

Preserving Traditional Building Techniques for Wooden Houses

The Sumitomo Forestry School of Professional Building Techniques is an educational institution certified by the Governor of Chiba Prefecture, and was founded by the Company in 1988 as an in-house training center. Through a one-year training curriculum, the school provides training for new employees at Sumitomo Forestry Home Engineering Co., Ltd. who aspire to work in carpentry. In terms of construction-related subjects, students study classroom-based subjects such as an introduction to building, structures, drawing, methods of construction, materials and supervision, as well as practical subjects, including tool operation and maintenance, the traditional technique of marking timber with sumi ink and a carpenter's square, as well as processing, safety work, model-based practical training, demonstration-based practical training and computing. By the end of their training, the students aim to obtain Grade 2 Carpenter Skills Certification.

New Students and Performance at the Sumitomo Forestry School of Professional Building Techniques

(fiscal year)	2015	2016	2017	2018	2019
Number of new students	64	63	67	69	57
Number of graduates	57	61	66	68	–
Students who acquired Grade 2 Carpenter Skills Certification	54	57	49	62	–

Winners of WorldSkills Competitions

Fiscal year	Participants in WorldSkills competitions		
	Regional competition (Chiba Prefecture event)	National competition (Chiba Prefecture representative)	International competition
2010	28 people (all 28 received a skills certificate)	5 people (one gold, one silver, one bronze, and two medallions for excellence)	
2011	27 people (all 27 received a skills certificate)	5 people (one silver, one medallion for excellence)	1 person (silver medal at the London competition)
2012	40 people (all 40 received a skills certificate)	5 people (one silver, two bronze, two medallions for excellence)	
2013	35 people (28 received a skills certificate)	5 people (one silver, two medallions for excellence)	1 person (medallion for excellence at the Leipzig competition)
2014	56 people (46 received a skills certificate)	4 people (three medallions for excellence)	
2015	57 people (54 received a skills certificate)	2 people (two silver)	
2016	61 people (57 received a skills certificate)	5 people (one bronze, two medallions for excellence)	
2017	65 people (49 received a skills certificate)	7 people (three bronze, three medallions for excellence)	
2018	68 people (62 received a skills certificate)	7 people (one gold, two silver, one bronze, three medallions for excellence)	



National competition of WorldSkills in fiscal 2018



Governance

Introducing the Board of Directors and Statutory Auditors

(As of June 21, 2019; number of shares held by the Company as of March 31, 2019)

Directors * Attendance at Board of Directors meetings



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

Attendance* 16/16 times

Ryu Yano

(Born Apr. 21, 1940)

Chairman of the Board and Representative Director

[Notable concurrent jobs] Outside Statutory Auditor at DAIKIN INDUSTRIES, LTD.

Reason for appointment as a director

Ryu Yano has abundant experience and achievements as a corporate manager, successively serving as President / Director and Chairman of the Board.

Company shares held

98 thousand shares



Apr. 1978 Joined the Company
Jun. 2007 Executive Officer
Jun. 2008 Director
Managing Executive Officer
Apr. 2010 Representative Director
(current position)
President / Director
(current position)
President and Executive Officer
(current position)

Attendance* 16/16 times

Akira Ichikawa

(Born Nov. 12, 1954)

President and Representative Director

Reason for appointment as a director

Akira Ichikawa has abundant experience and achievements related to the Sumitomo Forestry Group's business, serving in the Group's management since April 2010 as President / Director.

Company shares held

64 thousand shares

Outside Directors * Attendance at Board of Directors meetings



Apr. 1973 Registered as Attorney at Law admitted in Japan
Feb. 1979 Registered as Attorney at Law admitted in the State of New York, U.S.A.
Oct. 1983 Partner of Yuasa and Hara
Jul. 1997 Established Partner of Hirakawa, Sato & Kobayashi (currently City-Yuwa Partners)
Feb. 2003 Partner of City-Yuwa Partners (current position)
Jun. 2012 Outside Statutory Auditor of the Company
Jun. 2014 Outside Director of the Company (current position)

Attendance* 16/16 times

Junko Hirakawa

(Born Oct. 9, 1947)

Independent Officer

[Notable concurrent jobs] Lawyer / Outside Director of Tokyo Financial Exchange Inc. / Outside Director of Hitachi Construction Machinery Co., Ltd.

