Divisional Manager of Housing Division (current position)

Tatsuru Satoh Director

Apr. 1978 Joined the Company
 Oct. 2008 General Manager of Administration Department, Housing Division
 Apr. 2011 General Manager of Personnel Department
 Apr. 2012 General Manager of General Administration Department
 Jun. 2012 Executive Officer
 Apr. 2013 Managing Executive Officer (current position)
 Jun. 2013 Director (current position)

Akihisa Fukuda Director

Apr. 1981 Joined the Company
 Apr. 2009 General Manager of Corporate Planning Department
 Jun. 2010 Executive Officer
 Apr. 2011 Managing Executive Officer (current position)
 Jun. 2014 Director (current position)

Toshiro Mitsuyoshi Director

Apr. 1985 Joined the Company
 Apr. 2010 General Manager of Overseas Business Department, Overseas Business Division
 Jun. 2010 Executive Officer
 Apr. 2011 Managing Executive Officer (current position)
 Divisional Manager of Overseas Business Division
 Apr. 2014 Deputy Divisional Manager of Housing Division (current position)
 Jun. 2014 Director (current position)
 Apr. 2015 President and Representative Director of Sumitomo Forestry Home Tech Co., Ltd. (current position)

Junko Hirakawa Director**

Apr. 1973 Licensed as an attorney-at-law admitted in Japan
 Feb. 1979 Licensed as an attorney-at-law admitted in the State of New York, U.S.A.
 Oct. 1983 Partner of Yuasa and Hara
 July 1997 Founding Partner of Hirakawa, Sato & Kobayashi (currently City-Yuwa Partners)
 Feb. 2003 Partner of City-Yuwa Partners (current position)
 Jun. 2011 Appointed as External Director of Tokyo Financial Exchange Inc. (current position)
 Jun. 2012 Appointed as External Statutory Auditor of the Company
 Jun. 2014 Appointed as External Director of the Company (current position)
 Jun. 2015 Appointed as External Director of Hitachi Construction Machinery Co., Ltd. (current position)

*Representative Director

**External Director

Statutory Auditors

Hidekazu Tanaka
Statutory Auditor

Noriaki Toi
Statutory Auditor

Satoshi Teramoto
Statutory Auditor*

Shin Nagata
Statutory Auditor*

Katsuhide Kurasaka
Statutory Auditor*

*External Statutory Auditors

Executive Officers

Akira Ichikawa
President and Executive Officer*

Hitoshi Hayano
Executive Vice President and Executive Officer*
In Charge of Value Up and Cost Down Works, TOP2020, Group IT Strategy, Divisional Manager of Lifestyle Service Division and Environment & Resources Division

Shigeru Sasabe
Senior Managing Executive Officer*
Divisional Manager of Overseas Business Division (also oversees Timber & Building Materials Division)

Ken Wada
Senior Managing Executive Officer*
In charge of Tohoku Reconstruction Support, Divisional Manager of Housing Division

Tatsuru Satoh
Managing Executive Officer*
In charge of General Administration, Personnel, Corporate Communications, CSR, Intellectual Property, and Internal Audit

Akihisa Fukuda
Managing Executive Officer*
In charge of Corporate Planning, Finance, Information Systems, and Tsukuba Research Institute

Toshiro Mitsuyoshi
Managing Executive Officer*
President and Representative Director of Sumitomo Forestry Home Tech Co., Ltd.

Takanori Umeki
Managing Executive Officer
Divisional Manager of Timber & Building Materials Division

Kunihiko Takagiri
Managing Executive Officer
President and Representative Director of Sumitomo Forestry Residential Co., Ltd.

Yoshihiro Yoshioka
Executive Officer
President and Representative Director of Sumitomo Forestry Crest Co., Ltd.

Ryoji Machino
Executive Officer
Director and Senior Managing Executive Officer of Sumitomo Forestry Crest Co., Ltd.

