

Corporate Governance

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Sumitomo Forestry Co., Ltd.

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**The Company's corporate governance overview is as follows.**

## **I. Basic Philosophy on Corporate Governance, Capital Structure, Corporate Attributes and Other Basic Information**

### **1. Basic philosophy**

The Sumitomo Spirit seeks to benefit society by placing emphasis on fairness and integrity, and our corporate philosophy aims to contribute to a sustainable and prosperous society through all types of housing-related services that utilize healthy and environmentally friendly wood. Based on these principles, the Company strives to ensure management transparency, the appropriateness and legality of its business operations, and timely decision making and execution. In addition, through these initiatives, the Company seeks ongoing improvement and reinforcement of its corporate governance to continuously increase corporate value and manage its operations in a manner that lives up to the expectations of various stakeholders of the Group.

The Company's basic philosophy on corporate governance and its basic policies have been set out in its Basic Policy on Corporate Governance and is published on the Company's website for your reference.

[http://sfc.jp/english/corporate/corporate\\_governance.html](http://sfc.jp/english/corporate/corporate_governance.html)

### **[Reasons for Not Implementing Specific Principles of the Corporate Governance Code]**

The Company complies with all Principles of the Corporate Governance Code.

### **[Disclosure Based on Specific Principles in the Corporate Governance Code] REVISED**

**[Principle 1-4] (Strategically Held Shares)**

Article 5 of the Basic Policy on Corporate Governance makes stipulations on strategically held shares, as indicated below.

1. The Company may acquire and hold shares in its business partners and counterparties when the Company determines that such shareholdings will contribute to mid- to long-term enhancement of its corporate value from the perspective of, among others, maintenance and reinforcement of long-term and stable business relationships with those partners and

counterparties as well as expansion of the Company's business as a result of such closer ties with those parties.

2. At meetings of the Board of Directors, the Company will regularly examine whether the holdings of the shares under the preceding paragraph (strategically held shares) lead to the improvement of its corporate value through analyzing the relationship between the profits/risks associated with such holdings and the cost of capital, and will verify the purpose and rationale of such holdings. When the Company judges that the rationale and necessity of such holdings cannot be confirmed, it will reduce the number of such strategically held shares.
3. The Company will appropriately exercise its voting rights pertaining to its strategically held shares in accordance with its voting criteria and based on its comprehensive judgment from the perspective of the improvement of its corporate value.

In addition, to verify the rationality and necessity of cross shareholdings, the Board of Directors compared the returns of each of the strategically held shares to the hurdle rates set by the Company and also confirmed whether the holdings of such shares led to higher corporate value by verifying the status of transactions with the companies of the strategically held shares.

If a business partner or counterparty of the strategically held shares company suffers a long-term slump in business performance or seriously violates laws or causes scandal, the Company will judge how to exercise its voting rights pertaining to the strategically held shares by gathering information through dialogue with such counterparties.

[Principle 1-7] (Conflict of Interest Transactions)

Article 6 of the Basic Policy on Corporate Governance makes stipulations on conflict-of-interest transactions, as indicated below.

1. In the case where the Company enters into a material or irregular transaction involving a conflict of interest with any director of the Company, the Company shall obtain prior approval of the Board of Directors to ensure that such transaction does not harm the interests of the Company or the common interests of the shareholders.
2. The outcome of any transaction involving a conflict of interest under the preceding paragraph shall be reported to the Board of Directors

[Principle 2-6]

The Company invests pension assets through the Sumitomo Forestry Group Corporate Pension Fund in order to ensure the payment of pension benefits and others for executives and employees in the future. The Fund has established a governing body and a board of representatives in accordance with its terms, has stipulated management regulations of pension assets and has entrusted the management of pension assets to investment trustees based on the basic policy and the guidelines for pension management.

Furthermore, the Asset Management Committee has been established as an advisory body to governing body and the board of representatives. The committee formulates and reviews the basic policy and the guidelines for pension management and the strategic asset composition ratios, and also selects and evaluates such investment trustees. Members of the governing body, the board of representatives and the Asset Management Committee are selected from among the specialists with expertise and experience related to the Company's Finance Department and Human Resources Department, and the Company has developed and maintained a system to properly verify appropriate management of pension assets.

[Principle 3-1] (Enhancement of Information Disclosure)

(1) The Company's goals (corporate philosophy, etc.), management strategy and management plan

For details regarding the Company's goals, please refer to the Company's website.

<http://sfc.jp/english/corporate/philosophy/>

In addition, management strategies and management plans have been set out in the Mid-Term Management Plan announced in May 2019 with the March 2022 term being the final year of the plan. Please refer to the IR information on the Company's website.

<http://sfc.jp/english/ir/library/financial.html> - FY Ended March 2019, Annual, Business Strategy

At the 80<sup>th</sup> Ordinary General Meeting of Shareholders held on June 23, 2020, a resolution to change a portion of the articles of association related to the change in the business year was approved. Based on this, starting with the 81<sup>st</sup> term, the last day of the business year will be December 31. With this change, the final year of the Mid-Term Management Plan will be the December 2021 term.

(2) The Company's basic philosophy and its basic policies regarding corporate governance have been set out in its Basic Policy on Corporate Governance, which is published on the Company's website for your reference.

[http://sfc.jp/english/corporate/corporate\\_governance.html](http://sfc.jp/english/corporate/corporate_governance.html)

(3) Article 14 of the Basic Policy on Corporate Governance makes stipulations regarding policies to determine compensation for directors and executive officers, as indicated below.

1. The amount of the remuneration of directors will be determined within the cap specified by resolution of a General Meetings of Shareholders with consideration given to the level of the consolidated recurring income and other management indicators.
2. With a view to aligning the mid- to long-term interests of shareholders with those of the management, the directors (other than outside directors) will be allotted shares with restriction on transfer as part of their basic remuneration.

3. The Board of Directors determines the directors' remunerations, taking into consideration the opinions from the Nomination and Remuneration Advisory Committee.
4. The Board of Directors determines the executive officers' remunerations taking into consideration the opinions from the Nomination and Remuneration Advisory Committee.
5. With a view to ensuring objectivity and appropriateness, the Company will set an appropriate level of remuneration by retaining a third party institution for determining the remuneration of directors and executive officers.

(4) Article 13 of the Basic Policy on Corporate Governance makes stipulations regarding the qualifications, appointment policy and others of candidates for director, auditor and executive officer, as indicated below.

1. The Board of Directors determines the candidates for directors and statutory auditors, and executive officers from among persons of upstanding character and insight who are valuable to the management of the Company, taking into consideration the opinions from the Nomination and Remuneration Advisory Committee.
2. When directors, statutory auditors and executive officers violate laws, regulations and the Company's articles of incorporation or other grounds considered to be difficult to appropriately perform their duties occur, the Board of Directors will determine removal of the position of relevant director, statutory auditor and executive officer, other disposition or the submission of the proposal to dismiss the relevant director, statutory auditor and executive officer to the Company's general meeting of shareholders taking into consideration the opinions from the Nomination and Remuneration Advisory Committee.

(5) For individual explanations regarding the selection and appointment of candidates for director and statutory auditor and regarding the dismissal of directors and statutory auditors, please refer to the reference materials for the Notice of Convocation for the General Meeting of Shareholders.

[Supplementary Principle 4-1-1] (Summary of Scope of Delegation by Top Management)

The Company has implemented the executive officer system and by dividing decision-making and supervisory functions from operational functions, it has reinforced the ability of the Board of Directors to oversee and supervise executive officers. Specifically, in accordance with the Regulations of the Board of Directors, in addition to matters set out in laws and regulations, the Board of Directors makes decisions regarding important operational matters, such as items related to the management plan and other. For important items outside operational matters, in accordance with the Regulations of Administrative Authority, authority is delegated to the president, the executive officer in charge or other.