Reason for appointment as a director

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

Company shares held

- shares



Jul. 1971 Joined the Bank of Japan
Apr. 1998 Director-General of Financial Markets Department, Bank of Japan
Mar. 2002 General Manager of Financial Marketing Division, Accenture Japan Ltd.
Apr. 2003 Executive Director of Japan Post
Apr. 2005 Deputy Governor of Japan Post
Oct. 2007 President, CEO, Representative Executive Officer of JAPAN POST INSURANCE Co., Ltd.
Jun. 2012 Chairman, Representative Executive Officer of JAPAN POST INSURANCE Co., Ltd.
Jun. 2013 Resigned as Chairman, Representative Executive Officer of JAPAN POST INSURANCE Co., Ltd.
Jun. 2016 Outside Director of the Company (current position)

Attendance* 16/16 times

Izumi Yamashita

(Born Feb. 1, 1948)

Independent Officer

[Notable concurrent jobs] Outside Director of AEON Bank, Ltd.

Reason for appointment as a director

Izumi Yamashita has abundant experience in the financial industry and deep insight as a corporate manager, and has been judged to play an appropriate role in strengthening the Company's corporate governance by making recommendations to management.

Company shares held

- shares

Organizational Structure	Company with a Board of Directors and a Board of Statutory Auditors
Number of Independent Officers	5
Number of Board of Directors Meetings	16
Adoption of the Executive Officer System	Yes
Nomination and Remuneration Advisory Committee	Yes
Accounting Auditor	Ernst & Young ShinNihon LLC
Sumitomo Forestry Basic Policy on Corporate Governance	http://sfc.jp/english/corporate/corporate_governance.html

Directors * Attendance at Board of Directors meetings



Apr. 1977 Joined the Company
Jun. 2008 Executive Officer
Apr. 2010 Managing Executive Officer
Jun. 2010 Director
Apr. 2012 Divisional Manager of Lifestyle Service Division
Apr. 2014 Senior Managing Executive Officer
Apr. 2016 Representative Director
Apr. 2018 Divisional Manager of Overseas Housing and Real Estate Division (current position)

Attendance* 16/16 times

Shigeru Sasabe

(Born Feb. 28, 1954)

Representative Director

[Role] Oversees the Environment and Resources Division

Reason for appointment as a director

Shigeru Sasabe has abundant experience and achievements related to the Sumitomo Forestry Group's business and management. He was appointed as Director in 2010, and has successively held positions such as Divisional Manager of the Lifestyle Service Division. He currently serves as Executive Vice President and Executive Officer and Divisional Manager of the Overseas Housing and Real Estate Division.

Company shares held

31 thousand shares



Apr. 1978 Joined the Company
Jun. 2012 Executive Officer
Apr. 2013 Managing Executive Officer
Jun. 2013 Director
Apr. 2016 Senior Managing Executive Officer
Apr. 2018 Representative Director (current position)
Executive Vice President and Executive Officer (current position)

Attendance* 16/16 times

Tatsuhiro Satoh

(Born Dec. 14, 1955)

Representative Director

[Notable concurrent jobs] Statutory Auditor at Kumagai Gumi Co., Ltd. [Role] In charge of General Administration, Personnel, IT Solutions, Intellectual Property, Internal Audit, and the Tsukuba Research Institute

Reason for appointment as a director

Tatsuhiro Satoh has abundant experience and achievements related to the Sumitomo Forestry Group's business and management. He was appointed as Director in 2013, serving as an Executive Officer who oversees General Administration, Personnel, and other departments. He currently serves as Executive Vice President and Executive Officer.

Company shares held

26 thousand shares



Jul. 1983 Joined the Company
Jun. 2008 Executive Officer
Apr. 2010 Managing Executive Officer
Jun. 2011 Director (current position)
Apr. 2014 Senior Managing Executive Officer (current position)
Divisional Manager of Housing Division

Attendance* 16/16 times

Ken Wada

(Born Dec. 26, 1956)

Director

[Role] Oversees the Lifestyle Service Division and in charge of TOP2020 (Tokyo Olympics and Paralympics), Secretary, External Relations

Reason for appointment as a director

Ken Wada has abundant experience related to the Sumitomo Forestry Group's business. After being appointed as Director in 2011, he has successively held positions such as Divisional Manager of the Housing Division. He currently serves as Senior Managing Executive Officer.