Masayuki Tabuse
Executive Officer
Deputy Divisional Manager of Timber & Building Materials Division, and General Manager of Domestic Timber & Building Materials Section

Akira Sekimoto
Executive Officer
Deputy Divisional Manager of Environment & Resources Division, and General Manager of Overseas Resources Department

Akio Numazaki
Executive Officer
Director and Senior Managing Executive Officer of Sumitomo Forestry Home Tech Co., Ltd.

Kanpei Tokunaga
Executive Officer
President and Representative Director of Sumitomo Forestry Landscaping Co., Ltd.

Shinichi Kawazoe
Executive Officer
Deputy Divisional Manager of Overseas Business Division and General Manager of Overseas Manufacturing Department

Nobuyuki Katayama
Executive Officer
Deputy Divisional Manager of Housing Division (also oversees Administration & Planning and Training & Education)

Soichiro Kitamura
Executive Officer
President and Representative Director of Vina Eco Board Co., Ltd. (VECO)

Junko Saishu
Executive Officer
Deputy Divisional Manager of Housing Division (in charge of Technology Management), and General Manager of Building Compliance Department

*Concurrently serves as Director and Executive Officer

Corporate Governance

Fundamental Policy

The Sumitomo Forestry Group’s corporate philosophy states, “The Sumitomo Forestry Group utilizes timber as a renewable, healthy, and environmentally friendly natural resource, and contribute to a prosperous society through all types of housing-related services.” Under our Action Guidelines, one of which is to “conduct business that is beneficial to society based on the principles of integrity and sound management,” we strive to ensure transparency in management, appropriate and lawful business operations, and swift decision-making and business execution. Through these efforts, we are further enhancing corporate governance in order to continuously expand corporate value and live up to the expectations of our stakeholders.

Corporate Governance System

Sumitomo Forestry has a Board of Directors and a Board of Statutory Auditors. While strengthening our statutory auditors’ monitoring function, we have introduced an executive officer system to separate decision-making and supervisory functions from executive functions and have clarified where the executive responsibility lies. As of June 23, 2015, there were nine directors (including one female director), 19 executive officers (including one female executive officer), and five statutory auditors.

To strengthen the Board of Director’s supervisory functions and management system, one external director was appointed at the 74th Ordinary General Meeting of Shareholders held on June 20, 2014. The Company currently has three external auditors. We ensure transparent and sound management based on enhanced management oversight and audit functions with an external director and auditors who are independent from the management. We thereby seek to further strengthen the effectiveness of corporate governance.

Board of Directors and Executive Committee

The Board of Directors usually meets once a month, making decisions on important issues and carrying out its supervisory function. The Executive Committee meeting is held twice a month, in advance of 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. In fiscal 2014, the Board of Directors met 15 times and the Executive Committee 29 times.