[Principle 4-9] (Standards to Determine the Independence and Qualifications of Outside Directors)

The Company has established standards regarding the independence of outside officers and has disclosed them in Report II.1 under the section, "Independent Officers."

[Supplementary Principle 4-11-1] (Balance of Knowledge, Experience and Capabilities of the Board of Directors as a Whole, Thinking Regarding Diversity and Size, and Policy and Procedures for Appointing Directors)

Article 11 of the Basic Policy on Corporate Governance specifies the composition of the Board of Directors, as indicated below.

The Board of Directors is constituted by not more than 17 members. In order to effectively discharge the Board of Directors' roles and responsibilities, consideration will be given to the diversity of its members in terms of gender, nationality or otherwise. The Board members should also be comprised of persons with professional and diverse knowledge, experience and capability, including:

1. those with extensive experience and track record regarding the Group's business;
2. those with extensive experience and track record in corporate management, industries, policies or the like; and
3. those with expertise in law, accounting, or the like.

Furthermore, Article 13 of the Basic Policy on Corporate Governance stipulates the qualifications and appointment of director and statutory auditor candidates and executive officers (refer to [Principle 3-1](4)).

[Supplementary Principle 4-11-2] (Concurrent Board Positions Held By Company Directors and Statutory Auditors)

Please refer to the Notice of Convocation of the General Meeting of Shareholders and others for information regarding concurrent board positions held by the Company's directors and statutory auditors at other listed companies.

[Supplementary Principle 4-11-3] (Summary of Analysis/Evaluation and Results of Overall Effectiveness of the Board of Directors)

1. Method of evaluation

This fiscal year with guidance from an outside organization, the effectiveness of the Board of Directors was evaluated through a self-evaluation and analysis based on a survey submitted by each of the directors and statutory auditors. (The method of response was anonymous with responses sent directly to an outside organization, which maintained anonymity.) In addition, an evaluation was conducted based on the implementation status of the role of the Board of Director meetings set out in the Company's Basic Policy on Corporate Governance and an exchange of opinions with outside directors and outside auditors.

2. Result of evaluation

As a result of the surveys, confirmation of the current status and exchange of opinions with outside directors and outside auditors, overall, the Company believes that the Board of Directors is functioning effectively. In terms of areas cited for improvement last fiscal year, as part of an effort to reinforce defensive governance, the Board of Directors standards for

discussion was revised and the procedures to declare impairment of fixed assets was clarified to enhance Board of Directors monitoring capabilities. In addition, the Company confirmed that discussions about the Company's human resources strategies and ways to transform corporate culture were conducted at executive roundtables that included outside officers. Future challenges include improving the management of the Nominating and Compensation Committee, more effectively utilizing executive roundtables to enhance the discussion content at Board of Directors meetings and steadily pursuing issues brought to light in the surveys. There was also the opinion that with the COVID-19, there is a need to have more in-depth discussion on future business strategies.

The Company will continue to work on improving these areas to further enhance the effectiveness of the Board of Directors.

[Supplementary Principle 4-14-2] (Policy on Director/Auditor Training)

Article 15 of the Basic Policy on Corporate Governance sets out training for directors, statutory auditors and executive officers, as indicated below.

1. The Company will develop a training system required for its directors, statutory auditors and executive officers to appropriately fulfill their roles and responsibilities.
2. The Company will provide its directors, statutory auditors and executive officers with information and training opportunities upon initial appointment and continuously thereafter.
3. The Board of Directors will verify whether the provision of information and training opportunities under the preceding paragraph has been performed appropriately.

[Principle 5-1] (Policy Regarding Constructive Dialogue with Shareholders)

Article 18 of the Basic Policy on Corporate Governance stipulates policies on dialogue with shareholders, as indicated below.

1. Upon receipt from any shareholders of a proposal for dialogues, the Company will engage in constructive dialogues with the shareholders to a reasonable extent which is considered beneficial to a sustained growth and mid- to long-term improvement of its corporate value.
2. The policy for dialogues with shareholders is as follows:
  - (i) Dialogues with shareholders in general are overseen by the executive officer in charge of corporate communications.
  - (ii) While engaging in dialogues with the shareholders, the Corporate Communications Department will play a central role, while the Corporate Planning Department, the Finance Department, the General Administration Department, the business departments and other relevant divisions will appropriately exchange information with each other and cooperate organically.
  - (iii) The Company will pursue enhanced dialogues with the shareholders by such means as holding financial results briefings and developing investor relations (IR) activities in Japan and abroad.

- (iv) Any information or opinions obtained through dialogues with the shareholders will be reported as necessary to the Board of Directors.
- (v) When engaging in a dialogue with the shareholders, the Company will appropriately control important information including insider information in accordance with its internal rules and others.

## 2. Capital Structure

Ratio of shares owned by foreigners	20%~30%
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### [Situation Regarding Major Shareholders] REVISED

Name or Designation	Number of Shares Held (Shares)	Ratio (%)
The Master Trust Bank of Japan, Ltd. (trust account)	12,861,800	7.05
Sumitomo Metal Mining Co., Ltd.	10,110,316	5.54
Japan Trustee Services Bank, Ltd. (trust account)	9,803,800	5.37
The Iyo Bank, Ltd.	5,849,591	3.21
Kumagai Gumi Co., Ltd.	5,197,500	2.85
Sumitomo Corporation	4,383,200	2.40
Sumitomo Life Insurance Company	4,227,000	2.32
The Hyakujyushi Bank, Ltd.	4,197,790	2.30
Sumitomo Mitsui Banking Corporation	3,536,399	1.94
Japan Trustee Services Bank, Ltd. (trust account 9)	3,535,700	1.94

Controlling Shareholders (other than parent company)	---
Parent Company	None

### Supplementary Information REVISED

The Revised Large Shareholding Report dated July 6, 2018, of Mizuho Securities Co., Ltd., and one company that is a joint holder, and the Revised Large Shareholding Report dated December 21, 2018, of Sumitomo Mitsui Trust Bank, Ltd., and two companies that are joint holders were submitted, and reports regarding the shareholdings of each of these companies have been received. However, as of March 31, 2020, because the actual number of shares owned could not be confirmed, they are not reflected in the above Situation Regarding Major Shareholders.

### **3. Corporate Attributes**

Stock exchange listings and market classification	First Section, Tokyo Stock Exchange
Fiscal year-end	March
Industry	Building
Number of employees as of previous fiscal year-end (consolidated)	At least 1,000
Total revenues in previous fiscal year-end (consolidated)	At least 1 trillion yen
Number of consolidated subsidiaries	100 to 300

### **4. Policy for Measures to Protect Minority Shareholders When Conducting Transactions and Other with the Controlling Shareholder**

### **5. Other Exceptional Circumstances that May Have a Material Impact on Corporate Governance**



## II. Situation Regarding Corporate Governance Structure in Terms of Managerial Decision Making, Management Organization Related to Execution and Oversight, and Others.

### 1. Composition of institutions, items related to organizational operation

Organizational configuration	Company with financial auditors
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#### [Board of Directors]

Number of directors stipulated in the Articles of Incorporation	12
Term of directors stipulated in the Articles of Incorporation <b>REVISED</b>	1 year
Chairman of the board of directors	Chairman (except in situations where the chairman is also the president)
Number of directors <b>REVISED</b>	8
Election of outside directors	Elected
Number of outside directors	2
Number of outside directors designated as independent directors	2

#### Relationship with the Company (1)

Name	Attributes	Relationship with the Company*
Junko Hirakawa	Attorney	
Izumi Yamashita	From another company	

\*Selection items related to Relationship with the Company

\* A circle indicates that the item applies to the individual “currently or in the recent past” and a triangle indicates it applies to the individual “in the past.”

