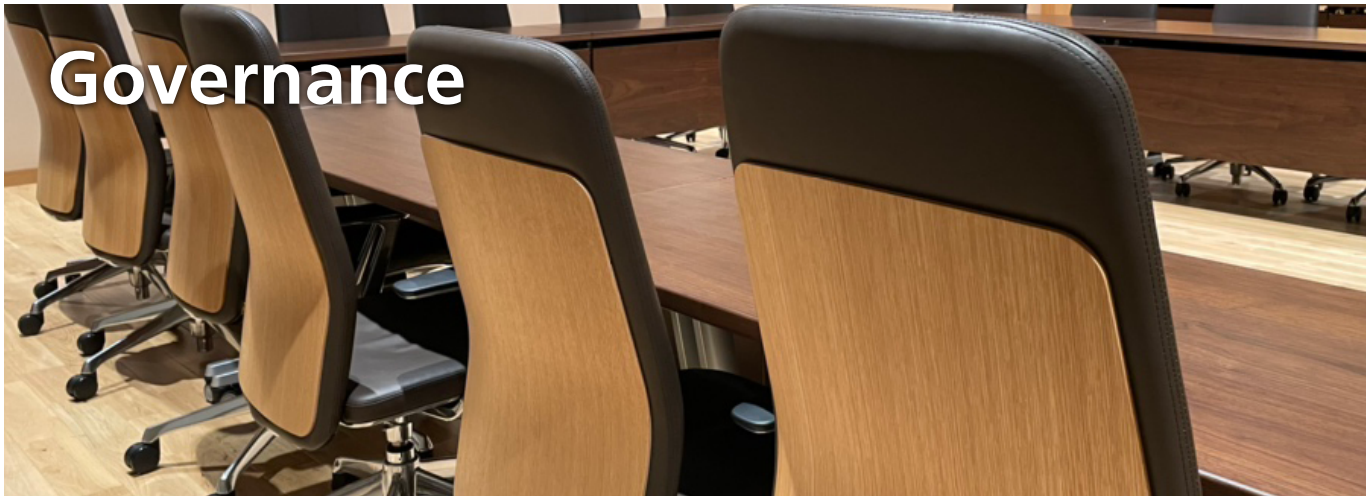


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# Governance

## Corporate Governance

### Basic Policy

The Sumitomo Forestry Group utilizes wood as a healthy and environmentally friendly natural resource to provide a diverse range of lifestyle-related services that contribute to the realization of a sustainable and prosperous society. All our efforts are based on Sumitomo's Business Spirit, which places prime importance on fairness and integrity for the good of society. 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.

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### 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 nine directors (seven male/77.8%, two female/22.2%) including three outside directors (one male, two 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 March 29, 2021, nine directors (including three outside directors), five auditors (including three outside auditors) and 20 executive officers were appointed to the Company. The Company notified Tokyo Stock Exchange, Inc. of the designation of the three outside directors and three outside statutory auditors as independent officers as required by its regulations.



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➤ [Basic Policy on Corporate Governance](#)

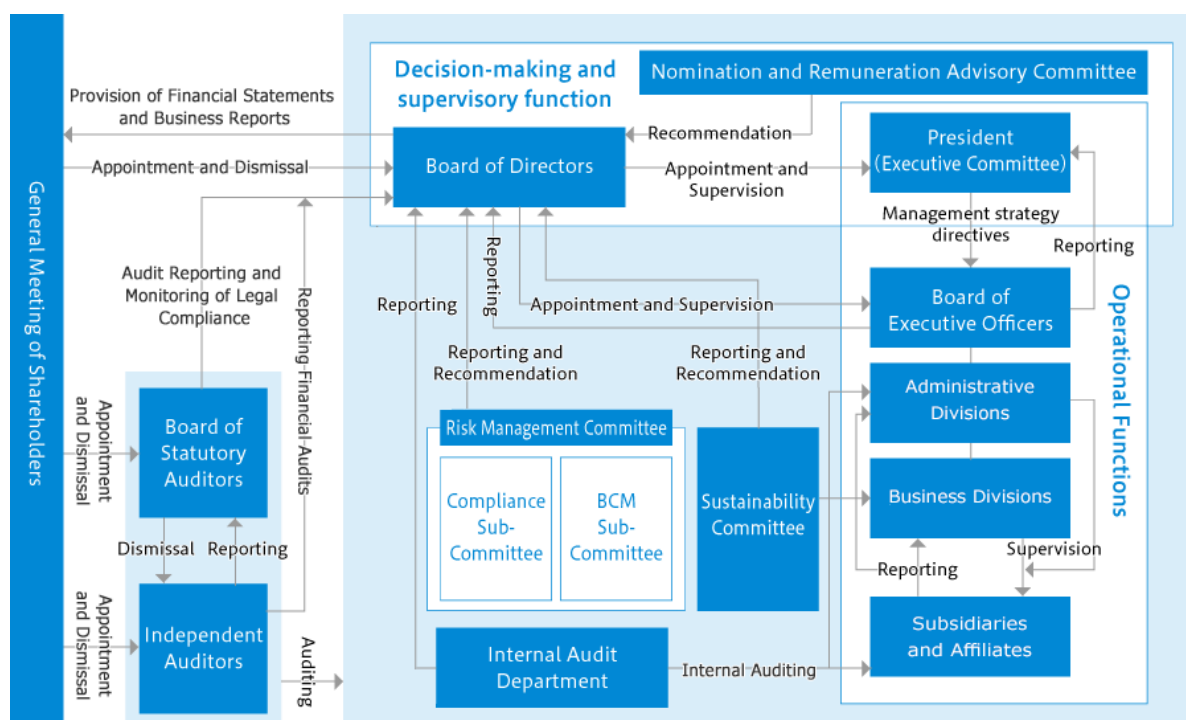


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## Corporate Governance System



## 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. In fiscal 2021, the Board of Directors meetings were held 16 times while Executive Committee meetings were held 26 times.



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## List of Directors

Position* <sup>1</sup>	Name	Responsibility and Significant Concurrent Positions* <sup>1</sup>	Board of Directors* <sup>2</sup>	
			Attended Meetings (meetings)	Attendance Rate (%)
Chairman of the Board and Representative Director	Akira Ichikawa	Konica Minolta Co., Ltd. Outside Director	16	100
President and Representative Director President and Executive Officer	Toshiro Mitsuyoshi	—	16	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 Statutory Auditor of Kumagai Gumi Co., Ltd.	16	100
Director, Senior Managing Executive Officer	Tatsumi Kawata	Administering Environment and Resources Division In charge of Corporate Planning, Finance, Corporate Communications, and Sustainability	16	100
Director Managing Executive Officer	Atsushi Kawamura	Administering Timber and Building Materials Division In charge of communication with Tsukuba Research Institute, Divisional Manager of Overseas Housing and Real Estate Division	16	100
Director, Managing Executive Officer	Ikuro Takahashi	Commissioned by General Manager of Housing and Building Business Division	-	-
Outside Director	Junko Hirakawa	Attorney at Law Outside Director of Tokyo Financial Exchange Inc.	16	100
Outside Director	Izumi Yamashita	Outside Director of AEON Bank, Ltd.	16	100



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Position <sup>*1</sup>	Name	Responsibility and Significant Concurrent Positions <sup>*1</sup>	Board of Directors <sup>*2</sup>	
			Attended Meetings (meetings)	Attendance Rate (%)
Outside Director	Mitsue Kurihara	Chairman and Representative Director of Value Management Institute, Inc. Outside Director of Chubu Electric Power Co., Inc. Outside Director of Japan Finance Corporation	13 <sup>*3</sup>	100 <sup>*3</sup>

\*1 Position, responsibility and significant concurrent positions as of March 29, 2022

\*2 Attended meetings and the attendance rate to Board of Directors meetings are in fiscal 2021

\*3 Attended meetings and attendance rate of Board of Directors meetings are after appointment as a director on March 30, 2021

### 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.



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## Officer Skill Matrix

Table below shows the expertise and experience that we especially expect from directors and statutory Auditors.