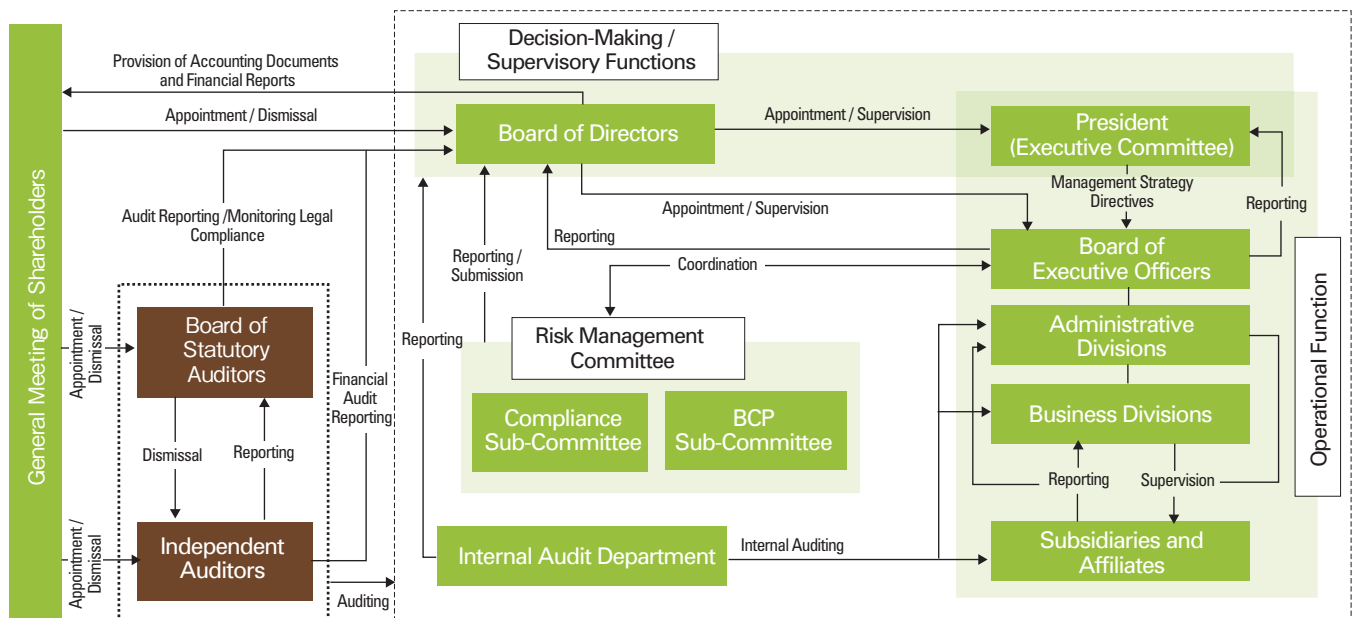
Statutory Auditor System

Each statutory auditor provides oversight for the directors’ execution of duties utilizing the deep insights and diverse perspectives they have acquired from their various business backgrounds. In addition to attending Board of Directors, Executive Committee and other important meetings, statutory auditors closely coordinate with accounting auditors, departments in charge of internal auditing, compliance and accounting, as well as statutory auditors of major subsidiaries, in order to obtain accurate information in a timely manner regarding management decision-making processes. Based on the information obtained, statutory auditors conduct rigorous audits from the standpoint of shareholders and express their views when necessary about the directors’ business conduct.

The Board of Statutory Auditors met 14 times during fiscal 2014. In addition, the Group Board of Statutory Auditors, composed of the Company’s full-time statutory auditors and the statutory auditors of major subsidiaries, convenes once every two months with the aim of improving the audit effectiveness in these companies and exchanging information.

Statutory auditors are assisted by nine staff members with the purpose of strengthening audit functions. In addition, the statutory auditors exchange information daily with the Internal

Corporate Governance System (As of June 30, 2015)



Audit Department, which augments the supervisory function of the Board of Directors. They also work to strengthen oversight of business execution of the entire Group through the aforementioned meetings of the Group Board of Statutory Auditors. Moreover, at the monthly Board of Statutory Auditors meetings, the executive officers in charge provide explanations of what has been discussed at the Executive Committee meetings, ensuring that every statutory auditor thoroughly understands key issues. Statutory auditors and representative directors regularly exchange opinions.

Cooperation between Statutory Auditors, Accounting Auditors and the Internal Audit Department

Statutory auditors monitor the independence of accounting auditors and request and verify opinions from accounting auditors regarding the appropriateness of financial reports, accounting policies, accounting methods and other matters with reference to fair accounting standards. When creating audit reports, statutory and accounting auditors hold meetings and exchange information as necessary to facilitate smooth and effective audits.

The Internal Audit Department is in charge of conducting internal audits and collaborates with statutory auditors. The entire Group is subject to audits to determine the appropriateness and lawfulness of daily business operations. Upon completion of an audit, the Internal Audit Department submits audit reports to the president, executive officers and statutory auditors.

Attendance of External Director and Auditors at Board Meetings (fiscal 2014)

Position and Name	Board of Directors Meetings (convened 15 times)		Board of Auditors Meetings (convened 14 times)	
	Number of meetings attended	Attendance rate	Number of meetings attended	Attendance rate
Director: Junko Hirakawa* ¹	12	100%	—	—
Statutory Auditor: Satoshi Teramoto	15	100%	14	100%
Statutory Auditor: Shin Nagata	13	87%	13	93%
Statutory Auditor: Katsuhide Kurasaka* ²	12	100%	11	100%

*1 Junko Hirakawa was appointed to the position of director at the 74th Ordinary General Meeting of Shareholders held on June 20, 2014. Since the appointment, the Board of Directors Meeting has been convened 12 times.