\* A filled-in circle indicates an item applies to a close family member “currently or in the recent past” and a filled-in triangle indicates an item applies to a close family member “in the past.”

- Is an executive of the listed company or its subsidiary
- Is an executive or a non-executive director of the parent company of the listed company
- Is an executive of a subsidiary company of the parent company
- Is a person or an executive of a party who major customers include the listed company
- Is a person or an executive of a party who is a major customer of the listed company

- f. In addition to director compensation, receives from the listed company a large sum of money or other assets as a consultant, accounting specialist, legal specialist
- g. Is a major shareholder of the listed company (when the shareholder is a corporate entity, an executive of that corporate entity)
- h. Is an executive of the listed company's client company (and does not apply to either d, e or f; applies to the individual in question only)
- i. Is an executive of a company with which there is a reciprocal arrangement to appoint an outside director (applies to the individual in question only)
- j. Is an executive of a party to whom the listed company makes contributions to (applies to the individual in question only)
- k. Other

Relationship with the Company (2)
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Name	Independent officer	Supplementary information related to the criteria	Reasons for appointment
Junko Hirakawa	Yes		A lawyer with extensive actual work experience in corporate legal affairs both in Japan and overseas. Can make proposals on a variety of management issues with a specialized perspective and therefore fulfills an important role in reinforcing our corporate governance. In addition, she has no relationship with any of our affiliated companies, major shareholders, major business transaction companies, and others; nor has she received large remuneration or other types of financial gain and is therefore considered sufficiently independent.

Izumi Yamashita	Yes		Has a wealth of experience in the financial industry and as a member of top management, is highly knowledgeable. Makes proposals on a variety of management issues and therefore fulfills an important role in reinforcing our corporate governance. In addition, she has no relationship with any of our affiliated companies, major shareholders, major business transaction companies, and others; nor has he received large remuneration or other types of financial gain and is therefore considered sufficiently independent.
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Voluntary advisory body comparable to a Nominating Committee and Compensation Committee	Exists
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Situation Regarding Voluntary Advisory Bodies, Composition of Members, and Affiliation of the Chairman

	Name of committee	Total number of members	Full-time members	Number of internal directors	Number of outside directors	Number of outside experts	Other	Chairman
Voluntary advisory body comparable to a Nominating Committee	Nominating / Compensation Committee	7	0	2	2	0	3	Outside director
Voluntary advisory body comparable to a Compensation Committee	Nominating / Compensation Committee	7	0	2	2	0	3	Outside director

Supplementary Information
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To secure transparency and ensure fairness, the Board of Directors has established as an advisory body a Nomination/Compensation Committee to call on opinions regarding decisions on director and statutory auditor candidates, executive officer appointments, director, statutory auditor and executive officer dismissals, chief executive officer and executive officer evaluations, and director and executive officer compensation. The Nomination/Compensation Committee is composed of the chairman, the president and all the outside officers (two outside directors and three outside auditors), and a majority of the committee members are outside directors and one of the outside directors serves as the committee chairperson.

[Statutory Auditors]

Establishment of the Board of Statutory Auditors	Yes
Number of statutory auditors stipulated in Articles of Incorporation	The maximum number is not stipulated.
Number of statutory auditors	5

Cooperation between Statutory Auditors, Accounting Auditors and the Internal Audit Department
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The statutory auditors oversee the independence of the accounting auditors and scrutinize the opinions of the accounting auditors to examine and to determine whether or not financial reports, accounting reports, accounting processing methods and others are in accordance with fair accounting principles. To prepare the Audit Report, statutory auditors and accounting auditors hold meetings and in addition, exchange information when needed in an effort to conduct smooth, effective audits.

The Internal Audit Department is responsible for Internal audits and works with statutory auditors to conduct audits on the appropriateness and legality of daily business operations. After the audit, the person in charge of the Internal Audit Department submits an audit report to the president, executive officers in charge and the statutory auditors and seeks to share that information.

Election of outside statutory auditors	Elected
Number of outside statutory auditors	3
Number of outside statutory auditors designated as independent auditor	3

Relationship with the Company (1) **REVISED**

Name	Attributes	Relationship with Company
Yoshitsugu Minagawa	Other	j. △
Yoshimasa Tetsu	Certified Public Accountant	j. △
Makoto Matsuo	Lawyer	j. ○

\*Selection items related to Relationship with the Company

\* A circle indicates that the item applies to the individual “currently or in the recent past” and a triangle indicates it applies to the individual “in the past.”

\* A filled-in circle indicates an item applies to a close family member “currently or in the recent past” and a filled-in triangle indicates an item applies to a close family member “in the past.”

a. Is an executive at the listed company or its subsidiary

b. Is a non-executive officer or an accounting advisor of the listed company or its subsidiary

c. Is an executive or a non-executive officer of a parent company of the listed company

d. Is a statutory auditor of the parent company of the listed company

e. Is an executive officer of an affiliate subsidiary of the listed company

f. Is a person or an executive of a party whose major customers include the listed company

g. Is a person or an executive of a party who is a major customer of the listed company

h. A consultant, accountant or lawyer who receives a large monetary compensation or other property (other than remuneration as the outside statutory auditor) from the listed company

i. Is a major shareholder of the listed company (in cases where the major shareholder is a corporate entity, an executive of that corporate entity)

j. Is an executive of a customer (for which f, g or h does not apply) of the listed company

k. Is an executive of a company with which there is a reciprocal arrangement to appoint an outside director (applies to the individual in question only)

l. Is an executive of a party to whom the listed company makes contributions to (applies to the individual in question only)

m. Other

Relationship with the Company (2) **REVISED**

Name	Independent officer	Supplementary information related to the criteria	Reasons for appointment
Yoshitsugu Minagawa	Yes	While the Company has transactions with the Forestry Agency, which Mr. Minagawa was formerly affiliated with, the transaction amount is less than 0.001% of the Company's consolidated net sales. Given the scale and type of transaction and based on our determination that he would not influence shareholder or investor decisions, we have omitted an overview.	With a wealth of experience and a high level of knowledge in the area of agriculture, forestry and fisheries given his background in forestry and wilderness administration, is able to appropriately audit the Company's execution of operations. In addition, he has no relationship with the Company's affiliated companies, major shareholders, main transaction parties or other, and is not receiving large monetary compensation or other types of financial gain and is therefore considered sufficiently independent.
Yoshihisa Tetsu	Yes	Is from the Company's auditor Ernst & Young ShinNihon LLC, but resigned in June 2011 and has since been working independently as a certified public accountant. Based on our determination that he would not influence shareholder or investor decisions, we have omitted an overview.	As a certified public accountant, has a high level of specialized knowledge and a wealth of experience in financial and accounting matters, which we have determined can be utilized for the Company's audit operations. In addition, he has no relationship with the Company's affiliated companies, major shareholders, main transaction parties or other, and is not receiving large monetary compensation or other types of financial gain and is therefore considered sufficiently independent.
Makoto Matsuo	Yes	While the Company has transactions with Momo-o, Matsuo & Namba Law Office, which Mr. Matsuo is affiliated with, the transaction amount is less than 0.0001% of the Company's consolidated net sales. Given the scale and type of transaction and based on our determination that he would not influence shareholder or investor decisions, we have omitted an overview.	As a lawyer with extensive experience in corporate legal affairs both in Japan and abroad, is expected to appropriately execute the Company's audit operations with his specialized perspective. In addition, he has no relationship with the Company's affiliated companies, major shareholders, main transaction parties or other, and is not receiving large monetary compensation or other types of financial gain and is therefore considered sufficiently independent.

