

# Governance

Corporate Governance

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Risk Management

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Compliance

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Tax Strategies

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Business Continuity Management

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Responsible Advertising/Promotional Efforts

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Information Security

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Intellectual Property Management

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Return to Shareholders and IR Activities

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## 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 functions from operational execution functions. Comprised of eight directors (seven male, one female) including two outside directors (one male, one female), the Board of Directors is structured to make 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. The Nomination and Remuneration Advisory Committee has been established to provide opinion 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.

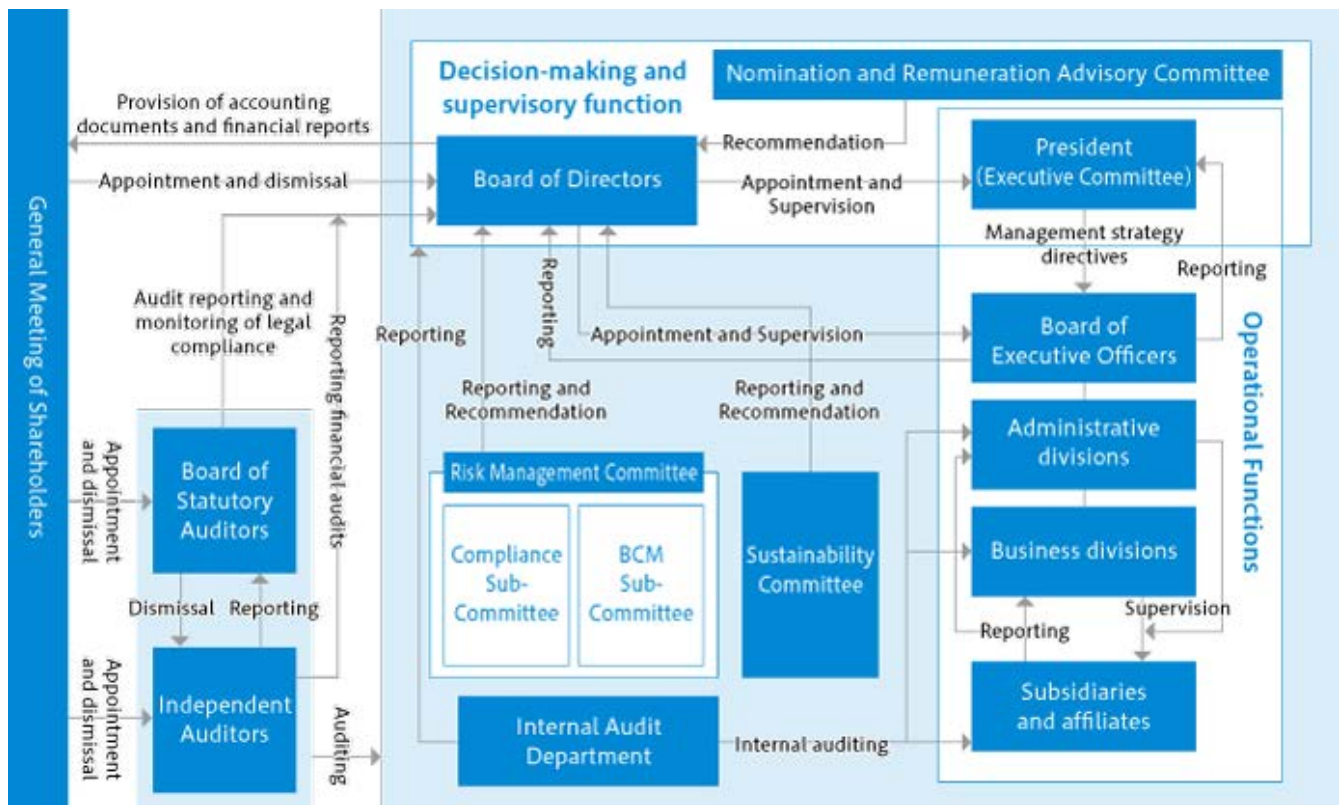
Sumitomo Forestry has a board of company statutory auditors. In addition to attending important meetings within the Company, the statutory auditors provide oversight for the directors' execution of duties, through sharing information and opinions with auditors at Group companies and the staff in the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

As of June 23, 2020, eight directors (including two outside directors), five auditors (including three outside auditors) and 19 executive officers were 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.

Furthermore, the Sumitomo Forestry General Meeting of Shareholders held on June 23, 2020 adopted the resolution to amend a portion of the Articles of Incorporate. The company shortened the term of office of Directors from two years to one year with the view to establishing a management system which can swiftly respond to changes in the business environment and providing more opportunities for our shareholders to indicate their confidence in the Directors.

- [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 15 times while Executive Committee meetings were held 31 times in fiscal 2019.