*2 Katsuhide Kurasaka was appointed to the position of statutory auditor at the 74th Ordinary General Meeting of Shareholders held on June 20, 2014. Since the appointment, the Board of Directors Meeting has been convened 12 times and the Board of Auditors Meeting has been convened 11 times.

Reasons for Appointment as External Director

Name	Reason for appointment
Junko Hirakawa Assumed office in June 2014	As an attorney, she has practical knowledge of corporate law in Japan and abroad, and has been judged to play an appropriate role in strengthening the Company's corporate governance by making recommendations to management from an expert's perspective.

Reasons for Appointment as External Auditor

Name	Reason for appointment
Satoshi Teramoto Assumed office in June 2010	As a certified public accountant, he has a high degree of specialized knowledge of and extensive practical experience in finance and accounting, and has been judged capable of conducting appropriate audits of the Company's execution of business.
Shin Nagata Assumed office in June 2012	He has an extremely deep insight of forestry management in general, and has been judged capable of conducting objective and appropriate audits of the Company's environmental business and overseas business development.
Katsuhide Kurasaka Assumed office in June 2014	He has deep insight as a business manager including his extensive experience in frontline manufacturing management, and has been judged capable of conducting objective and appropriate audits of the Company's manufacturing business.

Appointment of External Director and External Auditors

The Company has appointed one external director, Junko Hirakawa. When previously serving as the Company's external auditor, she provided appropriate opinions and comments on various proposals at the Board of Director's meetings from the standpoint of a legal expert, and demonstrated commitment to strengthening our governance system through her audit work. The Company has appointed three external auditors, Satoshi Teramoto, Shin Nagata and Katsuhide Kurasaka.

Neither the external director nor the three external auditors have any capital, personal, transactional or other relationships with the Sumitomo Forestry Group that would constitute a conflict of interest.

Executive Remuneration

Remuneration for directors comprises three types: basic remuneration, which is fixed; bonuses, which are tied to business performance; and stock options.

Basic Remuneration

To ensure a fair level of remuneration according to roles and responsibilities, a set amount, within the scope approved at the General Meeting of Shareholders, is paid out every month for each position.

Bonuses

At the annual Ordinary General Meeting of Shareholders, a set amount is approved for each position. The total amount is calculated with consideration to the level of consolidated recurring income.

Moreover, other than the aforementioned remuneration, directors do not receive remuneration as employees or other compensation for the performance of their duties. At the 65th Ordinary General Meeting of Shareholders held on June 29, 2005, the Company abolished the executive retirement bonus.

In addition, to ensure the objectivity and fairness of executive remuneration and set an appropriate level of remuneration, we reference the results of a third-party assessment of executive remuneration at Japanese companies.

Introduction of Stock Options

With the primary aim of boosting motivation towards improving the Company's medium- to long-term corporate value, a motion to allocate subscription rights to directors (excluding external director) as a form of stock-based remuneration was submitted and approved at the 75th Ordinary General Meeting of Shareholders held on June 23, 2015.

Remuneration (Fiscal 2014)

		(Millions of yen)		
		Total remuneration	Basic remuneration	Bonus
Directors	(9)	478	348	130
Corporate Auditors	(3)	48	48	—
External Officers	(5)	37	37	—

Notes: 1. Included in total remunerations for directors are director bonuses amounting to ¥130 million, which were decided upon at the 75th Ordinary General Meeting of Shareholders held on June 23, 2015.

2. Figures for Directors and Corporate Auditors exclude remuneration to external director/auditors.

System to Ensure Management Transparency

Basic Policy on Disclosure

To increase transparency in management, we actively disclose not only the information required by various laws and regulations but also other items deemed useful to shareholders and investors. Disclosure is done in a swift and fair manner.