Company shares held

37 thousand shares



Apr. 1985 Joined the Company
Jun. 2010 Executive Officer
Apr. 2011 Managing Executive Officer
Apr. 2014 Deputy Divisional Manager of Housing Division
Jun. 2014 Director (current position)
Apr. 2015 President and Representative Director of Sumitomo Forestry Home Tech Co., Ltd.
Apr. 2017 Divisional Manager of Housing Division
Apr. 2018 Senior Managing Executive Officer (current position)
Divisional Manager of Housing and Construction Division (current position)

Attendance* 16/16 times

Toshiro Mitsuyoshi

(Born May 23, 1962)

Director

Reason for appointment as a director

Toshiro Mitsuyoshi has abundant experience related to the Sumitomo Forestry Group's business. After serving as Divisional Manager of the Overseas Business Division and other roles, he was appointed as Director in 2014, successively serving as President and Director of Sumitomo Forestry Home Tech Co., Ltd., a subsidiary of the Sumitomo Forestry Group. He currently serves as Senior Managing Executive Officer and Divisional Manager of the Housing and Construction Division.

Company shares held

9 thousand shares



Apr. 1981 Joined the Company
Apr. 2009 General Manager of Corporate Planning Department
Jun. 2010 Executive Officer
Apr. 2011 General Manager of Corporate Planning Department
Apr. 2011 Managing Executive Officer (current position)
Jun. 2014 General Manager of Corporate Planning Department
Oct. 2015 Director (current position)
Divisional Manager of Timber and Building Materials Division (current position)

Attendance* 16/16 times

Akihisa Fukuda

(Born Apr. 16, 1957)

Director

Reason for appointment as a director

Akihisa Fukuda has abundant experience related to the Sumitomo Forestry Group's business. After serving successively as General Manager of Corporate Planning Department and Executive Officer in charge of Finance, IT Solutions and other areas, he was appointed as Director in 2014. He currently serves as Managing Executive Officer and Divisional Manager of the Timber and Building Materials Division.

Company shares held

13 thousand shares



Apr. 1986 Joined the Company
Apr. 2012 General Manager of Personnel Department
Apr. 2013 General Manager of Personnel Department
Apr. 2014 General Manager of Workstyle Diversification Department
Apr. 2014 General Manager of Corporate Planning Department
Jun. 2016 Executive Officer
Apr. 2017 General Manager of Corporate Planning Department
Apr. 2017 Managing Executive Officer (current position)
Jun. 2018 General Manager of Corporate Planning Department
Director (current position)

Attendance* 13/13 times*

Tatsumi Kawata

(Born Oct. 4, 1962)

Director

[Role] In charge of Corporate Planning, Finance, Corporate Communications and Sustainability

Reason for appointment as a director

Tatsumi Kawata has abundant experience related to the Sumitomo Forestry Group's business. After successively serving as the General Manager of the Personnel Department, General Manager of the Corporate Planning Department and other roles, he was appointed as Director in 2018. He currently serves as Managing Executive Officer.

Company shares held

5 thousand shares

* Attendance since his appointment on June 22, 2018

Statutory Auditors * Independent Officer

Senior Statutory Auditor (full-time)

Hitoshi Hayano

Statutory Auditor (full-time)

Outside Statutory Auditors

Noriaki Toi

Yoshitsugu Minagawa*

Yoshimasa Tetsu*

Makoto Matsuo*

Executive Officers * Doubles as Director and Executive Officer

President and Executive Officer

Akira Ichikawa*

Executive Vice President and Executive Officers

Shigeru Sasabe*

Oversees Environment and Resources Division and Divisional Manager of Overseas Housing and Real Estate Division

Tatsuhiro Satoh*

In charge of General Administration, Personnel, IT Solutions, Intellectual Property, Internal Audit, and the Tsukuba Research Institute

Senior Managing Executive Officers

Ken Wada*

Oversees the Lifestyle Service Division and in charge of TOP2020 (Tokyo Olympics and Paralympics), Secretary, External Relations

Toshiro Mitsuyoshi*

Divisional Manager of Housing and Construction Division

Managing Executive Officers

Akihisa Fukuda*

Divisional Manager of Timber and Building Materials Division

Tatsumi Kawata*

In charge of Corporate Planning, Finance, Corporate Communications and Sustainability

Akira Sekimoto

Divisional Manager of Environment and Resources Division

Kanpei Tokunaga

President and Representative Director of Sumitomo Forestry Home Tech Co., Ltd.

Atsushi Kawamura

In charge of North American Business and Deputy Divisional Manager of Overseas Housing and Real Estate Division

Takahisa Higaki

Divisional Manager of Lifestyle Service Division

Executive Officers

Kunihiko Takagiri

President and Representative Director of Sumitomo Forestry Residential Co., Ltd.