### Attendance of Directors at Meetings of the Board of Directors (FY2019)

Position *1	Name	Responsibility and Significant Concurrent Positions *1	Board of Directors*2	
			Attended Meetings (meetings)	Attendance Rate (%)
Chairman of the Board and Representative Director	Akira Ichikawa	—	15	100

Position *1	Name	Responsibility and Significant Concurrent Positions *1	Board of Directors *2	
			Attended Meetings (meetings)	Attendance Rate (%)
President and Representative Director President and Executive Officer	Toshiro Mitsuyoshi	—	15	100
Representative Director Executive Vice President and Executive Officer	Shigeru Sasabe	Administering Environment and Resources Division Divisional Manager of Timber and Building Materials Division	15	100
Representative Director Executive Vice President and Executive Officer	Tatsuru Satoh	Administering Lifestyle Service Division In charge of General Administration, Secretary, External Relations, Personnel, IT Solutions, Intellectual Property, Internal Audit, and Tsukuba Research Institute Statutory Auditor of Kumagai Gumi Co., Ltd.	15	100
Director Advisor	Ryu Yano	Outside Statutory Auditor of Daikin Industries, Ltd.	15	100
Director Managing Executive Officer	Tatsumi Kawata	Administering Housing and Construction Division In charge of Corporate Planning, Finance, Corporate Communications, and Sustainability	15	100
Director Executive Officer	Ken Wada	Assistant to the President	15	100
Director Executive Officer	Akihisa Fukuda	Assistant to the President	15	100
Outside Director	Junko Hirakawa	Attorney at Law Outside Director of Tokyo Financial Exchange Inc. Outside Director of Hitachi Construction Machinery Co., Ltd.	15	100
Outside Director	Izumi Yamashita	Outside Director of AEON Bank, Ltd.	15	100

\*1 Position, responsibility and significant concurrent positions as of April 1, 2020.

\*2 In addition to the Board of Directors above, in fiscal 2019 Sumitomo Forestry has made one resolution deemed approved by the Board of Directors as stipulated in Article 370 of the Companies Act.

## 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 a pool of personnel with superior personality traits and acumen, and potential value to the Company through consultation with the Appointment and Remuneration Advisory Committee. Summaries of background and interlocking status of the directors are available on the website.

### ► [Directors and Executive Officers](#)

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

### 1. Assessment Method

We assessed the effectiveness of the Board of Directors in fiscal 2019 by checking whether the Board has been fulfilling its role with respect to our Basic Policy on Corporate Governance (hereinafter "progress check"), and exchanging opinions with the outside directors and outside statutory auditors about the Board of Directors, in addition to conducting questionnaires for all directors and statutory auditors (anonymous questionnaire conducted directly by a third-party agency to ensure anonymity) while receiving advice from external bodies on self-assessments and analysis.

### 2. Assessment Results

- The results of the questionnaires, progress check, and exchange of opinions with outside officers found that the functions of the Board of Directors were effective overall.
- As efforts to address issues discovered as a challenge in the fiscal 2018 assessment, we strengthened monitoring of the Board of Directors by revising the Board of Directors discussion standards and clarifying the impairment procedures for fixed assets as part of enhancements to defensive governance. Sumitomo Forestry also confirmed that discussions on our human resource strategies and corporate culture reforms were held at the informal meeting of executive officers including outside executives.
- As future challenges, the exchange of ideas touched on needs for a response to issues pointed out in questionnaires, such as improvements to operational procedures of the Nomination and Remuneration Advisory Committee and better utilization of informal discussions between executive officers to enhance Board of Director deliberations, in addition to the necessity for further debate on the ideal form of future business strategies in light of the COVID-19.

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

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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 15 times during fiscal 2019.

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 6 times during fiscal 2019.

## Attendance of Statutory Auditors at the Board of Directors and the Board of Statutory Auditors (FY2019)

Position *1	Name	Responsibility and Significant Concurrent Positions *1	Board of Directors *2		Board of Statutory Auditors	
			Attended Meetings (meetings)	Attendance Rate (%)	Attended Meetings (meetings)	Attendance Rate (%)
Senior Statutory Auditor	Hitoshi Hayano	—	15	100	15	100
Statutory Auditor	Noriaki Toi	—	15	100	15	100
Statutory Auditor (Outside)	Yoshitsugu Minagawa	Chief Counselor, Norinchukin Research Institute Co., Ltd.	14	93	15	100
Statutory Auditor (Outside)	Yoshimasa Tetsu	Certified Public Accountant External Auditor, Daiwa Motor Transportation Co., Ltd.	15	100	15	100
Statutory Auditor (Outside)	Makoto Matsuo	Attorney at Law Outside Director of CAPCOM Co., Ltd. (Member of the Audit and Supervisory Committee) Outside Statutory Auditor of Solasia Pharma K.K.	15	100	15	100

\*1 Position, responsibility and significant concurrent positions as of April 1, 2020.