		Title	Corporate management	ESG Sustainability	Global	Real estate development Architecture	Financial accounting	Legal Affairs Risk Management Internal Audit	IT · DX	Industrial policy
Director	Akira Ichikawa	Representative Director, Chairman of the Board	•	•	•		•	•	•	•
	Toshiro Mitsuyoshi	Representative Director, President/Director, Corporate Officer	•	•	•	•				
	Tatsuru Satoh	Representative Director, Executive Vice President and Executive Officer	•	•			•	•	•	
	Tatsumi Kawata	Director, Senior Managing Executive Officer	•	•	•		•			
	Atsushi Kawamura	Director, Managing Executive Officer	•	•	•	•				
	Ikuro Takahashi	Director, Managing Executive Officer		•		•				
	Junko Hirakawa	Outside Director		•	•			•		
	Izumi Yamashita	Outside Director	•	•	•		•		•	•
	Mitsue Kurihara	Outside Director	•	•	•		•			•



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		Title	Corporate management	ESG Sustainability	Global	Real estate development Architecture	Financial accounting	Legal Affairs Risk Management Internal Audit	IT・ DX	Industrial policy
Statutory Auditors	Akihisa Fukuda	Senior Statutory Auditor	●	●	●	●	●		●	
	Noriaki Toi	Statutory Auditor		●	●			●		
	Yoshitsugu Minagawa	Outside Statutory Auditor		●						●
	Yoshimasa Tetsu	Outside Statutory Auditor		●			●			
	Makoto Matsuo	Outside Statutory Auditor		●	●			●		

### 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 the current fiscal year 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 and conducted an external evaluation for the results of the questionnaire. In addition, the Board of Directors made an evaluation based on confirmation of implementation status for the role of the Board of Directors, etc. stipulated in Sumitomo Forestry's Basic Corporate Governance Policy and exchange of opinions with directors and corporate auditors.

### 2.Assessment Results

- As a result of the evaluation described in 1., the Board of Directors of Sumitomo Forestry was judged to be functioning effectively in general.
- With respect to the projects that were recognized as issues in the last year's evaluation, the Internal Audit Division established a report line to report directly to the Board of Directors on matters related to internal audits and held meetings to exchange opinions with outside officers to further strengthen collaboration between the two parties. In addition, criteria for reappointment of outside officers were established.

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- As future issues, there was an opinion requesting that the Board of Directors regularly monitor progress of the medium-term management plan and improve efficiency of the management of the Board of Directors, such as further improving materials of the Board of Directors.

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

## Board of Statutory Auditors

The Board of Statutory Auditors meets to discuss and make decisions on important matters regarding audits. The five statutory auditors, including the three outside statutory auditors, utilize the deep insights and diverse perspectives they have acquired from their various business backgrounds to provide oversight for the directors' execution of duties. The Board of Statutory Auditors met 14 times during fiscal 2021.

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. Meetings of Statutory Auditors of Sumitomo Forestry and its subsidiary companies are held with members composed of full-time statutory auditors of Sumitomo Forestry as well as auditors of our main subsidiaries. This meeting was held 5 times in fiscal 2021.



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## Board of Statutory Auditors

Position* <sup>1</sup>	Name	Responsibility and Significant Concurrent Positions* <sup>1</sup>	Board of Directors* <sup>2</sup>		Board of Statutory Auditors* <sup>2</sup>	
			Attended Meetings (meetings)	Attendance Rate (%)	Attended Meetings (meetings)	Attendance Rate (%)
Senior Statutory Auditor	Akihisa Fukuda	—	16	100	14	100
Statutory Auditor	Noriaki Toi	—	16	100	14	100
Statutory Auditor (Outside)	Yoshitsugu Minagawa	Chief Counselor of Norinchukin Research Institute Co., Ltd. Supervisory Committee Member of The Norinchukin Bank	15	94	13	93
Statutory Auditor (Outside)	Yoshimasa Tetsu	Certified Public Accountant External Auditor, Daiwa Motor Transportation Co., Ltd.	16	100	14	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. Outside Statutory Auditor of Taisho Pharmaceutical Holdings Co., Ltd.	16	100	14	100

\*1 Position, responsibility and significant concurrent positions as of March 29, 2022

\*2 Attended meetings and the attendance rate to Board of Directors meetings and Board of Statutory Auditors meetings in fiscal 2021.



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## 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 whose purchase exceeds 2% of the consolidated net sales of the Company (operations executive if a holder is a company).
- (2) Supplier (of which the Company is a major client): person of a supplier of which the Company's purchase exceeds 2% of the consolidated net sales of the supplier (operations executive if a holder is a company).

#### 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



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## 7. Recipient of contribution

Individual 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 (operations executive in case of a company).

## 8. Family

Spouse or relatives within the second degree of kinship of the person whose independency is rejected by this list of criteria (except non-essential individuals<sup>\*</sup>).

## 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

<sup>\*</sup> A non-essential individual shall refer to the persons below based on the independence criteria prescribed by Tokyo Financial Exchange Inc.:

- Any person other than executive directors, executive officers, managers and employees of a general manager level at each company.
- Any person other than the employees, partners and associates of law, auditing or any other advisory firm.

Three 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%.



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## 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 (three 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.

## List of Nomination and Remuneration Advisory Committee Members

	Position <sup>*1</sup>	Name	Nomination and Remuneration Advisory Committee <sup>*2</sup>	
			Attended Meetings (meetings)	Attendance Rate (%)
Committee chairperson	Outside Director	Junko Hirakawa	2	100
Board Member	Outside Director	Izumi Yamashita	2	100
	Outside Director	Mitsue Kurihara	1 <sup>*3</sup>	100 <sup>*3</sup>
	Statutory Auditor (Outside)	Yoshitsugu Minagawa	2	100
	Statutory Auditor (Outside)	Yoshimasa Tetsu	2	100
	Statutory Auditor (Outside)	Makoto Matsu	2	100
	Chairman of the Board and Representative Director	Akira Ichikawa	2	100
	President and Representative Director	Toshiro Mitsuyoshi	2	100

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\*1 The position as of March 29, 2022

\*2 Attended meetings and the attendance rate to Nomination and Remuneration Advisory Committee meetings are in fiscal 2021.

\*3 Attended meetings and attendance rate of Board of Directors meetings after appointment as a director on March 30, 2021.

## Risk Management Committee

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

In fiscal 2021, Risk Management Committee was held four times, Compliance Subcommittee was held twice, BCM Subcommittee was held twice, and reports were made four times to Board of Directors respectively.

[Click here for related information](#)

[➤ 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 representative director president and executive officer 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.