Ryoji Machino

President and Representative Director of Sumitomo Forestry Crest Co., Ltd.

Masayuki Tabuse

Deputy Divisional Manager of Timber and Building Materials Division

Akio Numazaki

Deputy Divisional Manager of Housing and Construction Division (Oversees Construction Materials Development, Construction Management, Quality Control and Customer Relationships)

Junko Saishu

In charge of Workstyle Reform and Women's Empowerment and General Manager of Personnel Department Workstyle Diversification Department

Koichi Shimizu

General Manager of IT Solutions Department

Ikuro Takahashi

Deputy Divisional Manager of Housing and Construction Division (Oversees Human Resources Development, Real Estate and Market Development, Technology and Product Development and Design Management) and General Manager of Marketing and Promotion Department

Kazutaka Horita

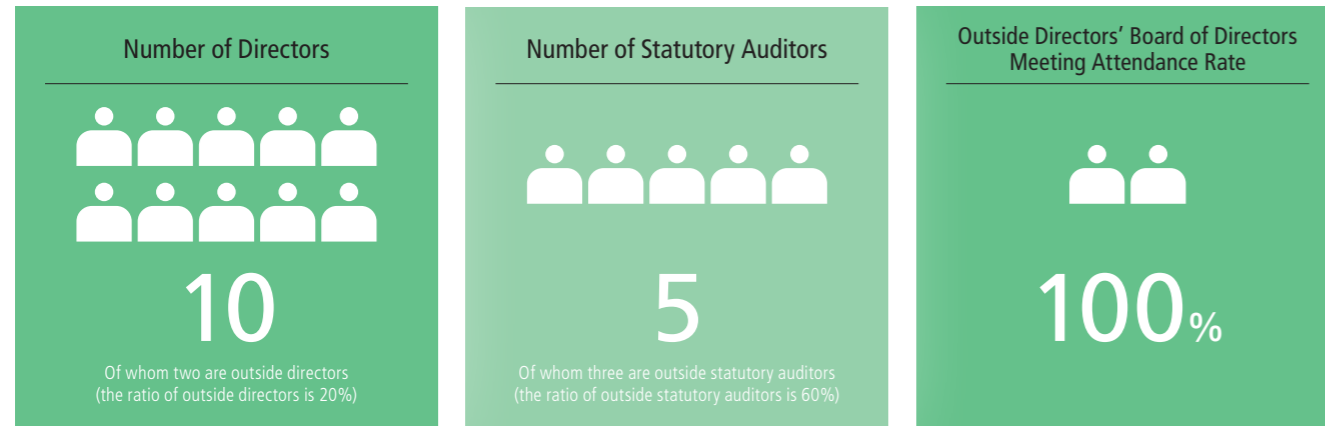
Deputy Divisional Manager of Timber and Building Materials Division and General Manager of Manufacturing Department

Yoichi Hosoya

Deputy Divisional Manager of Timber and Building Materials Division and General Manager of Industrial Materials Department and International Marketing Department

Corporate Governance

Sumitomo Forestry Co., Ltd. seeks to ensure management transparency as well as the appropriateness and legality of its business and strives to promote expeditious decision-making and business execution under the Sumitomo Forestry Group's Corporate Philosophy, "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." 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 the expectations of various stakeholders around the Group.