### [Independent Officers]

Number of independent directors	5
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Other Items Related to Independent Officers
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### [Criteria for independence]

If none of the following apply, an individual will be considered independent.

1. An executive of the Company. An executive officer, director, corporate officer, manager or other type of employee of the Company, its subsidiary or affiliate.
2. Consultant, etc.
  - (1) An employee, partner or worker of a financial auditing company conducting financial audits for the Company or its subsidiary.
  - (2) A lawyer, certified public accountant, tax attorney or other type of consultant who has received from the Company or its subsidiary outside of director compensation an annual average of 10 million yen or more in money or other types of financial gain in the past three fiscal years.
  - (3) Law office, audit company, tax accountant office, consulting firm or other type of advisory firm that is a major transaction party to the Company or its subsidiary (has received from the Company or its subsidiary payment equivalent to 2% or more of average consolidated total revenues of the past three fiscal years) or an employee, partner, associate or other type of worker of the transaction party firm.
3. Major shareholder (fiduciary owner). An individual (or in the case of a corporate entity, an executive of that entity) who directly or indirectly owns at least 10% of the Company's total voting rights.
4. Major shareholder (owner). An executive of a company that the Company or its subsidiary owns at least 10% of their total voting rights.
5. Transaction parties
  - (1) Customers (major transaction parties): An individual or an executive of a company to whom our sales amount to that individual or company is 2% or more of the Company's total consolidated revenues.
  - (2) Suppliers (major transaction parties of the Company): An individual or an executive of a company to whom our purchase amount from that individual or company is 2% or more of the Company's total consolidated revenues.
6. Lenders. Lenders who have lent the Company 2% or more of total consolidated assets (or in the case of a corporate entity, an executive of that entity).
7. Contribution recipients. An individual or executive that the Company or its subsidiary has contributed an average 10 million yen a year or 2% of total income, whichever is higher, over the past three fiscal years.

8. Family. A spouse or immediate family member within the second degree or a relative living in the same household.
9. Past requirements. An individual for which item 1 within the past 10 years, or item 2 or 7 within the past 5 years, applies.
10. Outside director reciprocal appointments. An executive or full-time auditor of a company that has an outside director who is an executive director or full-time auditor of the Company or its subsidiary.

Furthermore, all outside officers who have fulfilled the criteria for independent officers shall be designated independent officers.

[Incentives]

Status of implementation of measures to grant incentives to directors	Implementation of a financial-performance-linked compensation system, stock option system, and other
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Supplementary Information <b>REVISED</b>
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1. Stock-based compensation system

(1) Stock-based compensation stock options

At the 75<sup>th</sup> Ordinary General Meeting of Shareholders held on June 23, 2015, to enhance the desire and morale to raise the Company's corporate value over the mid-to-long term, separate to monetary remuneration provided to directors, a resolution to provide directors (excluding outside directors) an allotment of stock-based compensation stock options in the form of new stock acquisition rights was approved.

In addition, at the 78<sup>th</sup> Ordinary Meeting of Shareholders held on June 22, 2018, with implementation of a remuneration system to allot restricted shares to directors (excluding outside directors), excluding those that have already been issued, remuneration of stock-based compensation stock options in the form of new stock acquisition rights was abolished.

(2) Restricted share compensation

At the 78<sup>th</sup> Ordinary Meeting of Shareholders held on June 22, 2018, the Company implemented a remuneration system to allot restricted shares to directors (excluding outside directors). The aim is to provide an incentive to raise the Company's corporate value over the mid- to-long term as well as more quickly realize a greater sense of shared values with shareholders with the ownership of shares from the time of allotment compared to stock-based compensation stock options. Furthermore, the monetary remuneration credit to allot the restricted shares was set at no more than 100 million yen annually by resolution at the 78<sup>th</sup> Ordinary Meeting of Shareholders held on June 22, 2018.



## 2. Financial-performance-linked compensation system

- (1) Policy regarding determination of the payment ratio of financial-performance-linked compensation and compensation other than financial-performance-linked compensation

The bonus payment ratio for financial-performance-linked compensation to directors (excluding outside directors) is linked to financial performance based on a set formula. For the March 2020 fiscal term, the actual ratio of financial-performance-linked compensation was an average 27.9% for all directors.

- (2) Indices for financial-performance-linked compensation, reasons for selecting those indices and method regarding determination of financial-performance-linked compensation amounts

Standards for setting financial-performance-linked compensation in the form of director bonuses take into consideration consolidated profits, excluding any actuarial differences related to retirement benefit accounting, and standards for current term net profits attributed to parent company shareholders.

Furthermore, the Company uses a method where actuarial differences related to retirement benefit accounting are amortized in one lump sum each fiscal year. Actuarial differences related to retirement benefit accounting are subject to major fluctuations according to end-of-term stock price volatility, the interest rate environment or other factors, and these may significantly impact financial performance. For this reason, actuarial differences related to retirement benefit accounting are excluded from consolidated profits as a standard for determining director bonuses.

Grantees of stock options	Internal directors, others
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### Supplementary Information

Stock-based compensation stock options in the form of new stock acquisition rights are granted to directors (excluding outside directors) and executive officers.

In fiscal 2015, 285 options to eight directors (excluding outside directors) and 103 options to 11 executive officers were granted.

In fiscal 2016, 295 options to eight directors (excluding outside directors) and 119 options to 13 executive officers were granted.

In fiscal 2017, 273 options to eight directors (excluding outside directors) and 112 options to 12 executive officers were granted.

From fiscal 2018, the Company has decided to no longer issue new stock options.

[Director Remuneration]

Disclosure status (of individual director remuneration)	We do not disclose remuneration of individual directors.
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Supplementary Information **REVISED**

For the March 2020 fiscal term, total director remuneration was 541 million yen, of which 360 million yen was basic remuneration, 38 million yen was stock remuneration and 143 million yen was bonus remuneration.

Policy for determining amount and calculation method of remuneration <b>REVISED</b>	Exists
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Disclosure of Policy for Determining Amount and Calculation Method of Remuneration

As part of an effort to fulfill the Group's management philosophy the Company has created officers remuneration system which ensures that directors and statutory auditors appropriately fulfill their roles in line with stakeholder expectations.

1. Director (excluding outside director) remuneration

Director remuneration, excluding outside directors, is composed of three types – a monthly remuneration in the form of a basic remuneration, restricted stock and a financial-performance-linked remuneration in the form of a bonus.

The Company determines each director's remuneration according to his/her roles and responsibilities.

While basic remuneration is paid as a fixed amount cash allowance as determined by position, a certain portion is paid as restricted stock remuneration. The amount of the cash allowance is determined within the range specified by a resolution at the General Meeting of Shareholders and the amount of the restricted stock remuneration is limited to no more than 100 million yen annually in accordance with a resolution of at the General Meeting of Shareholders.

Restricted stock remuneration is paid as an incentive over the mid- to long-term to enhance the desire and morale to raise the Company's corporate value and to more quickly realize a greater sense of shared values for higher stock prices with shareholders.

Financial-performance-linked remuneration in the form of bonuses is based on consolidated profits, excluding any actuarial differences related to retirement benefit accounting, and standards for current term net profits attributed to parent company shareholders, and is determined with approval at the General Meeting of Shareholders.

## 2. Outside director remuneration

Outside director remuneration is composed of only a monthly remuneration in the form of a basic remuneration.

## 3. Statutory auditor remuneration

Statutory auditor remuneration is composed of only a monthly remuneration in the form of a basic remuneration.