\*2 In addition to the Board of Directors above, in fiscal 2019 Sumitomo Forestry has made one resolution deemed approved by the Board of Directors as stipulated in Article 370 of the Companies Act.

## 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.

## Nomination and Remuneration Advisory Committee Attendance (FY2019)

Position*	Name	Nomination and Remuneration Advisory Committee	
		Attended Meetings (meetings)	Attendance Rate (%)
Chairman of the Board and Representative Director	Ryu Yano	3	100
President and Representative Director	Akira Ichikawa	3	100
Outside Director	Junko Hirakawa	3	100
Outside Director	Izumi Yamashita	3	100
Statutory Auditor (Outside)	Yoshitsugu Minagawa	3	100
Statutory Auditor (Outside)	Yoshimasa Tetsu	3	100
Statutory Auditor (Outside)	Makoto Matsuo	3	100

\*The position as of March 31, 2020.

## Risk Management Committee

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

In fiscal 2019, 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.

▶ [Risk Management Framework](#)

## Sustainability Committee

In response to matters including SDGs, final recommendations of TCFD and human rights issues, the 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.

▶ [Risk Management Framework](#)

▶ [Responding to TCFD](#)



## 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 to 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.

► [Integrated Report](#)

## 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 (FY2019)

Category	Number of Personnel	Total Amount (Million yen)
Director	10	541
Auditors	5	79
Total	15	620

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

\*2 The total amount of director remuneration does not include compensation as an employee or a compensation for the execution of other duties.

\*3 The total amount of director remuneration includes the total bonus of 143 million yen as approved at the 80th General Meeting of Shareholders held on June 23, 2020.

\*4 The total amount of director remuneration includes 38 million yen for allocating shares with restriction of transfer to eight directors (excluding outside directors).

\*5 Of the total remuneration of directors and statutory auditors, the total amount paid to outside executives is shown in the table below.

### Total Remuneration Paid to Outside Executives (FY2019)

Number of Personnel	Total Amount (Million yen)
5	55

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

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The Sumitomo Forestry Group regards the establishment of an executive remuneration system as fundamental for directors and statutory auditors to fulfill the duty expected of them by all of its stakeholders toward 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.

## 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 the 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 as well as drafts and executes response plans at all relevant workplaces. The progress of measure against these risks is also shared and discussed at a committee held periodically each quarter. This committee mainly deliberates on short-term risks and risks that have already manifested, including anti-corruption and other compliance-related matters. 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 2019, the Risk Management Committee met four times, and confirmed the state of progress with respect to 45 priority risks. Also, the Compliance Subcommittee and BCM Subcommittee met twice and four times, respectively, and reports on the proceedings 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. Since fiscal 2018, each business department joined together in conducting TCFD-based scenario analyses.