In addition, plans and results regarding internal audits are reported directly to the Board of Directors, and an opinion exchange meeting with outside officers was held regarding internal audits.

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.

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[➤ Risk Management Framework](#)

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## 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 in the Group every 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). Although as a general rule, we go to the site to check and evaluate actual documents, etc., we conducted an interview by remote audit (written audit and video conference) during the time of travel restrictions because of outbreak of novel coronavirus. In addition, the company has been promoting DX on the occasion of calamity of the coronavirus, including introduction of audit software to work on CAATs (Computer Assisted Audit Techniques), a technique for extracting large amounts of digital data and using audit tools to verify the existence of fraud.

In the internal audits, the department checks on how a business 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 business 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 business site, such as by examining documents and conducting quarterly follow-up reviews, and reports on these to the President, executive officer in charge of internal audits and statutory auditors.

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## Executive Remuneration

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



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## Total Remuneration Paid to Directors and Statutory Auditors

(Fiscal 2021)

Officer classification	Total amount of remunerations (million yen)	Total amount by type of remuneration (million yen)			Number of eligible officers (persons)
		Monthly remuneration	Non-monetary remuneration (transfer-restricted stock remuneration)	Performance-linked remuneration (bonus)	
Director (excluding outside directors)	463	267	31	165	6
Auditor (excluding outside directors)	48	48	-	-	2
Outside Director	35	35	-	-	3
Outside Statutory Auditor	30	30	-	-	3

\*1 Names and amounts of officers whose remuneration is greater than or equal to 1 billion yen are disclosed in Financial Statements.

\*2 Total amount of non-monetary remuneration for directors includes the cost of 31 million yen for the allocation of transfer-restricted stock granted to six directors (excluding outside directors).

## Executive Remuneration

### 1) Details and Method of Determination of the Amount and Calculation Method of Remuneration for Officers

Sumitomo Forestry aims to prepare a new three-year medium-term management plan with the long-term vision "Mission TREEING 2030" and the 83rd term (January 1, 2022 to December 31, 2022) as the starting business year, and establish an executive remuneration system that can raise awareness of each officer toward achievement of the medium-term management plan. Sumitomo Forestry is reviewing its executive remuneration system at the Board of Directors meeting held on February 14, 2022.

[Remuneration for directors]

#### 1. Basic policies

The remuneration of directors of the Company is designed in accordance with the following policies:

- The remuneration plan should be highly linked not only to short-term performance but also to medium- to long-term performance and improvement of corporate value;
- The plan should be linked to the value to be newly created and provided in the course of promoting the ESG integrated management;
- The plan should be designed to be linked to the shareholder value of the Company;
- The remuneration level should be such that the Company can secure and maintain the human resources necessary to achieve its long-term vision; and



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- v. The plan should ensure transparency and objectivity in the remuneration determination process.

## 2. Remuneration level

From the perspective of ensuring objectivity and appropriateness of the executive remuneration, the level of remuneration for directors of the Company will be set with reference to the levels of other companies as surveyed by outside professional organizations, with the aim of achieving the mid-to-high level of remuneration in companies of similar size. The Company will revise the remuneration levels as necessary in response to changes in the external environment.

## 3. Composition of remuneration

The remuneration for directors of the Company comprises (i) fixed remuneration commensurate with the director's responsibilities and roles, (ii) annual performance-based Bonus as a short-term incentive, and (iii) performance-based restricted stock remuneration as a medium- to long-term incentive. Thus, the remuneration plan is designed to encourage management efforts from a short-term, and medium- to long-term perspective and to appropriately reward the results of such efforts. The remuneration for outside directors, who are responsible for management supervision from an independent standpoint and not in a position to execute business, is composed solely of fixed remuneration.

## 4. Policy for determining the amount of fixed remuneration

The amount of fixed remuneration is determined based on the following policy:

- i. The Company will determine the amount of fixed remuneration for each position of directors in accordance with their responsibilities and roles. The fixed remuneration will be on a monthly basis, and a fixed monthly amount will be paid in cash on a fixed date of each month.
- ii. The amount of remuneration for outside directors, consisting only of monthly remuneration as fixed remuneration, will be determined in accordance with their responsibilities and roles.
- iii. The amount of remuneration for directors (total of fixed remuneration and annual performance-based Bonus) will be up to JPY 650,000,000 per year (of which up to JPY 60,000,000 per year is for outside directors) based on the resolution of the general meeting of shareholders.

## 5. Policy for determining the method of calculation of the amount of the annual performance-based Bonus

The method of calculation is determined based on the following policy:

- i. The Company will pay an annual performance-based Bonus to each Subject Director as a short-term incentive.
- ii. The amount of annual performance-based Bonus will be determined through comprehensive judgment based on the amount obtained by multiplying the standard Bonus amount determined for each position by the payment rate which varies in proportion to the base profit for each business year (the amount obtained by deducting actuarial differences regarding employees' retirement benefit obligation, and net income attributable to non-controlling interests from consolidated recurring income for the fiscal year covered)
- iii. The Company adopts the method of amortizing actuarial differences regarding employees' retirement benefit obligation in a lump sum in a single business year. Accordingly, any significant fluctuation in such actuarial differences due to stock price fluctuations, interest rate conditions, or otherwise at the end of the business year will have a significant impact on the business performance. Therefore, for the calculation of the base profit, the Company uses the consolidated recurring income after deducting actuarial differences regarding employees' retirement benefit obligation.



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- iv. The payment of annual performance-based Bonus will be determined by the board of directors within the limit of the remuneration amount (total amount of fixed remuneration and annual performance-based Bonus) for directors approved at the general meeting of shareholders (JPY 650,000,000 per year (of which up to JPY 60,000,000 per year is for outside directors)), based on the view of the Nomination and Remuneration Advisory Committee chaired by an outside director, in which outside officers constitute a majority of its members.

#### 6. Policy for determining the method of calculation of the amount of performance-based restricted stock remuneration

The method of calculation is determined based on the following policy:

- i. The Company will vest performance-based restricted stock remuneration in each Subject Directors as a medium- to long-term incentive.
- ii. The performance-based restricted stock remuneration is structured to reflect the Company's performance during each period (three years) of the medium-term management plan in the level of vesting. The standard stock remuneration amount prescribed for each position consists of (i) a portion linked to the growth rate of the Company's market capitalization relative to TOPIX (two-thirds of the Standard Stock Remuneration Amount by Position), and (ii) a portion linked to the achievement rate of the greenhouse gas emission reduction target based on SBT (Science Based Targets) (one-third of the Standard Stock Remuneration Amount by Position), each during the subject period.
- iii. The stock remuneration amount to be vested in each Subject Director will be determined by the board of directors after the end of the subject period by calculating the cumulative amount of stock remuneration during the subject period based on the actual value of each evaluation index, taking into account the views of the Nomination and Remuneration Advisory Committee.
- iv. The amount to be vested as performance-based restricted stock remuneration will be JPY 100,000,000 or less per business year based on the resolution of the general meeting of shareholders. Similarly, the number of shares to be delivered per business year will be 100,000 shares or less.

#### 7. Remuneration composition ratio

The plan has been designed so that the ratio of fixed remuneration to variable remuneration for directors should be 60 to 40 when the base profit is JPY 100,000,000,000. Specifically, fixed remuneration accounts for 60%, annual performance-based Bonus (variable) accounts for 25%, and performance-based restricted stock remuneration (variable) accounts for 15% of the total remuneration, respectively. The remuneration for outside directors consists solely of fixed remuneration.