## 4. Content of the General Meeting of Shareholders' resolutions related to officers remuneration

The upper limit for monthly compensation to directors was set at a monthly sum of 40 million yen or less (and for outside directors, a monthly sum of 5 million yen or less) at the 76<sup>th</sup> Ordinary General Meeting of Shareholders held on June 24, 2016.

The upper limit for remuneration allowing the allotment of restricted shares for directors excluding outside directors, was set at no more than 100 million yen annually at the 78<sup>th</sup> Ordinary General Meeting of Shareholders held on June 22, 2018.

The upper limit for remuneration to statutory auditors was set at a monthly sum of no more than 8 million yen or less at the 74<sup>th</sup> Ordinary General Meeting of Shareholders held on June 20, 2014.

As of the 65<sup>th</sup> Ordinary General Meeting of Shareholders held on June 29, 2005, the Company abolished retirement benefit payments for directors. In addition, to maintain objectivity and appropriateness in terms of officers' remuneration, we utilize officers' remuneration survey results of Japanese corporations prepared by a third party and set appropriate remuneration levels accordingly.

### [\[Support System for Outside Directors \(Outside Statutory Auditors\)\]](#)

In regards to outside directors' attendance of Board of Director meetings and outside statutory auditors' attendance of Board of Statutory Auditor meetings and Board of Director meetings, the General Administration Department acts as secretariat in managing meeting schedules, providing materials and giving briefings to outside directors and outside statutory auditors to enable them to fulfill their oversight functions.

[Situation Regarding the Retirement of the President and Representative Director, and Others]

Names and other information of advisors, advisers, and other who were former president and representative director, or other **REVISED**

Name	Title/Position	Work content	Work arrangements/conditions (full time, part time, paid or unpaid, other)	Retirement day of president or other	Term
Ryu Yano	Chief Corporate Advisor	Business activities, advice in response to management requests	Full time with pay	March 31, 2020	Prescribed

Total number of advisors, advisers, and other who were former president and representative director, or other <b>REVISED</b>	1
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Other items **REVISED**

1. The Chief Corporate Advisor will under no circumstances be involved in management decision making.
2. When necessary to raise corporate value and after taking the necessary procedures, the Company may assign a former director to conduct business activities, social contribution activities and other such duties. However, under no circumstances may he/she be involved in management decision making.
3. There will be no written mention of honorary advisers who have no actual duties, service, remuneration or other.

**2. Items Related to Functions of Business Execution, Audits and Supervision, Nomination and Decisions on Compensation, etc. (Overview of the Current Corporate Governance System)**

**REVISED**

The Company has a Board of Directors comprised of eight directors (seven males, one female), including two outside directors (one male, one female), and a Board of Statutory Auditors comprised of five statutory auditors (five males), including three outside statutory auditors (three males). With this system, we have implemented the corporate executive officer system to clearly separate “decision-making / supervision functions” from “business execution functions.”

(1) Decision-making / Supervision Functions

“Decision-making / supervision functions” are exercised at the Board of Director meetings generally held once a month. Specifically, directors make decisions on important items, review and confirm financial performance and other information and monitor the execution of job duties. In addition, before the Board of Director meetings, Executive Committee meetings, also attended by executive officers who concurrently serve as directors (as of June 23, 2020, five directors (five males)) and full-time statutory auditors (two males), are generally held twice a month to enable sufficient discussion and deliberation about important issues.

(2) Business execution functions

In regards to “business execution functions,” the Board of Executive Officers, comprised of all executive officers (19 as of June 23, 2020 (18 males, one female)), generally meets once a month to report progress on business execution matters and receive direction and information from the president about policies related to business execution.

(3) Situation regarding initiatives to reinforce the capabilities of the statutory auditors, including cooperation with outside directors

- In regards to auditing, in accordance with the Auditors’ Auditing Standards compiled by the Japan Auditors Association, Statutory Auditors Auditing Rules and Board of Statutory Auditors Regulations have been created in an effort to secure an effective corporate system of governance.
- The Company has assigned ten people as auditing inspectors (who concurrently hold high level managerial positions of major divisions) as support staff to the statutory auditors to help reinforce the capabilities of statutory auditors, especially in terms of actual audit tasks. In addition, to ensure the auditing inspector’s independence, any transfer, performance assessment or disciplinary measure of an auditing inspector requires the permission of the statutory auditor.
- Statutory auditors attend Board of Director meetings, Executive Committee meetings and other important meetings, and create a system that facilitates the acquisition of accurate and timely information regarding management decision processes. To enhance the effectiveness of statutory auditors’ audits, cooperation with accounting auditors and internal auditors is promoted. In addition, statutory auditors receive regular reports from accounting auditors, internal auditors, and people in charge of risk management, compliance, accounting and labor, to monitor and verify internal management. Statutory auditors are given the opportunity, when necessary, to express their opinion to directors on their execution of duties, which we believe provides sufficient objectivity regarding management. Furthermore, Group Statutory Auditor meetings, attended by statutory auditors of the major subsidiaries as members, are held regularly to reinforce the supervision of Group management activities.
- In addition to monthly Board of Statutory Auditor meetings, executive officers in charge of agenda items of Executive Committee meetings are provided the opportunity to give explanations and a system is put in place that allows all statutory auditors and outside

directors to grasp the details of important items. Statutory auditors also regularly exchange opinions with representative directors.

With the above-mentioned procedures and practices, the Company has created a system that allows outside directors and statutory officers to reinforce supervision/monitoring functions of the directors in their execution of duties from the perspective of shareholders.

#### (4) Nominating / Compensation Committee

To secure transparency and ensure fairness, the Board of Directors has established as an advisory body a Nomination/Compensation Committee to call on opinions regarding decisions on director and statutory auditor candidates, executive officer appointments, director, statutory auditor and executive officer dismissals, chief executive officer and executive officer evaluations, and director and executive officer compensation. The Nomination/Compensation Committee is composed of the chairman, the president and all the outside directors (two outside directors and three outside auditors), and a majority of the committee members are outside directors and one of the outside directors serves as the committee chairperson.

#### (5) Internal Audit

Internal audits are the responsibility of the Internal Audit Department (currently ten members as of June 23, 2020), which regularly conducts audits of the Company and each of the Group operations, audits documents and provides feedback to relevant parties after the audit to seek rectification and ensure the appropriateness of operations. In addition, through cooperation with auditors, it conducts audits of the appropriateness and legality of day-to-day operations. The person in charge of the Internal Audit Department submits an audit report to the president and the relevant executive officers and statutory auditors after completing the audit and works to share that information.

#### (6) Accounting Audit

Regarding Accounting Audits, the names and affiliated auditing companies of the certified public accountants in charge are as follows:

##### - Names of Certified Public Accountants

Designated Limited Partner employee, executive employee

Tatsuya Chiba (one consecutive year as auditor, one year total)

Yoshikatsu Nakahara (three consecutive years as auditor, nine years total)

Masaya Kiyomoto (seven consecutive years as auditor, seven years total)

##### -Name of Affiliated Auditing Company

Ernst & Young ShinNihon LLC

#### (7) Contracts for Limitation of Liability

In accordance with the Companies Act, Article 427, Chapter 1, the Company has concluded a contract with each outside director and each outside statutory auditor that limits liability for

damages as indicated in the Companies Act, Article 423, Chapter 1. The maximum liability for damages based on this contract is the total sum specified in the Companies Act, Article 425, Chapter 1.