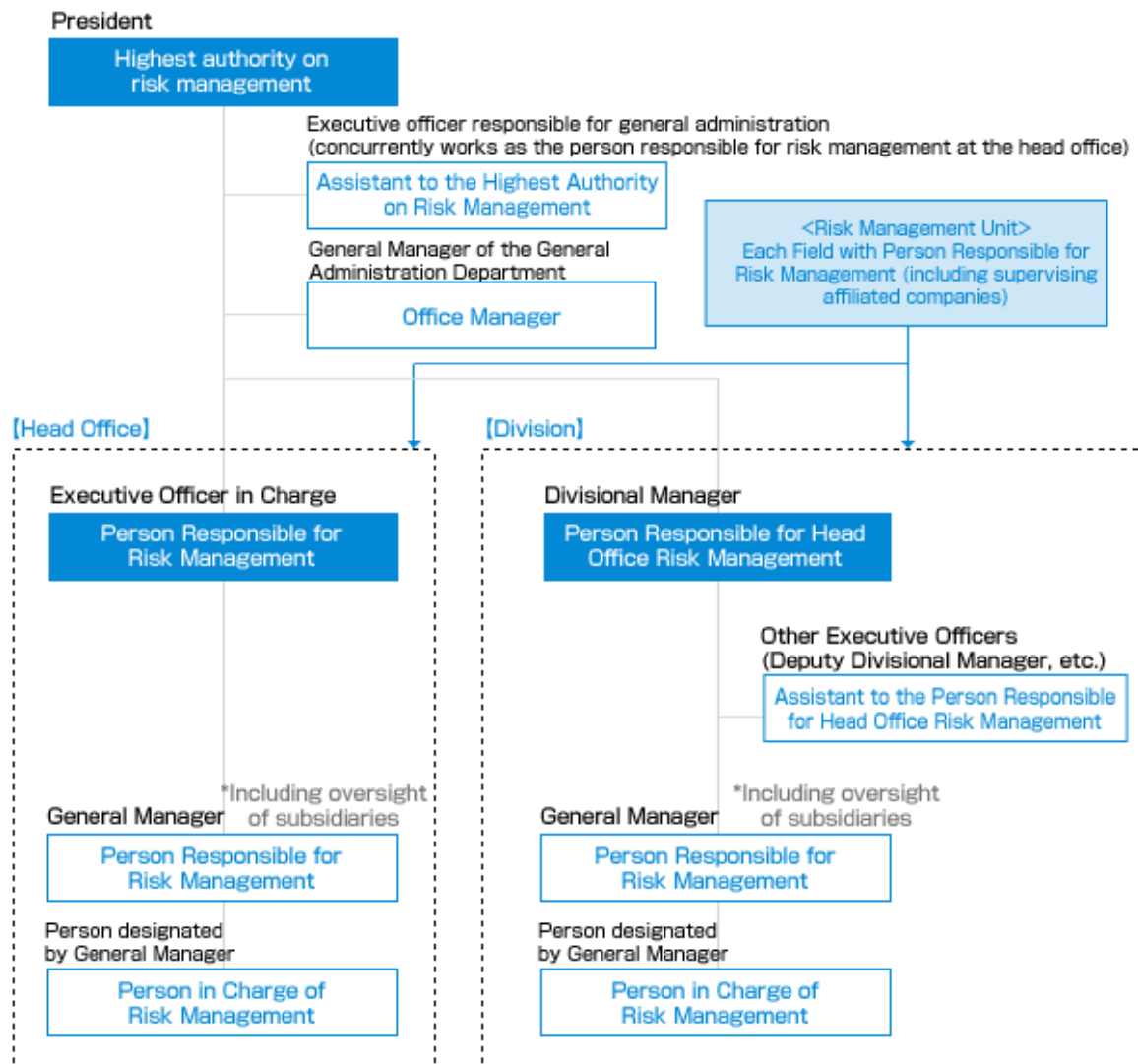
Items determined through this process to be priority risks in the medium to long term are discussed in the Sustainability Committee. The results are outlined and reported to the Board of Directors to build a system to reflect this information into the execution of our businesses.

At the beginning of fiscal 2020, we reassessed management target risks by analyzing the scale and influence of relevant risks from the likelihood of occurrence in order to properly respond to the changing risks faced by the Sumitomo Forestry Group. In this way, we will strengthen our risk management framework by following the PDCA cycle to make 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.

- ▶ [Corporate Governance and Internal Control](#)
- ▶ [Business Continuity Management System](#)
- ▶ [Sustainability Committee](#)
- ▶ [Responding to TCFD](#)

## Risk Management Structure of the Sumitomo Forestry Group



## Risks in Operations

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

1. Risks related to trends in housing markets worldwide
2. Legal and regulatory risks
3. Foreign exchange risks
4. Quality assurance risks
5. Credit facility risks of business partners
6. Overseas business risks
7. Risks of mountain forests and plantation forest operation locations held and managed
8. Risks of informational leaks
9. Risks in accounting retirement benefits
10. Climate change risks
11. Risks of emergency situations caused by natural disasters, etc.
12. Risks of the COVID-19 impact on business

### Risks associated with quality assurance

Sumitomo Forestry Home Tech Co., Ltd. ("Home Tech"), a renovation service subsidiary of Sumitomo Forestry, which published the incidents of non-conformance with the building standards laws and regulations in its detached house extension works (the "Incidents") on September 18, 2019, conducted an on-site examination of the extension works to the detached houses in the prefectures of Aichi, Mie and Gifu (the "Three Tokai Prefectures") that it had contracted for in the past. Furthermore, on September 27, 2019, Home Tech established a special investigation committee composed by members including outside experts (the "Special Investigation Committee") and requested that the Special Investigation Committee investigate the facts, analyze the causes of the Incidents and propose recurrence prevention measures.

As a result, on August 11, 2020, Home Tech received a written report (the "Report") from the Special Investigation Committee, and based on its substance, the board of directors of Home Tech adopted, at its meeting held on August 12, 2020, a resolution confirming the causes of the Incidents and the recurrence prevention measures to be taken, as follows:

1. Outline of the results of investigation by Home Tech

Certain input from outside parties gave rise to a suspicion that non-conformance with the building standards laws and regulations (the "Legal Non-conformance") existed in part of the properties in the Three Tokai Prefectures whose extension works had been contracted for by Home Tech. In response, Home Tech conducted an exhaustive investigation of all of the 361 properties that had received construction confirmation, from among the detached houses in the Three Tokai Prefectures regarding which Home Tech had contracted for extension works since April 1997, when Home Tech started its business as a company specialized in renovation, in order to identify whether those properties conformed to the building standards laws and regulations as of the survey date (the "Legal Conformance").