#### 8. Remuneration governance

The matters regarding executive remuneration, such as the amount of individual remuneration for directors, will be determined at a board of directors meeting taking into account the views of the Nomination and Remuneration Advisory Committee chaired by an outside director, in which outside officers (three outside directors, and three outside statutory auditors) constitute a majority of its eight members.

#### 9. Forfeiture of remuneration

In the event that the board of directors confirms any illegal or wrongful action or other misconduct by a Subject Director, the Company may demand restriction of the vesting of remuneration in such Subject Director, or return of the remuneration paid to such Subject Director.



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## 10. Method of calculating the performance-based remuneration

### (1) Annual performance-based Bonus (short-term incentive)

The amount of annual performance-based Bonus payable as short-term incentive remuneration will be determined through comprehensive judgment based on the amount obtained by multiplying the standard Bonus amount to be determined by position by the payment rate which is variable in proportion to the base profit for each business year (the amount obtained by deducting actuarial differences regarding employees' retirement benefit obligation, and net income attributable to non-controlling interests from consolidated recurring income for the fiscal year covered). The formula for calculating the amount payable is as follows:

< Calculation Formula >

Bonus amount = standard Bonus amount by position × payment rate (\*)

\* The payment rate range will be from 0% (lower limit) to 180% (upper limit).

### (2) Performance-based restricted stock remuneration (medium- to long-term incentive remuneration)

Under the plan for performance-based restricted stock remuneration as a medium- to long-term incentive remuneration, in order to promote management that emphasizes medium- to long-term enhancement of shareholder value, restricted shares in a number corresponding to the achievement status of the medium-term management plan are granted to the Subject Directors after the end of the final business year of the three-year medium-term management plan period as an incentive for improving the Company's corporate value during the medium-term management plan period. The initial period covered by this plan will be three years from January 1, 2022 to December 31, 2024 (the "Initial Coverage Period").

The amount of performance-based restricted stock remuneration to be vested is calculated using two indicators. The calculation formulas are as follows:

#### i. Remuneration linked to the market capitalization growth rate

Remuneration linked to the market capitalization growth rate is designed to compare the Company's market capitalization growth rate with the TOPIX appreciation rate to objectively measure the Company's relative valuation in the stock market and reflect it in remuneration.

< Calculation Formula >

Remuneration linked to the market capitalization growth rate = amount equivalent to two-thirds of the Standard Stock Remuneration Amount by Position × vesting rate (the Company's market capitalization growth rate during the medium-term management plan period / TOPIX appreciation rate during the same period) (\*)

\* The vesting rate range will be from 0% (lower limit) to 120% (upper limit).

#### ii. Remuneration linked to the sustainability index achievement rate

Since the maximum vesting rate is set at 100%, if the Company fails to achieve the emission reduction target (\*1) that it has set based on the SBT (Science Based Targets \*2), the amount of remuneration vested in proportion to the target achievement rate will be reduced accordingly from the Standard Stock Remuneration Amount by Position, thereby providing a strong incentive to achieve the target.

< Calculation Formula >

Remuneration linked to the sustainability index achievement rate = amount equivalent to one-third of the Standard Stock Remuneration Amount by Position × vesting rate (achievement rate of the SBT-based emission reduction target under the medium-term management plan) (\*3)

\*1 The emission reduction target for the Initial Coverage Period has been set at -21.7% compared to the Company's figures in FY 2017.

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\*2 "SBT" refers to the emission reduction targets set by companies and to be achieved in five to fifteen years in consistency with the level required by the Paris Agreement that was adopted at the 21st Session of the Conference of the Parties to the United Nations Framework Convention on Climate Change (COP21) and took effect in 2016 (which sets a goal of limiting global temperature increase to well below 2°C above pre-industrial levels and pursuing efforts to limit the increase to 1.5°C).

\*3 The vesting rate range will be from 0% (lower limit) to 100% (upper limit).

#### [Remuneration for Statutory Auditor]

Compensation for Statutory Auditors consists only of monthly compensation as basic compensation. In addition, we use results of a survey conducted by a third party for directorship remuneration at domestic corporations in order to set an appropriate remuneration level from the perspective of ensuring objectivity and appropriateness of executive remuneration.

#### 2) Date and contents of resolutions on remuneration for directors, etc. at the general meeting of shareholders

- Total limit of fixed remuneration for directors and annual performance-related bonuses has been resolved at the 82nd Ordinary General Meeting of Shareholders held on March 29, 2022, as no more than 650 million yen per year (of which, outside directors is no more than 60 million yen per year).
- At the 82nd Ordinary General Meeting of Shareholders held on March 29, 2022, it was resolved that maximum amount of performance-linked stock remuneration with transfer restrictions for directors (excluding outside directors) is 100 million yen per fiscal year.
- Amount of remuneration for statutory auditors was approved as no more than 8 million yen per month at the 74th General Meeting of Shareholders held on June 20, 2014.



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# Governance

## 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.

In addition, the Risk Management Committee comprised of executive officers as members is held once every three months in accordance with the Regulation to identify and analyze management risks as well as share and discuss plans to respond to those risks that have been formulated. A Compliance Subcommittee and a Business Continuity Management (BCM) Subcommittee have also been established under the command of the Risk Management Committee to carry out specific activities for increasing effectiveness of responses to compliance and business interruption risks regarded as cross-sectional risks affecting the Group. The Board of Directors receives reports on these activities while management has put in place a system to reflect this in business execution, such as the implementation of management reviews. In fiscal 2021, Risk Management Committee was held four times, Compliance Subcommittee was held twice, BCM Subcommittee was held twice, and reports to Board of Directors were made four times respectively.

We keep developing specific activities to improve the effectiveness in our response to environmental, social, and governance risks and emerging risks described in Sumitomo Forestry Group Code of Conduct. With respect to climate change, for example, international trends is considered together with the business condition of 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 2019, each business department joined together in conducting TCFD-based scenario analyses.

The Sustainability Committee discusses items determined through this process to be priority risks in the medium to long term, reports to the Board of Directors about its activities in the same way as the Risk Management Committee, and reflects this into business execution.

[Click here for related information](#)

> Corporate Governance and  
Internal Control

> Business Continuity Management  
System

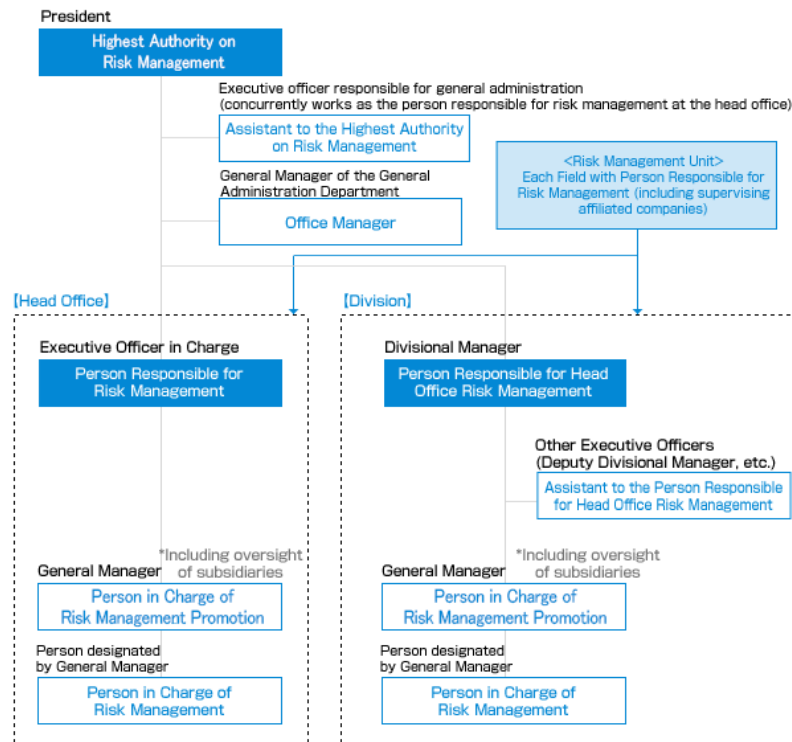
> Sustainability Committee

> Responding to TCFD



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## 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.