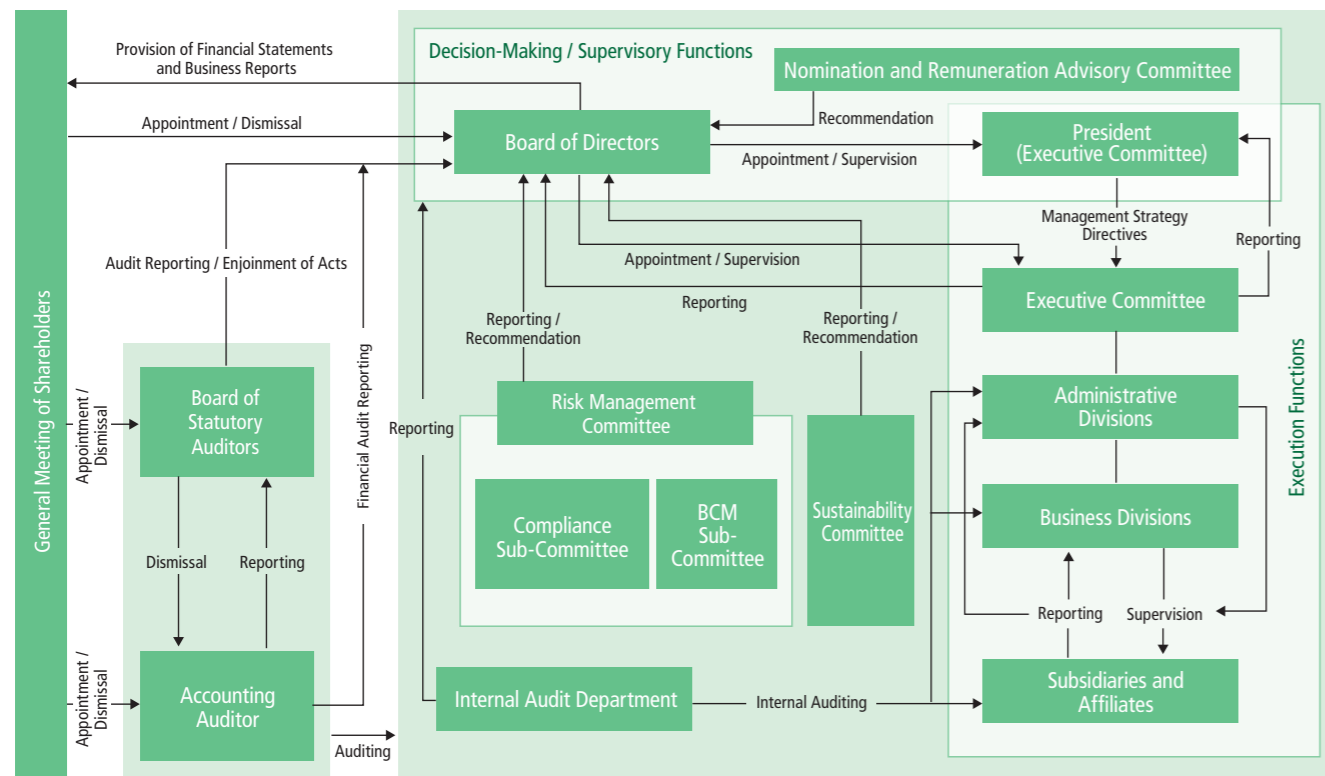


Corporate Governance System

The Company has adopted the structure of a company with a board of statutory auditors and has a Board of Directors comprising 10 directors (9 male and 1 female), including 2 Outside Directors (1 male and 1 female), and a Board of

Statutory Auditors comprising 5 statutory auditors (5 male), including 3 Outside Statutory Auditors (3 male). Under this organizational structure, we have introduced an executive officer system to separate decision-making and supervisory functions from execution functions.

Corporate Governance System



Board of Directors and Executive Committee

The Board of Directors usually meets once a month, making decisions on important issues, checking up on performance and other matters, and carrying out its supervisory functions. The Executive Committee, an advisory body for the president, holds a meeting twice a month, in principle, and is attended by those

directors who also serve as executive officers, as well as the full-time statutory auditors. The Board of Directors met 16 times and the Executive Committee met 26 times in fiscal 2018. Directors and statutory auditors strive to maintain a Board of Directors meeting attendance rate of at least 75%.

Reforms to Corporate Governance

	1996	2000	2005	2010	2018	2019
Corporate Philosophy	1996: Formulated our Corporate Philosophy	2001: Revised the Corporate Philosophy, designated Our Values	2007: Established Our Values and Ideals and revised Our Values		2017: Added a Code of Conduct 2018: Revised to current corporate policies	
Separation of business decision-making, supervision and execution		2002 onward: Introduced executive officer system				
Director					2014: Appointed a woman as a director 2014 onward: Total set at 12 or fewer people (Articles of Incorporation)	
Outside Directors					2014 onward: One person 2016 onward: Increased to two people	
Outside Statutory Auditors			Until 2009: Two people	2010 onward: Increased to three people		
Executive Remuneration/ Personnel			2005 onward: Abolished the executive retirement bonus		2015 onward: Established the Nomination and Remuneration Advisory Committee 2015-2017: Introduced stock-based compensation stock option system ⇒ 2018 onward: Changed stock option to a remuneration plan for shares with restriction on transfer	
Various Committees			2002 onward: Established the Risk Management Committee		2018 onward: Established the Sustainability Committee	