As a result of such investigation, Home Tech confirmed that as of July 31, 2020, the Legal Non-conformance existed in 206 out of the 333 properties whose investigation had been completed. All of those incidents of Legal Non-conformance arose from the failure to appropriately implement design work to make the enlarged houses conformant to the building standards laws and regulations and the failure to incorporate in the design the works required to be performed to ensure conformance to laws and regulations. Home Tech will endeavor to promptly carry out the necessary repair works for the 206 properties with respect to which the Legal Non-conformance has been confirmed.

The impact of the Incidents on our results of operations has already been reflected in the consolidated financial statements disclosed in the annual securities report of Sumitomo Forestry for the 80th term that was filed with the Director of the Kanto Local Finance Bureau on June 23, 2020.

## 2. Causes of the Incidents

On the basis of the analysis of the causes of the Incidents contained in the Report and the results of the investigation of the properties conducted by Home Tech, Home Tech believes that the combination of the problem indicated in (4) below with the existing problems specified in (1) through (3) below was the main cause of the occurrence of the Legal Non-conformance in part of its extension works to detached houses in the Three Tokai Prefectures.

- (1) Building designers lacked sufficient knowledge and experiences and had a low regard for ensuring the Legal Conformance;
- (2) No organizational checks had been conducted to ensure the Legal Conformance of design work;
- (3) The managing architects stationed at each of the branches, who were supposed to supervise the technical matters in the architectural office, were not in a condition to fulfill their functions to oversee the design work by the architects belonging to their respective branches; and
- (4) With respect to checking of the Legal Conformance of the design drawings, the scope of the tasks outsourced to independent architectural offices was not clear, and the deliverables of the outsourced tasks had not been sufficiently checked.

## 3. Recurrence prevention measures based on the Incidents

Home Tech takes seriously the Special Investigation Committee's proposals for prevention of recurrence as described in the Report and will seek to implement the following recurrence prevention measures:

- Raising of awareness of compliance of design work with laws and regulations, acquisition of pertinent knowledge and accumulation of relevant experiences;
- Reinforcement of organizational checking systems to ensure the Legal Conformance of designs;
- Improvement of outsourcing to independent architectural offices; and
- Enhancement of communications between the head office and branches as well as sharing and accumulation of technical and technological information.

- ▶ [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

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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 N<sub>2</sub>O and thus it is not “GHG neutral,” it is only required to report emissions other than CO<sub>2</sub>.

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 feedstock<sup>1</sup>, 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 CO<sub>2</sub> emissions to currently reported methane and N<sub>2</sub>O 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

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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
8. Impact on Local Communities (Including Concern for Local Residents and Administrations, Industry Organizations, NPOs, Municipal Citizens' Groups and Indigenous People)



## Risk Education

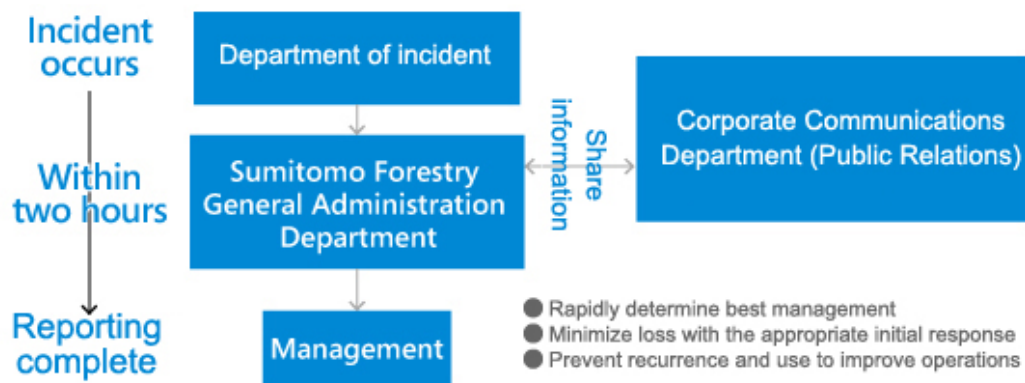
As ways to increase the sensitivity of risk in the executives and employees and in the corporate culture of the Sumitomo Forestry Group, the Group conducts e-learning each year for executives and employees as well as a risk management training for newly joined employees. In 2019, the Group introduced and shared examples from risks emerged in the past that should be noted beyond specific business departments at the Compliance Subcommittee as a 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.

### Two-Hour Rule and Use of Risk Information



## Compliance

### Basic Policy

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.

### Compliance Promotion

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 2019, 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.

Based on the Sumitomo Group Procurement Policy, Sumitomo Forestry Group responds to compliance risks in supply chains by working with suppliers to ensure that timber procurement is performed legally and in a sustainable manner with consideration of legal compliance, human rights, labor practices, biodiversity conservation, and local communities. The Timber Procurement Committee convened four times in fiscal 2019 led by the director and managing executive officer in charge of sustainability promotion as chairperson and procurement managers from the Timber and Building Materials Division, Housing and Construction Division, and each department procuring timber and wood products as members. This committee receives reports on results from local interviews and the Sustainability Procurement Survey, including the level of supplier compliance awareness, and requires corrective actions to rectify any supplier issues found.