## Risks associated with quality assurance

Sumitomo Forestry Home Tech (Home Tech), which is undertaking a reform project, announced its Non-Conformance to Building Standards Act (This Case) in the extension work of detached houses on September 18, 2019. Home Tech 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, and received "Report" ("This Report") from the Special Investigation Committee on August 11, 2020.

Based on the contents, Board of Directors of Home Tech held on the 12th of the same month confirmed the cause of This Case and resolved the countermeasures to prevent its recurrence, and are proceeding with the response.

### 1. Outline of the results and progress 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 the investigation, we confirmed that 215 of the 342 cases for which the case inspection was completed as of March 31, 2022 had Non-conformance with the Act, and 70 of them had been repaired. These Legal Non-Conformances were all caused by the fact that the design work that should be adapted to the Building Standards Act had not been properly implemented, and the work necessary to conform to the Act had not been incorporated into the design. Home Tech will endeavor to promptly carry out the necessary repair works 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;

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(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.

[Click here for related 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. Fiscal 2020 results of departments and affiliated companies registered by the Sumitomo Forestry Group have been reported to each registration agency certified by the Japanese government. 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.

[Click here for related information](#)

[Smooth Response to the Clean  
Wood Act](#)

[Supply Chain Management](#)



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### 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. We have also been engaged in responsible timber procurement activities since 2018, formulating the Timber Procurement Management Regulations and Timber Procurement Due Diligence Manual among other measures. Sumitomo Forestry has drafted and is executing an action plan to accomplish by the end of fiscal 2021 founded in the fiscal 2019 actions for strengthening due diligence through the Timber Procurement Committee and diffusing the use of sustainable forests and timber to promote the procurement of timber from more sustainable forests.

[Click here for related information](#)

➤ [Distribution Business Initiatives](#)

## Risks Associated with Carbon Accounting on Biomass Fuel

Biomass power generation using wood chips as fuel has long been considered as "carbon neutral" and as clean energy. While burning wood fuel generates methane and 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. Emission of N<sub>2</sub>O and CH<sub>4</sub> by bioenergy raw materials must also be included in the company inventory and targeted range.

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 five wood biomass power generation plants in Japan and is currently planning to add another in 2023, which would generate total of 251.6MW.

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.



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

### Risk Countermeasures

Sumitomo Forestry continues to strive to reduce carbon emissions based on its Mid-term Sustainable Targets for each business units. Also, Sumitomo Forestry is becoming more active in lobbying through the Forest Solution Group of the WBCSD (World Business Council for Sustainable Development) and CDP Japan Club, where Sumitomo Forestry serves as member.

## Risk Associated to IPCC 1.5 Degree-C Special Report

Based on IPCC 1.5 Degree-C Special Report published in October 2018, SBT initiative announced its updated criteria in April 2019; new scope 1+2 targets shift from 2 degree-C to well below 2 degree-C or 1.5 degree-C. The companies will need to have their targets reviewed every 5 years to make sure these are in line with the latest climate science. By the end of 2025 at the latest, based on the current criteria, updated targets will need to be aiming at well below 2 degree-C.

### Impact on the Sumitomo Forestry Group

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 fiscal 2030 compared to fiscal 2017 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.



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## 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. In fiscal year 2021, 15 new businesses and projects were discussed.

Environmental Aspects	<ol style="list-style-type: none"> <li>1. Greenhouse Gases</li> <li>2. Biodiversity Conservation (Including Verification of Protected Regions)</li> <li>3. Waste</li> <li>4. Water Resources</li> <li>5. Soil Contamination</li> <li>6. Noise</li> <li>7. Other</li> </ol>
Social Aspects	<ol style="list-style-type: none"> <li>1. Relationships with Companies We Do Business With</li> <li>2. Anti-Corruption in All Its Forms, Including Extortion and Bribery.</li> <li>3. Human Rights Considerations for Workers and Other Stakeholders</li> <li>4. Promotion of Employee Diversity</li> <li>5. Prohibition of Forced Labor and Child Labor</li> <li>6. Appropriate Working Hours and Wages</li> <li>7. Occupational Health and Safety</li> <li>8. Impact on Local Communities (Including Concern for Local Residents and Administrations, Industry Organizations, NPOs, Municipal Citizens' Groups and Indigenous People)</li> </ol>
Legal and Regulatory Compliance	-
Overall	Recognition of Indications from External Organization About Business Models, Products, Services and the Related Business Entities

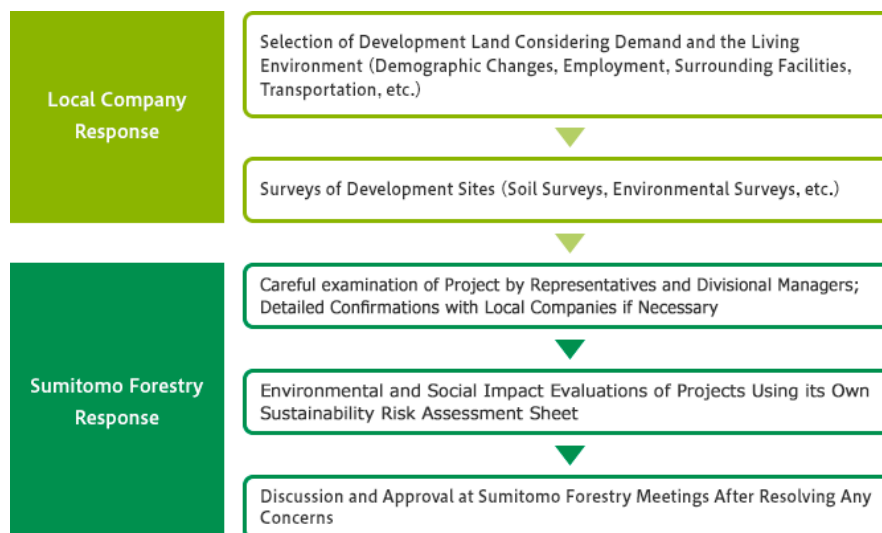


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## Understanding and Assessing Housing and Real Estate Development Risks

Properly understanding the geological and geographical risks unique to each property is vital in the development of housing and real estate. The Sumitomo Forestry Group has put in place the necessary systems to verify whether there are any issues through careful surveys at the assessment stage of development in addition to other multistage checks done before determining how to implement a project.