### **3. Reasons for Adopting Current Corporate Governance System**

As a Company with Board of Company Auditors, to enable the Board of Directors to appropriately supervise management and to adopt a system that allows the independent statutory auditors to effectively monitor management, the Company is endeavoring to reinforce and coordinate both of these functions. Furthermore, with the executive officer system, management decision-making and supervision functions are separated from business execution functions, creating a structure that aims to reinforce the monitoring/supervision of business execution by the Board of Directors and clarify business execution responsibilities. Currently, the Company believes that this corporate governance system is effective and viable.

In addition, by appointing outside directors, the Company is strengthening the supervisory function of management and securing the transparency and soundness of management. Outside directors and outside statutory auditors are committee members of the Nominating / Compensation Advisory Committee (one outside director serves as chairperson) to raise the transparency and fairness of director appointments, dismissals, compensation and other related matters.

### III. Status of Implementation of Measures Related to Shareholders and Other Stakeholders

#### 1. Measures to Revitalize the General Meeting of Shareholders and Facilitate the Exercise of Voting Rights **REVISED**

	Supplementary Information
Prompt delivery of the Notice of Convocation of the General Meeting of Shareholders	To deepen understanding of shareholders and for the convenience of overseas shareholders, the convocation notice is generally sent three weeks before the General Meeting of Shareholders. For the 80 <sup>th</sup> Ordinary General Meeting of Shareholders held on June 23, 2020, due to the impact of the COVID-19 and other factors, the Company mailed out the convocation notice on June 5 <sup>th</sup> but it electronically disclosed the convocation notice on the Company website on May 29 <sup>th</sup> and on TDnet on May 30 <sup>th</sup> .
Setting the date of the General Meeting of Shareholders to avoid overlap	Starting with the 66 <sup>th</sup> Ordinary General Meeting of Shareholders held on June 27, 2006, the Company has worked to avoid overlap with other company shareholder meeting dates in order to facilitate shareholder attendance and deepen communication with shareholders. The 80 <sup>th</sup> Ordinary General Meeting of Shareholders was held on June 23, 2020, three business days before the largest number of companies held their meetings.
Exercise of voting rights by electromagnetic means	Voting rights can be exercised by electromagnetic means (Internet, mobile phones and other).
Participation in a platform to exercise voting rights by electromagnetic means and other measures to enhance the environment for institutional investors to exercise voting rights	Since the 70 <sup>th</sup> Ordinary General Meeting of Shareholders held in 2010, the Company has been using an electronic voting rights platform operated by ICJ Co., Ltd., to enable institutional investors to exercise voting rights.
Provision for Notice of Convocation (summary) in English	Available on the Company website ( <a href="http://sfc.jp/english/ir/meeting.html">http://sfc.jp/english/ir/meeting.html</a> )



Other	The Notice of Convocation, Interim Report on the Outcome of the Voting by Shareholders with Voting Rights and Notice of Resolutions are available on the Company's website. ( <a href="https://sfc.jp/information/ir/stockholder/information/">https://sfc.jp/information/ir/stockholder/information/</a> )
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**2. IR Activities** REVISED

	Supplementary Information	Explanation by Representative
Creation and disclosure of Disclosure Policy	To enhance the transparency of management, and from a CSR (corporate social responsibility) perspective, the Company discloses not only information required by the Companies Act, the Financial Instruments and Exchange Act and other laws and regulations, but also aggressively discloses in a speedy and fair manner any information judged to be socially useful to shareholders and investors. In addition, the Company strives to improve management by communicating with a diverse range of stakeholders, starting with the capital markets, and reflecting information and opinions gained from them in management.	
Holding regular meetings for individual investors	We regularly participate in company explanation meetings and IR forums aimed at individual investors. -Held within the last one year: December 3, 2019 (Nagoya), December 8, 2019 (Osaka) -Hosts: Executive officer in charge of IR -Content: Company introduction, business explanation, financial results explanation, company booth exhibit	No

Holding regular meetings for analysts and institutional investors	<p>1) Financial results explanation (twice yearly)  -Recent dates: November 11, 2019, June 1, 2020 -  Hosts: President, executive officer in charge of IR  -Content: Explanation of financial results for March 2020 term (2<sup>nd</sup> quarter) and explanation of financial results for the March 2020 term (year-end) and other</p> <p>2) Telephone conference (twice yearly)  - Recent dates: July 31, 2019, February 3, 2020  - Hosts: Executive officer in charge of IR  - Content: To promote understanding among institutional investors of the Company's March 2020 1<sup>st</sup> quarter and March 2020 3<sup>rd</sup> quarter financial results.</p>	Yes
Holding regular meetings for overseas investors	The Company regularly publishes its "Integrated Report" for overseas institutional investors. In addition, in February 2020 in the U.S. and the U.K., we conducted overseas IR. In September 2019, we also participated in IR conferences in Japan that were organized by securities companies and met with many foreign investors.	Yes
Posting IR materials on the Company website	The annual securities report, convocation notices for the General Meeting of Shareholders, resolution notices, earnings summaries, presentation materials for financial results announcements and business explanatory meetings, monthly order information and other are disclosed on the Company website ( <a href="http://sfc.jp/english/ir/">http://sfc.jp/english/ir/</a> ).	
Establishment of an IR department (person in charge)	<p>The department that specializes in IR is part of the Corporate Communications Department and in addition to the person in charge who is concurrently in charge of corporate communications, there are four people specifically involved in IR activities.</p> <p>(1) Executive officer in charge of IR: Tatsumi Kawata, Director and Managing Executive Officer</p> <p>(2) People responsible for IR matters  Toshihiro Horii, Corporate Communications Department General Manager  Eishu Taketa, Corporate Communications Department Group Manager</p>	

Other	The Company is conducting IR activities that consciously target individual investors, such as hosting explanatory meetings for individual investors, revamping the IR website and other. In addition, when updating the website or publishing printed materials, a conscious effort is made to utilize financial and non-financial information to deepen understanding about the Group’s operations.	
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**3. Measures that Consider the Interests of Stakeholders** **REVISED**

	Supplementary Information
Provisions made in internal regulations and other in consideration of stakeholders’ interests	In 2017, the Company newly created the Sumitomo Forestry Group Code of Conduct by bringing together all its existing ethics-related guidelines. In the Sumitomo Forestry Group Code of Conduct, the Company states that the Company conducts business activities while aggressively seeking out opportunities to communicate with a diverse range of stakeholders.
Promotion of environmental protection, corporate social responsibility (CSR) and other activities	<p>The Sumitomo Spirit seeks to benefit society by placing emphasis on fairness and integrity, and our corporate philosophy aims to contribute to a sustainable and prosperous society through all types of housing-related services that utilize healthy and environmentally friendly wood. The Company stipulated its Environmental Philosophy in December 1994 and its Group integrated Environmental Policy in October 2000. In addition, from fiscal 2009, the Company incorporated mid-term environmental goals as annual numerical targets in its Environmental Budget. In July 2015, the Environmental Philosophy, the Environmental Policy, the Sumitomo Forestry Group Biodiversity Declaration and the Sumitomo Forestry Group Biodiversity Action Guidelines were integrated and put into operation as the Sumitomo Forestry Group Environmental Policy. This Policy, in addition to being printed in the employee handbook, being displayed as posters at each office and other efforts, it is read through in new employee training sessions, ISO 14001 internal environmental auditor study seminars, department meetings and other opportunities in an effort to have each and every employee understand and embrace it.</p> <p>In addition, the “CSR Mid-Term Plan,” which summarizes the Company’s environmental goals, began in fiscal 2015. Currently, it is formulated and managed as the sustainability section of the 2021 Mid-Term Management Plan, our business operation plan, to promote the integration of business and ESG initiatives. Once a year, the Company publishes a “Sustainability Report” about its overall sustainability initiatives, including its environmental protection activities.</p>