Analysis/Evaluation and Its Results of Effectiveness of the Board of Directors

The effectiveness of the Board of Directors was evaluated in fiscal 2018 through discussions at Board of Directors meetings that were based on self-analyses of each Board Member. The Board of Directors also evaluated effectiveness by confirming the status of implementation of their roles as designated by the Sumitomo Forestry Basic Policy on Corporate Governance and exchanging opinions with Outside Directors and Outside Statutory Auditors. Initiatives undertaken in the fiscal year under review included revising deliberation standards for the Board of Directors and narrowing down the number of items deliberated by the Board of Directors, as well as deepening discussions at the Board of Directors by providing opportunities for Outside Directors to be briefed by business divisions on an individual basis. Meetings were held on multiple occasions for officers, including Outside Officers, to discuss medium- and long-term business strategies, facilitating a constructive dialogue about the new Medium-Term Management Plan. With regard to strengthening defensive governance (risk management, enhancing internal controls, etc.), a point raised in the fiscal 2017 effectiveness evaluation, the Company revised its management of investments and loans, and strived to improve monthly reporting to Outside Directors about internal reports. As a result of these discussions, the officers arrived at the conclusion that the Board of Directors is functioning effectively overall. With regard to future issues, some participants in the discussions expressed the opinion that there needs to be more deliberation about rebuilding a strategy for human resources, and that defensive governance should be further strengthened in order to expand business domains and address changes in the operating environment. The Company will continue to work on improving these topics to further enhance the effectiveness of the Board of Directors.

Statutory Audit System

Each statutory auditor audits the directors' execution of duties utilizing the deep insights and diverse perspectives they have acquired from their various backgrounds. As assistants to the statutory auditors, ten auditing inspectors, who double as senior managers of major departments, are assigned particularly to enhance the function of audits from a practical perspective. Under this system, the statutory auditors attend important meetings such as Board of Directors meetings and Executive Committee meetings, and are able to obtain accurate information regarding the managerial decision-making process at appropriate times. To enhance the effectiveness of audits, the statutory auditors strive to cooperate with the accounting auditor as well as Internal Audit Department, receive reports regularly from the divisions responsible for risk management and compliance, accounting and labor, and monitor and verify that internal controls are functioning effectively. The statutory auditors are also provided with opportunities to express their opinions regarding the directors' execution of operations whenever needed. In addition, the Group Board of Statutory Auditors, attended by the Company's full-time statutory auditors and the statutory auditors of major subsidiaries, convenes regularly in an effort to strengthen the monitoring functions regarding the status of execution of Group management. Furthermore, in line with the monthly Board of Statutory Auditors meeting, opportunities are provided for the assigned executive officers to explain matters discussed at the Executive Committee meeting so that all statutory auditors and Outside Directors can understand important matters in detail. The statutory auditors and representative directors also exchange opinions regularly. This system ensures that the statutory auditors can provide adequate monitoring functions of the directors' execution of operations from the perspective of shareholders.

The Board of Statutory Auditors met 14 times and the Group Board of Statutory Auditors met 6 times in fiscal 2018.

Attendance of Outside Officers at Board Meetings (fiscal 2018)

Position and Name	Board of Directors Meetings (convened 16 times)		Board of Statutory Auditors Meetings (convened 14 times)	
	Number of meetings attended	Attendance rate	Number of meetings attended	Attendance rate
Director: Junko Hirakawa	16	100%	—	—
Director: Izumi Yamashita	16	100%	—	—
Statutory Auditor: Yoshitsugu Minagawa	16	100%	14	100%
Statutory Auditor: Yoshimasa Tetsu*	13	100%	11	100%
Statutory Auditor: Makoto Matsuo*	12	92%	10	90%

* Statutory auditors Yoshimasa Tetsu and Makoto Matsuo have attended meetings of the Board of Directors and Board of Statutory Auditors since their appointment as statutory auditors at the 78th Ordinary General Meeting of Shareholders on June 22, 2018.

Reasons for Appointment as Outside Director and Statutory Auditor

Name	Reason for appointment
Junko Hirakawa Assumed office in June 2014 (Reappointed in June 2016 and June 2018)	As an attorney, she has practical knowledge of corporate law in Japan and abroad, and has been judged to have been playing an appropriate role in strengthening the Company's corporate governance by, among other things, making recommendations to management from an expert's perspective.
Izumi Yamashita Assumed office in June 2016 (Reappointed in June 2018)	Since he has abundant experience in the financial industry and deep insight as a business manager, the Company believes that he is playing an appropriate role in strengthening the Company's corporate governance by, among other things, making recommendations to management.
Yoshitsugu Minagawa Assumed office in June 2016	Since he has abundant experience and deep insight on forestry administration as well as the agricultural, forestry and fishing sectors, the Company believes that he is utilizing these factors in auditing duties.
Yoshimasa Tetsu Assumed office in June 2018	As a certified public accountant, he has a high level of specialized knowledge and a wealth of experience in financial and accounting matters, which we have determined can be utilized in the Company's audit operations.
Makoto Matsuo Assumed office in June 2018	As a lawyer with extensive experience in corporate legal affairs both in Japan and abroad, he is expected to appropriately execute the Company's audit operations with his specialized perspective.