In overseas development, for example, we first select the land to develop and then outsource soil and environmental surveys to external research firms to fully understand the risks from an objective standpoint. We not only ask local affiliated companies to give their input on risks but the Sumitomo Forestry head office also conducts property inspections and environmental and social impact studies using its own Sustainability risk assessment sheet for projects larger than a certain scale. Management also provides feedback through meetings at the Sumitomo Forestry head office to analyze risks from diverse multistage perspectives. We only engage in projects determined to be acceptable through this process.



Construction also comes with the risk of occupational accidents during the construction phase. Sumitomo Forestry complies with occupational health and safety laws and works to prevent occupational accidents at local affiliated companies and also puts in place systems to immediately report any accident that occurs to the headquarters so it can quickly understand what happened as well as plan and execute measures to prevent recurrence.

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## Risk Education

We not only provide risk management and compliance training when executives and employees join the company but also conduct e-learning for all Group executives and employees every year to enhance the risk sensitivity of Sumitomo Forestry Group executives and solidify it in our corporate culture.

In addition, we are periodically conducting training on corporate law and corporate governance, including those of Sumitomo Forestry's independent board of directors and external statutory auditors.

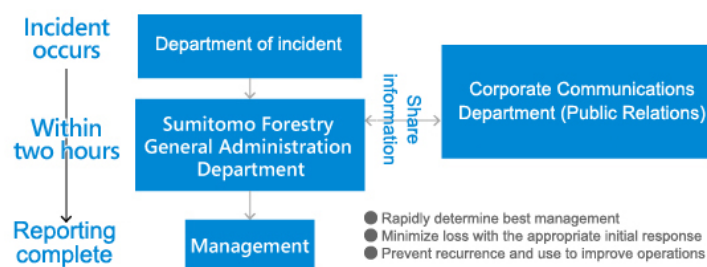
Moreover, the Compliance Subcommittee introduces and shares examples of common risks across the divisions which have manifested in the past and that should be noted the people in charge of risk management at Sumitomo forestry and each Group company.

## 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





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# Governance

## 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.

A meeting was held by the committee twice in fiscal 2021 to continuously improve the compliance system through the following inspections and awareness activities. Through these efforts, compliance officers of the entire group are able to coordinate their viewpoints from the bottom up and share a sense of crisis.

- Combined inspection of compliance with the Construction Business Act, Act on Architects and Building Engineers, and the Real Estate Brokerage Act
- Combined inspection of safe operation management system
- Combined inspection of compliance with the Subcontracting Act
- Combined inspection of responses to administrative procedures and legal requirements specific to Tsukuba Research Institute and Group companies
- Explanation and sharing of information on the Unfair Competition Prevention Act and the Antimonopoly Act
- Explanation and sharing of information on the laws to be revised  
(such as the Whistleblower Protection Act, the Act on the Protection of Personal Information, and the Road Traffic Act)

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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 wood procurement is performed legally and in a sustainable manner with consideration of legal compliance, human rights, labor practices, biodiversity conservation, and local communities. The Wood Procurement Committee convened four times in fiscal 2021 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 2021, training was administered to a total of 258 new graduate recruits, and to 82 mid-career recruits (Sumitomo Forestry). Compliance training was also provided to groups of employees at specific levels, including "Training for New General Managers."

In addition, we have designated e-learning courses such as "Risk Management and Compliance," "Information Security," and "Work and Human Rights," which include topics related to harassment, as mandatory courses. All employees of the Group, including temporary employees and part-time employees, are required to take these courses every year through our intranet. Employees must pass a test to measure the effectiveness of the course.

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## Compliance Hotline

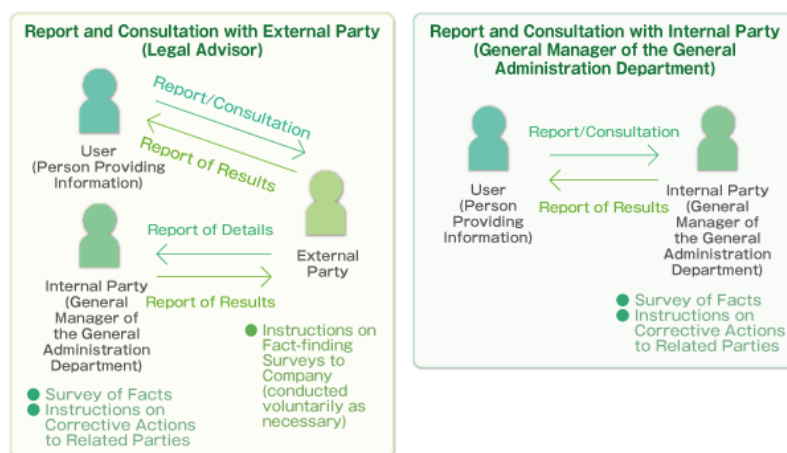
The Sumitomo Forestry Group is committed to creating a workplace environment equipped with a self-corrective function for catching any misconduct concealed in day-to-day operations at an early stage. To this end, the Group established the Compliance Hotline (advice desks) in 2002 in order to prevent 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. Sumitomo Forestry clarified the protection of rights for persons seeking advice or making reports in relevant regulations and in the user manual while publicizing this information on its intranet. We also are striving to create an environment where everyone can easily use this hotline through measures such as the distribution of cards including the contact information—internal and external—for the compliance hotline to anyone providing ongoing labor to Sumitomo Forestry from every employee at Group companies to employees at partner building contractors.

We received 11 consultations, including cases of suspected misconduct and harassment in fiscal 2021. When a report is received, an investigation will be carefully conducted. If a compliance violation, etc. is confirmed, necessary corrective measures will be taken. In addition, content of corrective actions (including cases of disciplinary actions) and content of reports are used as model cases and used in training, etc. as necessary to prevent recurrence.

In October 2019, we put in place a whistleblowing mechanism shared with some overseas 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 reporting system to receive reports in English, Chinese, Indonesian, Vietnamese, and Thai.

## Compliance Hotline Framework



[Click here for related information](#)

➤ [Grievance Desk](#)

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## Compliance Auditing

The Sumitomo Forestry Group audits matters related to compliance at each business site through internal audits as well as guides and provides follow-up support for corrective actions and improvements for any problems that are found.

[Click here for related information](#)

➤ Internal Audits

## 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. Basic principle of these regulations is to pay attention to facilitation payments (small payments to facilitate ordinary administrative services) and to provide conditions and prior approval for donations such as political contributions. The regulations also stipulate that no offer, promise, implementation, or approval will be made for the provision of money, goods, or other benefits to public officials, etc. We also introduce overseas consolidated subsidiaries common tools such as a Sales Commission Checklist to help prevent bribery. On-site visits to overseas Group companies became difficult due to impact of the coronavirus disease (COVID-19) pandemic from March 2020. However, we continued to grasping corruption risk in China as well as providing remote training to Group employees.

In addition to the above, when appointing a new contractor or agency or renewing a contract, the Company appropriately confirms that there is no risk that contractor will commit acts of bribery. At the same time, when engaging in joint ventures with other companies, the Company appropriately conducts due diligence, including status of corruption.

In fiscal 2021, no violation of corruption and relevant laws was identified.

## 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 2021.

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.



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## 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 as a general rule.

There were no breaches or issues related to insider trading in fiscal 2021.