Initiatives to Encourage Execution of Voting Rights

The Company sends out notices three weeks prior to the annual General Meeting of Shareholders and avoids dates when many companies hold their annual meetings so that a greater number of shareholders can participate. In addition, shareholders can use the Internet, cell phones and other electronic means to exercise voting rights. We also make use of the electronic proxy voting platform for institutional investors operated by ICJ Co., Ltd.

Disclosure of a Wide Range of Information

On the Company's website, we release a wide range of information related to our IR activities, including securities reports (Japanese only), notices of shareholder meetings and subsequent resolutions, financial results, earnings presentation materials, and monthly order information.

IR Activities

The Company is enhancing its investor relations (IR) activities to communicate management vision, the state of operations, financial position and other information as needed with shareholders and investors. As a means to directly communicate with shareholders and investors, the Company holds earnings presentations twice a year and telephone conferences twice a year for securities analysts and institutional investors in Japan. For overseas investors, the Company visits locations in Europe, the United States and Asia and holds individual meetings. For individual investors, the Company regularly participates in joint company presentations and IR forums geared toward individual investors.

External Director's

Interview



Junko Hirakawa
Director

How I See the Sumitomo Forestry Group

Just as is conveyed by its brand strategy, “Happiness Grows from Trees,” the Sumitomo Forestry Group is developing businesses in a wide range of areas related to wood. I think this shows the Company has a unique business structure unlike any other in the world. The Company is continuing to develop its reforestation business, which it has cultivated for over 300 years, and is now operating reforestation businesses overseas, nursery businesses for seedlings and saplings, and urban landscaping businesses, just to name a few. I get the impression that all of this is possible only because of the Company’s accumulated knowhow and long history of dealing in wood. The Company not only undertakes logistics operations, including the distribution of timber and building materials in Japan and overseas, it also manufactures plywood, medium-density fiberboard, particle board and other building materials. It has expanded the scope of its business to include wooden housing, medium- to large-size wooden structures and the renovation of existing homes, and is now actively expanding the housing business overseas. In recent years, the Group has moved on to diversify its businesses centered on wood to include biomass power generation (using wood chips and wood waste) and elderly care services.

My Role as an External Director

The Sumitomo Forestry Group’s businesses span a wide range. Therefore, numerous laws and regulations

need to be observed, along with inherent risks. Because it is impossible to provide useful advice without properly understanding the operations of each business, I work hard to grasp the unique characteristics of each business. To deepen my understanding of the Company’s diverse businesses, I’ve visited many sites and interacted with the onsite managers. The sites I visited include factories and plantation forests overseas, Company-owned forests and factories across Japan, construction sites in areas recovering from the Great East Japan Earthquake, elderly care facilities, the Sumitomo Forestry School of Professional Building Techniques (in-house educational institution), and the Tsukuba Research Institute—the Group’s knowledge center. Supported by what I saw and felt on site, I draw on my legal expertise to provide opinions about the unique circumstances surrounding each business.

Sumitomo Forestry’s Approach to Corporate Governance

The Company’s corporate governance structure does not simply end with a slogan or target; I feel that corporate governance is imbued throughout the Company and implemented by everyone as a unified team. For example, the Company constantly seeks how to best employ the external officer system and, when needed, makes various proposals to outside officers. At present, there is one external director and three external auditors. We do more than simply attending the Board of Directors’ Meetings. We receive detailed updates on items discussed at executive officer meetings and other matters on various occasions. This allows us to grasp the background and the process that went on for each agenda item prior to the board meeting. By allowing external officers to thoroughly understand the state of the Group through such opportunities as office visits and audits, the Company displays a proactive stance on ensuring the effectiveness of the external officer system and the proper functioning of corporate governance.

Internal Controls System (Risk Management and Compliance)

Establishment of Internal Controls System

The Group has adopted a basic policy on the establishment of an internal controls system at the Board of Directors' meeting and approved Action Guidelines to embody our corporate philosophy, as well as a document summarizing the ethical behavior guidelines and values that all officers and employees should follow. We also established a framework to entitled, "Our Values and Ideals," secure the soundness in our business in accordance with the Company Act.