Nomination and Remuneration Advisory Committee

The Nomination and Remuneration Advisory Committee has been established as an advisory body to the Board of Directors to ensure transparency and fairness, and solicit opinions, in the nomination of director and statutory auditor candidates and executive officers; the removal of directors, statutory auditors and executive officers; the evaluation of the Chief Executive Officer and other executive officers; and decisions about remuneration for directors and executive officers. The committee is comprised of the Chairman of the Board, the President, and all of the Outside Officers (2 Outside Directors and 3 Outside Statutory Auditors) so that the majority of members are Outside Officers. An Outside Director serves as the Committee chair.

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

Statutory auditors monitor the independence of the accounting auditor and comprehensively verify the appropriateness of financial reports, accounting policies, accounting methods and other matters with reference to fair accounting standards, referring to opinions from the accounting auditor. When creating audit reports, statutory auditors and the accounting auditor hold meetings and exchange information as necessary

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

Appointment of Outside Directors and Outside Statutory Auditors

The Company has appointed 2 Outside Directors, Junko Hirakawa and Izumi Yamashita. The Company also has appointed 3 Outside Statutory Auditors, Yoshitsugu Minagawa, Yoshimasa Tetsu and Makoto Matsuo. Neither the two Outside Directors nor the three Outside Statutory Auditors have any capital, personal, transactional or other relationships with the Sumitomo Forestry Group that would constitute a conflict of interest.

Executive Remuneration

Sumitomo Forestry has created an officer remuneration system that provides appropriate incentives to directors and statutory auditors in order to realize the Sumitomo Forestry Group's Corporate Philosophy.

(Remuneration for Directors (Excluding Outside Directors))

Remuneration for directors, excluding Outside Directors, is comprised of three different types: monthly remuneration and restricted stocks as basic remuneration and a bonus as performance-linked remuneration.

The Company sets the amount of remuneration commensurate with the duties and responsibilities of each director's position.

Basic remuneration is paid in a fixed amount of cash according to position, with a certain percentage paid in the

Basic Remuneration : Monthly Remuneration	
At the 76th Ordinary General Meeting of Shareholders held on June 24, 2016, passage of a resolution set remuneration at up to ¥40 million per month (including an amount up to ¥5 million per month for Outside Directors).	
Basic Remuneration : Restricted Stock	
As of the 78th General Meeting of Shareholders held on June 22, 2018, the Company introduced a remuneration system for allocating shares with restrictions on their transfer, in lieu of stock-based compensation stock options. The limit of the monetary remuneration credit to allot these restricted shares was set at no more than ¥100 million annually at the 78th Ordinary General Meeting of Shareholders held on June 22, 2018. In addition, with this resolution, excluding those that have already been issued, remuneration of stock-based compensation stock options in the form of share options was abolished.	
Performance-Linked Remuneration	
A set amount is approved at the annual Ordinary General Meeting of Shareholders.	

form of restricted stocks. The amount of cash payments complies with a remuneration framework approved by resolution of the General Meeting of Shareholders. The amount of restricted stocks paid out does not exceed ¥100 million per year, per a resolution passed by the General Meeting of Shareholders.

Restricted stock remuneration is offered as a medium- and long-term incentive to increase the motivation and ambition of officers to enhance the corporate value of Sumitomo Forestry, while also sharing this value with our shareholders to increase the Company's share price.

Performance-linked remuneration is awarded in amounts approved by the General Meeting of Shareholders that are commensurate with profit attributable to owners of the parent as well as consolidated recurring income, excluding actuarial differences in retirement benefit accounting.

(Outside Director Remuneration)

Remuneration for Outside Directors consists solely of monthly remuneration as basic remuneration.

A resolution was approved by the 76th Ordinary General Meeting of Shareholders on June 24, 2016, that limits this monthly remuneration to no more than ¥5 million per month.