## 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 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.

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## Prevention of Traffic Accidents and Violations

Given that the Sumitomo Forestry Group has a fleet of about 5,000 vehicles used for work 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 shares the results of analyses on monthly traffic accidents with the safe driving administrators at the head office and each business division, which helps in formulating measures to prevent accidents and in educational activities.

Furthermore, we conduct driving aptitude assessments to help new junior employees who are at a greater risk of accident due to insufficient driving skills and experience understand their personality and driving behavior and provide training to raise awareness about safe driving, such as hands-on vehicle training from daily inspections to basic driving and slalom driving.

\* A certificate issued by the Japan Safe Driving Center showing a driver's violations and administrative disciplinary actions, etc



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# Governance

## Tax

### 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.

In addition, we have set the "Establishment of a strong business structure" as one of the Nine Material Issues of the Sumitomo Forestry Group, and are striving to link business strategies including tax affairs with sustainability strategies.

### Tax Governance System

Tax affairs are one financial function of the Group led by the director in charge of financial matters. The Accounting Planning Department of Sumitomo Forestry 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.

[Click here for related information](#)

➤ [Risk Management Framework](#)

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## 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

The Sumitomo Forestry 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.



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# Governance

## Business Continuity Management

### Business Continuity Management System

Sumitomo Forestry Group has established BCM Subcommittee in order to respond to business interruption risks, such as natural disasters and new strains of influenza, which are extremely difficult to prevent through corporate efforts and may have a significant impact on functions of the head office. We disseminate and strengthen the Business Continuity Management System (BCM system) and formulate, review, and improve the Business Continuity Plan (BCP), and conduct training based on the plan. In fiscal 2021, the BCM Subcommittee encouraged each organization to promote independent and active support by meeting twice to create an opportunity to organize and understand the importance of the BCP, and to explain that the coordinated Group-wide response had a significant impact on the effectiveness of the BCP.

To respond to global spread of Coronavirus disease (COVID-19) since March 2020, the Sumitomo Forestry Group has established a task force headed by the President and promoted countermeasures. However, in light of the lifting of the state of emergency declaration in all prefectures on March 31, 2021, the task force was dissolved on the same day, and measures against the COVID-19 are continuing in normal operations. To be specific, we have set up a "one-stop" service where employees can consult about special prevention of infection outbreak measures and questions about attendance management. In addition, we have installed anti-splash acrylic partition and stocked up on hygiene products such as non-woven fabric masks and disinfection of fingers solutions. In addition, the COVID-19 occupational vaccination was held in the summer of 2021 at three sites in Tokyo, Nagoya, and Osaka, which expanded to include executives and employees, their families, and employees of related construction sites.

### Resilience certification

On July 31, 2021, Sumitomo Forestry acquired "National Resilience Organization Certification" (hereafter referred to as Resilience Certification), which is given to business operators who are actively engaged in business continuity and social contribution.



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Sumitomo Forestry has set acquisition of "Resilience Certification" as one of the indicators to evaluate the achievement of the qualitative goal of "strengthening risk management and compliance systems" set forth in the "Medium-Term Management Plan Sustainability Edition." Since fiscal 2019, we have been reviewing and improving our BCM system. In addition, since the Great East Japan Earthquake, through the Japan Wooden Housing Industry Association, to which we belong, we have concluded agreements on disaster prevention and reduction with local governments around the country, and are working to revitalize local communities and solve social issues in addition to building safe and secure communities. As a result of these efforts, we have been awarded certification. We will continue to accelerate our efforts to increase resilience in order to minimize the impact of business disruptions and recoveries from major disasters and pandemics.



## Ensuring the safety of employees

Sumitomo Forestry Group places the highest priority on ensuring safety of employees and their families as a principle of response in the event of an emergency.

Therefore, we have established an emergency communication system for each organization. In addition, we have introduced a safety confirmation system that automatically transmits information in conjunction with a disaster to each domestic Group company so that more safety information can be obtained before communication becomes concentrated or disconnected after a disaster. In addition to establishing a safety confirmation system through multiple routes, the Safety Confirmation Manual summarizes the matters that each employee should be equipped with on a daily basis in an easy-to-understand manner and is regularly disseminated. Every year, Group companies in Japan conduct safety confirmation drills. A total of 15,332 employees participated in 2021.

To ensure safety of our overseas employees, we introduced a safety confirmation system for overseas employees in 2019. This system enables us to quickly confirm their safety in the event of an emergency such as an earthquake, terrorist attack, or volcanic eruption in the host country.

In addition, we are striving to prevent secondary disasters due to insufficient information by operating a crisis management portal site that can be accessed from external networks as a tool for disseminating information from the company after a disaster has occurred, and by building a system in which employees and their families can obtain various information even in the event of an emergency.

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## Safety Confirmation Manual Summary

## Initiatives for continuity of critical operations

Sumitomo Forestry Group established the BCM Regulations in October 2019 and has formulated a Business Continuity Plan (BCP) based on the assumption of a crisis event that may cause suspension of the head office functions and a crisis event that may cause damage to the residential safety of a large number of homes, etc. Specific important operations, such as employee safety confirmation and payment, are specified in this BCP. In addition to building a system that enables the continuation of important operations at the two bases in Tokyo and Osaka, and working to minimize the impact, such as preparing IT equipment for emergencies, we also take measures such as remote backup of various systems and data necessary for the execution of operations in an emergency.

At each disaster site, even in a situation where the chain of command with the head office is disconnected, it is necessary for the responsible person to make flexible decisions and respond quickly to the initial response. Therefore, "Simulated Initial Response Training" is implemented to enhance response-ability. This training has been implemented since 2011. It was not implemented due to measures against COVID-19 in 2020. However, the training format was changed to an online format, and training was implemented for a total of 81 operational managers of different sites in 2021.

In addition, in preparation for people unable to return home due to the occurrence of a massive earthquake, who can stay at offices or walk home for long distances, we have established standard disaster prevention stockpiles that should be deployed at a minimum in each workplace and are deployed at all Group sites. In particular, in major urban areas (Tokyo metropolitan area, Osaka city, and Nagoya city) where a large number of people are expected to be unable to return home, we store emergency supplies in anticipation of three days of work stays.

When selecting a new office, the head office disaster prevention manager is involved not only in cost and convenience but also from the perspective of disaster prevention and mitigation. At the same time, office disaster prevention and mitigation measures are taken, including measures to prevent office equipment from falling over and to prevent the movement of multi-function machines with casters.

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## 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. In addition, Sumitomo Forestry works to build a purchasing system which has at least two companies that can supply the same materials as a general rule to ensure readiness for these types of unforeseen situations (including at least two production sites for the same materials).

We plan to take measures to prevent delays in procurement materials caused by the COVID-19 through discussions with suppliers. 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, such as setting up production sites from single to multiple countries.

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.



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# Governance

## Information Security/DX

### 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. Moreover, we develop guideline of the same level for overseas group companies. In fiscal 2022, based on the new security guidelines formulated in fiscal 2021, we plan to implement countermeasures in an effort to further strengthen security level of overseas group companies.

All employees of the Group, including temporary employees and part-time employees, are required to take education on information security every year through the intranet. Employees must pass a test to measure the effectiveness of the course.

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.

We responded to the dramatic increase in security risks brought on by the promotion of telework system during the coronavirus disease (COVID-19) pandemic. Sumitomo Forestry enhanced a DaaS<sup>\*1</sup> environment in addition to building a VPN<sup>\*2</sup> environment employing strong security measure, which were expanded to all of its Group companies.