### Compliance Training

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 2019, training was administered to a total of 385 new graduate recruits (Group total in Japan), and to 70 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.

## Compliance Hotline

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, through cooperative safety meetings with contractors and the distribution of portable guides on risk. 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 2019, the Compliance Hotlines were contacted with 19 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. The company instructs managers and all persons to protect whistleblower rigorously if anyone reported.

In October 2019, we put in place a whistleblowing mechanism shared with some Group companies under the General Administration Department to strengthen compliance overseas as our Group expands businesses around the world. Furthermore, an external multilingual operator is used for this whistleblowing mechanism. Anyone can report an issue in English, Indonesian, Vietnamese, Thai, and Chinese.

### Manual for Compliance Hotline



▶ [Grievance Desk](#)

## Compliance Auditing

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 2019, 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. Since fiscal 2015, we have been formulating rules for consolidated subsidiaries in Indonesia, Vietnam, India, and Thailand. In fiscal 2019, Sumitomo Forestry headquarters conducted anti-corruption training and interviews about progress of initiatives at 10 affiliated companies in Asia, including these consolidated subsidiaries, in an effort to provide Group employee education and understand the risk of corruption in the Group.

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 2019, 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 2019.

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 Handbook 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 2019.

## 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.

Furthermore, we have requested that all business partners, including 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.

## Tax Strategies

### Basic Policy

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 clarify fair accounting and tax practices based on accurate records in the Sumitomo Forestry Group Code of Conduct that defines basic policy when engaging in business. We also distribute this information to every employee at all Group companies worldwide. We have put in place policies for tax practices as well and strive to maintain and enhance tax compliance through efforts that include awareness raising for employees.

We even reinforce to link business strategies including tax with sustainability strategies through "Reinforcing risk crisis and compliance structures" as a goal of the Mid-Term Sustainability Targets.

### Tax Governance System

Tax affairs are one financial function of the Group led by the director in charge of financial matters. The Corporate Planning Department at the head office manages tax operations and has put employees with expert knowledge in charge of tax affairs. The Corporate Planning Department at the head office also ensures proper tax handling by monitoring the progress of tax payments and tax surveys worldwide in a timely manner in addition to immediately reporting that information along with Group tax issues and other tax-related matters to the director in charge.

The Risk Management Committee that oversees the entire Group manages and monitors tax and other compliance risks as well as corporate ethics risks as material management risks.

- ▶ [Risk Management Framework](#)
- ▶ [Compliance Hotline](#)

### Initiatives Against Tax Risks

In business dealings which may present a high tax risk, we make every effort to reduce the tax risk by preparing systems for sufficient prior examination as well as requesting advice and guidance from tax experts as necessary. While the Group strives to optimize tax payment through proper effective steps to reduce tax burden, we do not engage in any tax strategies through interpretations or applications which stray from the meaning of the law. Additionally, Sumitomo Forestry does not use tax havens for tax avoidance.

### Relationships with Tax Authorities

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.

## 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 2019, Sumitomo Forestry held four BCM 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.



BCP Simulation Training

### 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 2019, a sum of 14,669 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.



Portable Guide for Risk Responses

## Disaster Prevention and Damage Mitigation Measures

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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

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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 590 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 2019, 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.



First response and rescue training



## 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. However, there were some delays in material procurement and constructions due to the worldwide spread of the COVID-19 in 2020.

In light of this situation, we are examining reporting methods for suppliers to report the status of disaster and systemization of history management in cases the suppliers are affected by natural disasters such as earthquakes or calamities such as fires.

We plan to take measures to prevent delays in procurement materials caused by the COVID-19 through discussions with suppliers. In preparation for a second wave, we are reducing risks by increasing inventory at each material supplier where delays occurred as a short-term measure and decentralization of production facilities as a medium- to long-term measure.

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. These efforts will work to further reduce risks that may interrupt business operations in the future.

## Continuity of Customer Service

Sumitomo Forestry has setup call centers in Tokyo and Okinawa, 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.

In fiscal 2019, the incident suspected of violating copyrights was discovered but prompt confirmation of the facts, information to the relevant parties, and proper response were carried. Furthermore, Sumitomo Forestry holds monthly meetings of the Brand Communication Committee, comprised of advertising personnel from relevant departments and Group companies in Japan, holding study sessions that include prevention of 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 2019, the Brand Communication Committee worked with the Corporate Communications Department and General Administration Department to hold study sessions throughout Japan on Copyright Act, Trademark Act, Act Against Unjustifiable Premiums and Misleading Representations, and Unfair Competition Prevention Act lectured by attorneys. These training sessions bring understanding about laws related to advertising, labeling, and violations that can easily occur as well as evoke caution in managers and other staff in charge of marketing materials.