Risk Management System

To strengthen the risk management system for the entire Group, the Company has formulated the Risk Management Basic Regulations. Accordingly, the President and Executive Officer of Sumitomo Forestry has been appointed to the highest authority on risk management for the Sumitomo Forestry Group.

The Company has established the Risk Management Committee, which is chaired by the President and Executive Officer and comprised of all other executive officers. Each executive officer uncovers and analyzes manageable risks in their respective field, including those for each Group company, and formulates action plans. The committee meets regularly once every three months to share and discuss findings and results.

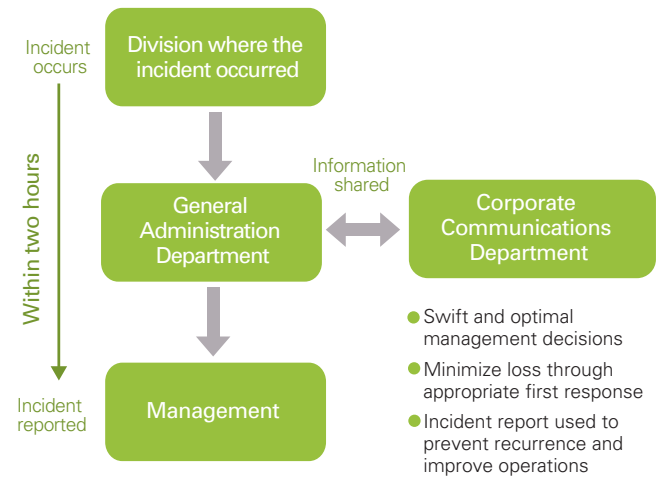
Established under the umbrella of the Risk Management Committee, the Compliance Sub-Committee and the Business Continuity Plan (BCP) Sub-Committee are comprised of the general manager of the General Administration Department, who serves as committee chairman, and the risk management officers of each Group company. These sub-committees work to enhance the effectiveness of risk management pertaining to Group-wide risks, namely, compliance risks related to core business, including the Construction Business Act, and business interruption risks, including large-scale disasters.

The results of aforementioned activities are reported to the Board of Directors and undergo management reviews in order to be reflected in business execution. In fiscal 2014, the Board of Directors received reports of risk management activities four times, and the Risk Management Committee, the Compliance Sub-Committee and the BCP Sub-Committee convened four times each.

Rapidly Identifying and Responding to Risk

In addition to the normal reporting hotline, we operate a two-hour rule system designed to rapidly and accurately relay information to the management via the headquarters' Risk Management Department in the event of an emergency situation that may have a serious impact on Company management. This allows us to make swift and optimal management decisions and take immediate action so as to avoid or contain losses. The information thus reported is also used to compile case studies, which are shared to prevent recurrences of the same disaster and improve business operation.

Two-hour Rule and Rapid Response to Risk



When a major issue arises, the information is shared with the Corporate Communications Department and disclosed to stakeholders in a timely and appropriate manner.

Compliance Promotion System

The Compliance Sub-Committee under the Risk Management Committee responds to compliance risk across the Group. The committee has set Group standards, including management systems and tools for legal compliance with construction industry law and other laws and regulations, and efficiently responds to compliance risk.

These activities are reported to the Statutory Auditors and the Internal Audit Department every month to share compliance risk information. Critical Group-wide matters are shared with the auditors of each Group company through the Group Board of Statutory Auditors. The execution line for business integrates both internal and external approaches to establish a robust compliance system.

Internal Audits

Of the Group's approximately 200 business sites, the Internal Audit Department selects about 60 business sites each year to undergo an internal audit based on prior risk assessment. These audits are conducted to verify the status of each business site's business execution, including compliance, and management of administrative actions. The results of these assessments are reported to the president, executive officers in charge of internal audits and corporate auditors as well as managers, executive officers and directors in charge of the business sites being audited. In the case that audit findings are made, the Internal Audit Department verifies that improvements are being implemented at the business site by requesting written reports and implementing quarterly follow-up audits. The results of these actions are reported to the president and executive officers in charge of internal audits.