Sumitomo Forestry had no information leaks, cyberattacks or other such issues in fiscal 2021.

<sup>\*1</sup> Desktop-as-a-Service (DaaS) is a virtual desktop environment provided by companies for users to connect to and use remotely.

<sup>\*2</sup> A Virtual Private Network (VPN) is technology to expand a private network by configuring a virtual tunnel between users who connect over the Internet, etc.

### 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



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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.

[Click here for related information](#)

➤ **Personal Information Protection  
Policy**

## Systems for Managing Information Security

The general manager of the IT Solutions Department, 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 IT Strategy Committee comprised of directors and divisional managers who meet regularly on the progress of information security measures receives reports and gives instructions on measures. Social trends in information security and status of implementation of Sumitomo Forestry Group's measures are periodically reported at the IT Strategy Committee, in which President, the officer in charge of the Administrative Division, and the General Manager of each Business Division participate, and are instructed to take measures.

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 raises awareness and ensures thorough compliance to the guidelines as well as 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.



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Dalian Sumirin Information Technology Service (ITS) Co., Ltd., which provides housing CAD design both inside and outside the Group, system operation, back-office services, and other BPO services, has acquired ISO27001 certification for its information security management system.

## 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, Sumitomo Forestry Group will continue to make investments in information security in fiscal 2022, including endpoint security enhancement. We have been executing security diagnostics through simulated attack methods at least once a year on any system infrastructure with Internet access. In addition, a training program about targeted email attacks is implemented for all employees in Japan.

Through the Information Security Office at Sumitomo Forestry Information Systems, we are also enhancing our ability to respond to employee inquiries regarding cyberattacks and reinforcing training to raise employee awareness about security (external lectures and on-site education programs).

## Promotion of DX

Sumitomo Forestry Group is promoting Digital transformation in four quadrants: digitalization of business, digitalization of organizations and work styles, digitalization of customer relationships, and digitalization of society and economy.

### Digitization of business

We will continue to rationalize housing construction through CAD and digitalization of construction methods.

### Digitalization of organization and working methods

We are promoting automation of simple operations such as slip input using technologies such as RPA<sup>\*1</sup> and AI-OCR<sup>\*2</sup>.

### Digitalization of customer relations

We will promote digital marketing by providing appropriate information and approaches to customers through integrated management of customer information in each business of Sumitomo Forestry Group.

### Digitalization of society and economy

We will promote spread of structural calculation services provided by Home Express Structural Design Co., Ltd., which started business in 2021.

<sup>\*1</sup> Abbreviation for Robotic Process Automation. Technology to automate PC operations using software robots

<sup>\*2</sup> Abbreviation for Artificial Intelligence-Optical Character Recognition (OCR). A technology that combines conventional OCR technology with AI to find rules based on learned content and recognize characters.



# Governance

## 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 2021, from the perspective of preventing spread of new coronavirus infections, we established a prevention measure against infection for group training and conducted five intellectual property training sessions for persons in charge of R&D and sales planning and managers at the Tsukuba Research Institute, business units, and affiliated companies. These sessions were designed for thorough compliance and risk management of intellectual property to prevent infringement of the intellectual property rights of others.

We have also established an environment in which all Sumitomo Forestry Group employees can access intellectual property-related classes that place 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.



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# Governance

## Responsible Advertising/Promotional Efforts

### Basic Policy

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

### Observance of Laws, Standards and Norms

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

Sumitomo Forestry did not violate any laws or regulations related to marketing or advertising in fiscal 2021. 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.

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## Initiatives to Improve Company-Internal Literacy

In fiscal 2021, the Brand Communication Committee held study sessions on the Copyright Act, Portrait rights, Act Against Unjustifiable Premiums and Misleading Representations, and Unfair Competition Prevention, and Trademarks Act. 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



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# Governance

## Return to Shareholders and IR Activities

### Basic Policy

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.

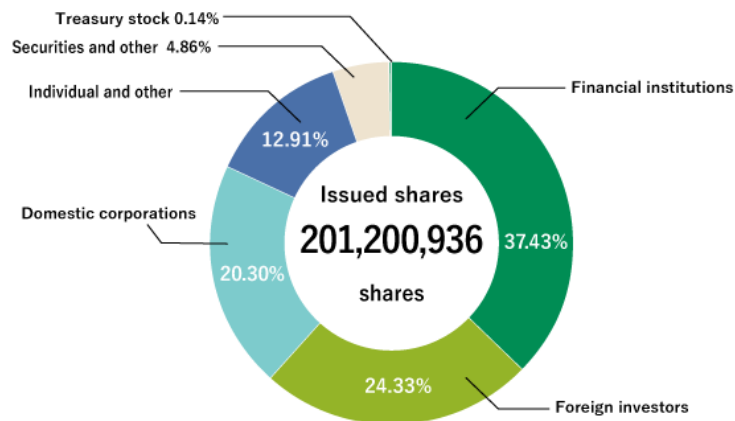
#### Dividends in the Fiscal Year Ended December 31, 2021

In the fiscal year ended December 31, 2021, a year-end dividend of 45 yen per share and an interim dividend of 35 yen per share were issued. This corresponds to a full-year dividend of 80 yen per share.



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## Share Distribution by Shareholder Type (As of December 31, 2021)



\* 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.

Furthermore, News releases share the latest information about Sumitomo Forestryour Group with stakeholders. Sumitomo Forestry published 77 news releases in fiscal 2021.

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.

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➤ [IR Materials \(Link to IR  
Information\)](#)



Integrated Report 2022



Japanese reports for shareholders on  
business activities (Year ended  
December 31, 2021)

## Two-Way Communication with Shareholders and Investors

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➤ [IR Policy and Disclaimer](#)

### General Meeting of Shareholders

Through various initiatives, we endeavor 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 and accommodating shareholders who wish to cast their votes electronically (online, etc.).

### Individual Meetings

Sumitomo Forestry holds individual meetings with security analysts and institutional investors following the announcement of its quarterly results. In fiscal 2021, we conducted a total of 215 consultations in Japan and overseas. In addition, we will also regularly hold forums such as small meetings and on-site briefings.

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### IR Informative Meetings for Individual Investors

Sumitomo Forestry holds regular IR informative meetings for individual investors. Sumitomo Forestry holds regular IR informative meetings for individual investors. During fiscal 2019, Sumitomo Forestry held meetings in Osaka and Nagoya with many of individual investors in attendance. 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. This meeting was not convened in fiscal 2020 and 2021 due to the impact of the coronavirus disease (COVID-19) and the change in the accounting period.

### IR Activities for Overseas Institutional Investors and Shareholders

Sumitomo Forestry management team held online conferences with institutional investors and shareholders in the United States, Europe, and Asia in fiscal 2021, 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 by stock brokerage firms 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, 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. This initiative contributes to activating ESG investment markets and expanding the base within and outside of Japan.

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> 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 Further integrating our businesses operations with ESG initiatives as one basic policy in the Mid-Term Management Plan.

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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. 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.

<sup>\*1</sup> 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.

<sup>\*2</sup> 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.

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

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Third-party Opinion on  
Positive

> [Impact Financing of Sumitomo  
Mitsui Trust Bank to Sumitomo  
Forestry Co., Ltd](#)