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.



The Brand Communication Committee

## Information Security

### Information Security Policy

In order to ensure the confidentiality, integrity and availability of its information systems, the Sumitomo Forestry Group is raising the security level of its systems through the enhancement of both the operational rules and technology aspects of information security.

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

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

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 2012, the Group also formulated guidelines for Group companies outside of Japan.

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.

For the technology aspects of information security, the Group has introduced encrypted computer start-ups and data export restrictions on 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 the chief executive in charge of protection of personal information, the head of each department is assigned as the supervisor and an information security officer is placed in each department. In these ways, the Company has established a protection system that extends from the Head Office through to each office.

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

▶ [Personal Information Protection Policy](#)

## Systems for Managing Information Security

The executive officer and general manager of the IT Solutions Department, who has specialized knowledge and experience and under the supervision of the executive vice president and executive officer in charge of IT solutions, is responsible for promoting 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.

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

Furthermore, 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.

The Risk Management Committee, for which all executive officers serve as standing members, stipulates as one of its items for priority management the risk of confidential information leaks due to an outside attack. The committee shares information and discusses ways to prevent and reduce the impact of such leaks at committee meetings held regularly every quarter. These activities are reported to the Board of Directors and a system to reflect this in business execution is put in place.

The BCM Subcommittee installed under the Risk Management Committee conducts activities aimed to raise the efficacy of measures to mitigate Group-wide, IT-related business interruption risks.

## Initiatives to Strengthen Information Security

With a growing number of incidents involving leaks of personal information, targeted email attacks and other threats to information security, the Sumitomo Forestry Group continued to make investments in information security in fiscal 2019 to strengthen security by building a multi-layer defense system. In addition, a training program about targeted email attacks was implemented for all employees in Japan.

Through the Information Security Office at Sumitomo Forestry Information Systems Co., we are also enhancing our ability to respond to employee inquiries regarding cyberattacks and reinforcing security training programs for employees.

## Intellectual Property Management

### Intellectual Property Management Policy

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 rights, including the protection of intellectual property based on the unique characteristics of each business and proper handling of third-party intellectual property as necessary to sustain and improve competitiveness.

### Systems for Managing Intellectual Property

Sumitomo Forestry established the Intellectual Property Department as a body to manage intellectual property and it employs a number of patent lawyers as department staff. The Intellectual Property Department provides a wealth of support that includes education to cultivate knowledge and actions about intellectual property in employees, legal consultation about the infringement and being infringed on intellectual property rights, assistance for the execution of various contracts related to intellectual property, and the application and protection of the intellectual property that is created at the Tsukuba Research Institute and business departments for the purpose of improving corporate performance.

### Intellectual Property Education

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 the risk management of intellectual property. In fiscal 2019, Sumitomo Forestry held eight training sessions on intellectual property for employees and managers 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 of intellectual property.

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.



Intellectual Property Training

## Return to Shareholders and IR Activities

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.

### Returns to Shareholders

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

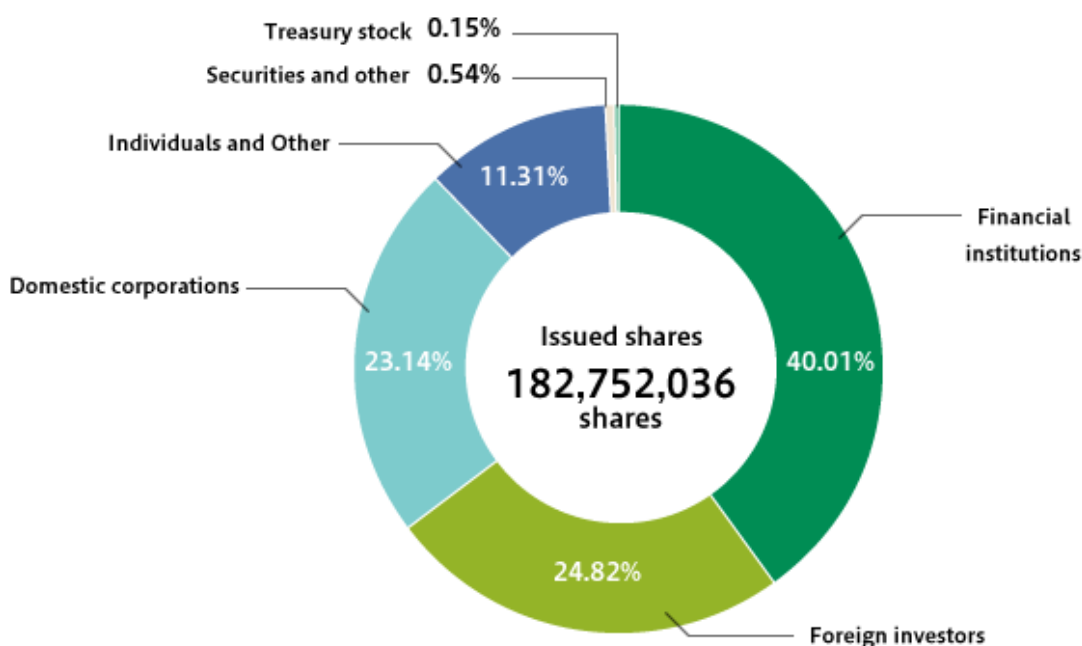
Acknowledging that providing returns to shareholders is one of its most important tasks, Sumitomo Forestry has adopted a basic policy of paying stable and continuous returns.