<p>Establishment of policy concerning disclosure of information to stakeholders</p>	<p>The Group’s ethical action guidelines are summarized in the Sumitomo Forestry Group Code of Conduct, which sets out the Company’s thinking regarding the handling and disclosure of information.</p>
<p>Other</p>	<p>(Protection of Personal Information)  Regarding the protection of personal information, in addition to internal regulations, such as personal information protection rules, the executive officer in charge of the General Administration Department is appointed the “Chief Person in Charge of the Protection of Personal Information” and the head of each organization is appointed “Division Person in Charge of the Protection of Personal Information.”  For customer inquiries regarding the use of personal information, a “Personal Information Inquiry Desk” has been set up within the Customer Service Department. In addition, the Company is working to prevent the leakage of personal information by conducting group training and employee education sessions and raising awareness among contractors.</p> <p>(Promotion of Women’s Involvement)  The Company is committed to creating a work environment where motivated employees can be actively involved regardless of nationality, age, gender or disability.  In an endeavor to engage female employees in particular, the Company has sought to improve its systems related to childcare, education and training, and others, and at the same time, has taken a proactive stance on promoting the use of these systems.</p> <p>In December 2013, the Group revised and summarized three main policies to promote the active involvement of female employees (1. to create a positive work environment for women; 2. to leverage women’s unique creative powers; and 3. to spur innovation through the participation of women). These policies are positioned as the Sumitomo Forestry Group’s Declaration on Empowering Women, which the Group is actively promoting to enhance a common awareness within the Group.</p> <p>In January 2020, the Company organized Women’s Conference 2020, a learning seminar attended by approximately 150 female employees of various occupations from around the country to explore female employee career paths, job satisfaction and unconscious biases. In addition, the Company held a management seminar for 80 management-level employees who have female subordinates.</p> <p>In May 2019, in the 2021 Mid-Term Management Plan, a numerical target of a 5.5% or greater ratio of women in managerial posts by 2021 was set and the Company is aggressively promoting employee participation in internal and</p>

external training programs and implementing a mentorship program to enhance the skills and ambition of female employees. As of April 2020, the Company abolished the clerical staff position and newly created the office planning position. For most of the occupations held by female employees, this expanded job descriptions and enabled appointment as managers.

The Company's ratio of female employees and female managers is as follows:

	2016.3.31	2017.3.31	2018.3.31	2019.3.31	2020.3.31
Ratio of female employees (%)	19.4	20.0	20.4	21.0	21.6
Ratio of female managers (%)	2.6	2.8	3.2	3.7	4.2

As of June 23, 2020, female executives comprise of one outside director and one executive officer.

## **IV. Items Related to the Internal Control System**

### **1. Basic philosophy and operational status regarding the internal control system**

The Company has made the following resolutions regarding the Board of Directors.

#### **1. Basic philosophy regarding the internal control system**

- (1) Since its establishment in the Genroku Era (1688-1704), the Sumitomo Business Spirit, as exemplified by such phrases as “placing prime importance on integrity and sound management” and “under no circumstances shall Sumitomo pursue easy gains or act imprudently,” has been the core of our management. Along with our philosophy of “national gratitude” where we aim to be a corporate entity that is truly essential to nations and society, our business stance to create “sustainable forestry” where we nurture and manage forests continuously in an environmentally conscious manner, and the “Sumitomo Business Spirit” where we benefit society by placing emphasis on fairness and integrity, the Company aims to contribute to a sustainable and prosperous society through all types of lifestyle-related services that utilize healthy and environmentally friendly wood. To realize these goals, the following five Action Guidelines have been set:
  - We provide high-quality products and services that bring joy to our customers.
  - With a fresh perspective, we create new jobs that lead to happiness for generations to come.
  - We promote a free and open corporate culture that respects diversity.
  - We set and strive to achieve ambitious goals through ongoing effort.
  - We do work that wins us the trust of society with fair and honest conduct.
- (2) The Company’s ethics guidelines and values, which all Group executives and employees must observe and which we are sincerely striving to fulfill, have been set forth as the Group Code of Conduct and other rules.
- (3) Maintaining an uncompromising stance against anti-social activities is part of the Group’s basic policy and one that we adhere to.

#### **2. Operational Status of the Internal Control System**

- (1) System to Ensure Compliance by Executives and Employees to Laws, Regulations and the Articles of Incorporation
  - 1) The Company, as part of the Group’s basic policy, has positioned the promotion of compliance as an important management issue and is working to implement the systems and environment to secure this.
  - 2) For the complete and thorough management of compliance, the Company has formulated relevant regulations and established a Company-wide compliance system with the aim to reinforce internal control functions and enhance remedial capacity across the entire Group on an ongoing basis. It has done so by creating a

horizontal, Group-wide compliance promotion committee and an internal reporting system (compliance counter) that can be used by the Group's and subcontractor's executives and employees, which reports to an outside law firm and the general manager of the General Administration Department.

- 3) For a system to adequately and appropriately protect financial and accounting statements and other information, the Company will formulate documents with relevant rules and the standardization of operational procedures. The Company has created a system where major departments verify the appropriateness of the financial reporting process and the effectiveness of internal control systems, which is then evaluated by the Internal Audit Department. The Company continues to work to improve the quality of internal control-related functions associated with the appropriateness of financial reporting.

(2) System for the Storing and Maintaining Information Related to Director Duties

- 1) The Company, in accordance with regulations regarding the storage and maintenance of documents and information, appropriately records and stores important documents, such as minutes of the General Meeting of Shareholders, minutes of the Board of Director meetings and other legal documents, and other important documents related to decision making, such as requests for management approval.
- 2) The Company will work to improve the storage, viewing and sharing functions of information using IT.

(3) Regulations Concerning the Management of the Risk of Loss or Other Relevant Risk Management System at the Company and its Subsidiaries

- 1) With the aim to establish unified internal control and risk management systems, the Company has formulated regulations regarding risk management and at the same time, has created a committee on risk management, which grasps and assesses Group risks and formulates countermeasures. In such ways, the Company puts into place and reinforces in an ongoing manner the Group's risk management system.
- 2) The committee on risk management monitors the progress of countermeasures to various risk scenarios and makes regular reports to the Company's Board of Directors and statutory auditors.
- 3) For serious emergency situations that occur within the Group, Group employees must strive to appropriately apply the "two-hour rule" and report to Company top management in a timely manner. The Company works in an ongoing manner to reinforce the ability to avoid or reduce risk.
- 4) In preparation for large-scale disasters, novel influenzas and other emergencies, the Company promotes business continuity management (BCM) including the formulation of business continuity planning (BCP) to mitigate losses from continuing business operations and thus creates a structure to handle emergency situations.

Furthermore, the Company is providing the necessary guidance and advice on promoting BCM to subsidiaries.

- (4) System to Ensure the Effective Execution of Business Duties of Company Directors, Subsidiary Directors and Others
  - 1) With the implementation of the executive officer system, the Company has separated decision-making and supervisory functions from operational functions, and with a Board of Directors made up of a small number of members, has created a structure that allows for speedy decision making. Each of the executive officers, as the person in charge of the execution of operations, must effectively perform the duties of the operation he/she is responsible for under the guidance and supervision of the Board of Directors.
  - 2) To enable speedy decision making in response to changes in the operating environment and the optimal assignment of authority, the Company reevaluates in an appropriate manner the Board of Directors agenda criteria, administrative authority regulations and other.
  - 3) Based on the Group's long-term management plan, the Company formulates a midterm management plan as well as annual fiscal budget goals and concrete strategies for each business segment, and strives to optimally and effectively allocate management resources to fulfill them.
  - 4) In compliance with internal regulations, the Company assigns a department with primary responsibility for each of the individual subsidiaries. The Company has officers and employees of the departments with primary responsibility assume the position of director at the subsidiaries and so on to appropriately manage the progress of management measures and policies and to effectively promote the execution of business duties at the subsidiaries.
  