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 2019

In fiscal 2019 (year ended March 31, 2020), 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, 2020)



\* 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. We also publish a wealth of IR information in Japanese and English such as information about the settlement of accounts that includes short financial statements, fact book and a summary of financial results and forecasts, and monthly order information in the housing businesses on our website. In addition, we also publish detailed information about sustainability initiatives in Japanese and English on our website.

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)



Integrated Report 2019



Japanese reports for shareholders on business activities (Year ended March 31, 2020)

### Two-Way Communication with Shareholders and Investors

#### ▶ Basic IR Policy and Exemptions

#### General Meeting of Shareholders

Sumitomo Forestry holds its Ordinary General Meeting of Shareholders every June (an amendment to the Articles of Incorporation at the 80th General Meeting of Shareholders held on June 23, 2020 changes the General Meeting of Shareholders to March every year starting in 2021). 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 2019, we conducted a total of 144 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 2019, many investors attended the meetings held in Osaka and Nagoya. The meetings presented the growth strategy of the Sumitomo Forestry Group in addition to its business operations while its exhibition booth provided briefings to individual investors who have requested one with information on customized housing, rental housing, renovation, and private-pay elderly care facilities, and overseas real estate.



## IR Activities for Overseas Institutional Investors and Shareholders

Sumitomo Forestry management team visits institutional investors and shareholders in Europe and North America in fiscal 2019 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 participate in conferences held worldwide to have even more opportunities for dialogues.

## 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 CB worldwide (as of publication), and this advanced initiative 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](#) 



## Conclusion of Positive Impact Financing Agreements

The Sumitomo Forestry Group emphasizes contributions to the SDGs by defining the promotion of further integration of business operations and ESG initiatives as one basic policy in the 2021 Mid-Term Management Plan.

In March 2020, the Company entered into the Sumitomo Mitsui Trust Bank, Limited Positive Impact Finance (a type of business loan that does not specify the use of funds) agreement, which is a financing loan that aligns with the United Nations Environmental Programme Finance Initiative<sup>\*1</sup> Principles for Positive Impact Finance<sup>\*2</sup>. This borrowing not only praises Sumitomo Forestry initiatives that contribute to the SDGs but also provides favorable interest rates than standard financing. In regards to this financing, Japan Credit Rating Agency, Ltd. (President: Shokichi Takagi; Head Office: Chuo-ku, Tokyo) has provided a third-party opinion<sup>\*3</sup> about the rationality of evaluation factors used and the compliance to the Principles for Positive Impact Finance.

In the future, the Sumitomo Forestry also aims to improve medium-to long-term corporate value by further enhancing initiatives to achieve the SDGs.

\*1 The UNEP FI established the Principles for Positive Impact Finance in January 2017. Companies disclose their contributions toward achieving the SDGs and banking institutions evaluate the positive impact and provide capital in an effort to maximize the positive impact and minimize the negative impact of corporate entities. The banking institutions providing the financing take responsibility to monitor the indicators and verify ongoing positive impact. The United Nations Environment Programme (UNEP) is a subsidiary body of the United Nations established in 1972 as an implementing agency for the Declaration of the United Nations Conference on the Human Environment and the International Environment Action Programme. UNEP FI is a broad and close partnership between UNEP and more than 200 global financial institutions. Since its establishment in 1992, it has been working with financial institutions, policies, and regulators to transform itself into a financial system that integrates economic development with environmental, social and governance (ESG) considerations.

\*2 This is a financial framework for achieving the Sustainable Development Goals (SDGs) formulated by the United Nations Environment Programme Finance Initiative (UNEP FI) in January 2017. By disclosing contributions to the achievement of SDGs, with banks assessing the positive impact of these contributions and providing funds, the framework guides the efforts of fund providers to increase positive impacts and reduce negative impacts. As the responsible financial institution, lending banks monitor indicators to ensure that their impacts are continuing.

\*3 Please see the Japan Credit Rating Agency, Ltd. website.  
<https://www.jcr.co.jp/en/>