- (5) System Regarding the Reporting by Directors and Others of the Subsidiaries on the Execution of Duties and System to Ensure the Appropriateness of Operations of the Corporate Entity Comprising of the Company and Its Subsidiaries
  - 1) The Company, through the primary departments in charge, requires important subsidiary management issues to be brought up and the execution of duties to be reported to the Board of Directors, and in doing so, exercises a system of control, checks and balances for the entire corporate entity.
  - 2) The Company, to ensure effective internal controls of the entire corporate entity, formulates regulations for each of the subsidiaries. In addition, taking into account each company's situation, the Company puts in place an internal audit department and other efforts to promote an environment for autonomous, internal control at each company.
  - 3) The Company, through the Internal Audit Department, the primary departments in charge, etc., reinforces the checks and balances system and strives in an ongoing



manner to raise the quality of oversight and supervision functions, including enhancing compliance systems, of each of the subsidiaries.

- (6) In Situations Where the Company's Statutory Auditors Request Support Staff to Aid in Their Duties, Matters Concerning Support Staff to Statutory Auditors, the Independence of Support Staff from the Directors and Ensuring the Effectiveness of Statutory Auditors' Instructions to Support Staff.
- 1) The Company's representative directors and directors, upon discussion with the statutory auditors, may assign appropriate personnel as support staff to the statutory auditors, and in the event of a transfer, assessment or disciplinary action of such personnel, will seek the approval of the statutory auditors.
  - 2) As needed, the Company's statutory auditors will conduct audit work by directing support staff.
  - 3) The Company's statutory auditors, to ensure that the support staff's independence is not unfairly controlled, will make any necessary requests to the Company's representative directors or the Board of Directors. The representative directors or the Board of Directors will take the necessary measures in regards to these requests.
- (7) System for Reporting to Statutory Auditors by the Company's Directors and Support Staff, the Company's Subsidiary Directors and Others, Auditors, Staff and People Who Receive Reports from Them, and Other Systems Related to Reporting to Statutory Auditors.
- 1) The Company's statutory auditors, in order to grasp the decision-making process of important items and the execution of duties by directors, attend the Company's Board of Director meetings and as needed, Executive Committee meetings and other important meetings.
  - 2) The Company's executives and employees, when requested by the statutory auditors to report on items related to their execution of duties, will do so in a timely manner. In addition, the Company's executives and employees, in the event they become aware of a situation that could cause grave damage to the Company, unethical behavior or a serious incident that is in violation of laws or regulations, must report to the Company's statutory auditors.
  - 3) The Company's statutory auditors receive regular reports from the Company's Internal Audit Department and others regarding the Group's compliance, status of risk management activities and internal audit results, and supervise and verify that they are all functioning effectively.
  - 4) The Company's representative directors regularly exchange opinions with the Company's statutory auditors and at the same time, work to secure an audit environment that ensures the effectiveness of audits.

5) The Company appoints appropriate personnel as statutory auditors for the major subsidiaries and regularly holds Group Board of Auditor meetings to improve the effectiveness of audits at each company and to exchange information.

(8) System to Ensure that People Who Have Made Reports Under the Provisions Listed Above Are Not Subjected to Disadvantageous Treatment

The Company, in the event that an executive or employee makes a report to the statutory auditors under the provisions listed above, will formulate rules and systems to ensure that the reporter is not subjected to disadvantageous treatment and in addition, will create a strict information management system for that reporter and the content of the report, and will ensure the full understanding of this to the subsidiaries.

(9) Matters Concerning Policy on Procedures for Prepayment or Refund of Expenses Arising in Relation to Performance of Duties as Statutory Auditors and Processing of Expenses or Obligations Arising in Relation to the Performance of Other Duties

The Company's Board of Statutory Auditors will accommodate for expenses required by statutory auditors for the execution of duties in the Company's budget. In addition, for emergency or extraordinary expenditures required by the Company's statutory auditors in the execution of duties, the statutory auditor may request a reimbursement from the Company after the fact. The representative directors or the Board of Directors will take the necessary measures in regards to these requests.

(10) Other Relevant Systems to Ensure the Proper Functioning of Audits

- 1) The Company's Board of Statutory Auditors will strive to ensure the effectiveness of audits by exchanging information and closely coordinating with the Company's Board of Directors during the process of important decision making.
- 2) The Company's Board of Statutory Auditors will regularly exchange information with Accounting Auditors to ensure more effective audits.

## **2. Basic Philosophy and Status of Efforts to Exclude Anti-Social Elements**

The Company's Group basic policy is that anti-social elements will be met with a resolute attitude and no compromises will be tolerated.

The General Administration Department as the division in charge coordinates overall responses and systematically cooperates with external expert bodies, such as the police and lawyers, to gather information about anti-social elements, 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 crime syndicates, the Company takes appropriate measures, such as having all contracts that Group companies enter into with third parties standardized to include a clause to exclude anti-social elements.

## V. Other

### 1. Adoption of Takeover Defense Measures

Adoption of takeover defense measures	None
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Supplementary Information
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### 2. Other Items Related to Corporate Governance System, etc.

#### 1. Internal system for the timely disclosure of corporate information

##### (1) Basic Policy

The Company, as part of the Sumitomo Forestry Group Code of Conduct, has stipulated that necessary information be disclosed in a timely and fair manner. In addition, with systems to manage and disclose concrete corporate information clearly regulated in the Regulations to Prevent Insider Trading, the Company works to create a structure to maintain and elevate the Company's social credibility in the stock markets.

##### (1) Disclosure System

The Company, in accordance with Regulations to Prevent Insider Trading, has appointed a person in charge of information handling (the executive officer in charge of the General Administration Department). An information management system has been put into place, with the Corporate Communications Department in charge of duties related to disclosing corporate information and the General Administration Department in charge of duties related to the management of corporate information and the appropriate and smooth enforcement of Regulations to Prevent Insider Trading. Furthermore, in compliance with Regulations to Prevent Insider Trading and internal decision-making procedures, the Company's disclosure system is as follows (refer to the afterword diagram for an organizational chart).

- 1) In the event of the emergence of information (important insider information) that applies to criteria set out in the Regulations to Prevent Insider Trading that may have an important impact on investment decisions by investors regarding the Company, Group companies, or other companies operations, the head of the division in charge according to the nature of the information must report in a timely manner to the person in charge of handling information and the General Administration Department.
- 2) In the event of the emergence of important insider information related to a Group company, each Group company president must quickly relay this information to the head of the primary department in charge, as set out in the internal regulations.
- 3) Except for financial results information prepared by the Management Planning Department, the primary departments in charge or the primary departments in charge at each of the Group companies must report all important internal information to the General

Administration Department, which will then conduct a detailed examination regarding the need for timely disclosure. Upon confirmation, with the guidance of the person in charge of handling information, the Corporate Communications Department, which assumes the Company's corporate communications function, will prepare disclosure materials (however, the Management Planning Department will prepare disclosure materials about financial results) and release them in a timely manner.

## 2. Check Function of Internal System Related to Timely Disclosure

For the timely disclosure of corporate information about the Company's Group, the Company has created a system where departments that handle important internal information closely discuss the need and method of timely disclosure with the General Administration Department, which serves as the secretariat for the Board of Directors, and with the Management Planning Department, which serves as the secretariat for the Executive Committee meetings.