(Statutory Auditor Remuneration)

Statutory auditor remuneration consists solely of monthly remuneration as basic remuneration.

A resolution was approved by the 74th Ordinary General Meeting of Shareholders on June 20, 2014, that limits this monthly remuneration to no more than ¥8 million per month.

At the 65th Ordinary General Meeting of Shareholders held on June 29, 2005, the Company abolished the executive retirement bonus. We reference the results of a third-party assessment of executive remuneration at Japanese companies to ensure the objectivity and fairness of executive remuneration and set an appropriate level of remuneration.

Remuneration*1 (fiscal 2018) (Millions of yen)

	Total Remuneration	Total Remuneration by Type			Number of Eligible Officers
		Monthly Remuneration	Stock Compensation	Bonuses	
Directors (Excluding Outside Directors)	514	334	37*3	143*2	9
Statutory Auditors (Excluding Outside Statutory Auditors)	48	48	—	—	3
Outside Officers	55	55	—	—	7

*1 The figures above include one director and three statutory auditors who retired at the conclusion of the 78th Ordinary General Meeting of Shareholders held on June 22, 2018.

*2 The 79th Ordinary General Meeting of Shareholders held on June 21, 2019 approved a resolution that sets the amount of performance-linked remuneration for eight directors, excluding Outside Directors.

*3 Stock-based compensation as basic remuneration shows the total of ¥9 million in costs for allocating stock options, and ¥28 million in costs for allocating restricted stock to eight directors, excluding Outside Directors.

System to Ensure Management Transparency

(Basic Policy on Disclosure)

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

(Initiatives to Encourage Execution of Voting Rights)

The Company sends out notices three weeks prior to the General Meeting of Shareholders and avoids dates when many companies hold their meetings so that a greater number of shareholders can participate.

In addition, shareholders can use the internet, and other electronic means to exercise their voting rights. We also make use of the electronic proxy voting platform for institutional investors operated by ICJ, Inc. for proxy voting.

(Disclosure of a Wide Range of Information)

On the Company's website, we release a wide range of information related to our investor relations (IR) activities,

including securities reports (Japanese only), notices of shareholder meetings and subsequent resolutions, financial results, earnings presentation materials, and monthly order information.

(IR Activities)

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

Sustainability Committee

Sumitomo Forestry established a Sustainability Committee in fiscal 2018 in response to increased demand for medium- to long-term initiatives regarding Environment, Social, and Governance (ESG) and the disclosure of such information, and also in order to address SDGs, TCFD guidelines, and human rights issues. The Sustainability Committee is comprised of executive officers and directors, as well as general managers, with the President and Executive Officer acting as the committee chairman. At committee meetings held four times a year, committee members monitor the Company's operational status and effectiveness within the context of its Corporate Philosophy, Our Values, and the Code of Conduct, along with the formulation and promotion of initiatives that address medium- to long-term ESG issues which concern Sumitomo Forestry Group's sustainability, starting with climate change. The meetings also analyze risks and opportunities, and manage progress on the Medium-Term Sustainability Targets, which incorporates business strategies that contribute to achieving SDGs.

Minutes of the Committee's meetings are reported in their entirety to the Board of Directors with the aim of integrating business with solutions to social issues.

Internal Controls System (Risk Management and Compliance)

Establishment of Internal Controls System

The Company has adopted a basic policy on the establishment of an internal controls system at the Board of Directors' meeting as well as Our Values to embody our corporate philosophy, summarizing the Code of Conduct that all officers and employees of the Group should follow, and has established a system to secure the soundness of our business in accordance with the Companies Act.

Risk Management System

To strengthen the risk management system for the entire Group, the Company has formulated the Risk Management Basic Regulations*. Accordingly, the President and Executive Officer of Sumitomo Forestry has been appointed as the highest authority on risk management for the Sumitomo Forestry Group. The Basic Regulations also comprehensively encompass risks with society, the environment, and economic aspects. The Company has established the Risk Management Committee, which is chaired by the President and Executive Officer and comprised of all other executive officers. Each executive officer identifies and analyzes manageable risks in their respective field and formulates action plans. The committee meets regularly once every quarter to share and discuss findings and results. At the committee, directors who concurrently serve as executive officers also attend, and the results are reported to the Board of Directors and mechanisms are improved to reflect the findings in business execution. Established under the umbrella of the Risk Management Committee, the Compliance Subcommittee and the Business Continuity Plan (BCP) Subcommittee* are comprised of the general manager of the General Administration Department, who serves as committee chairman,

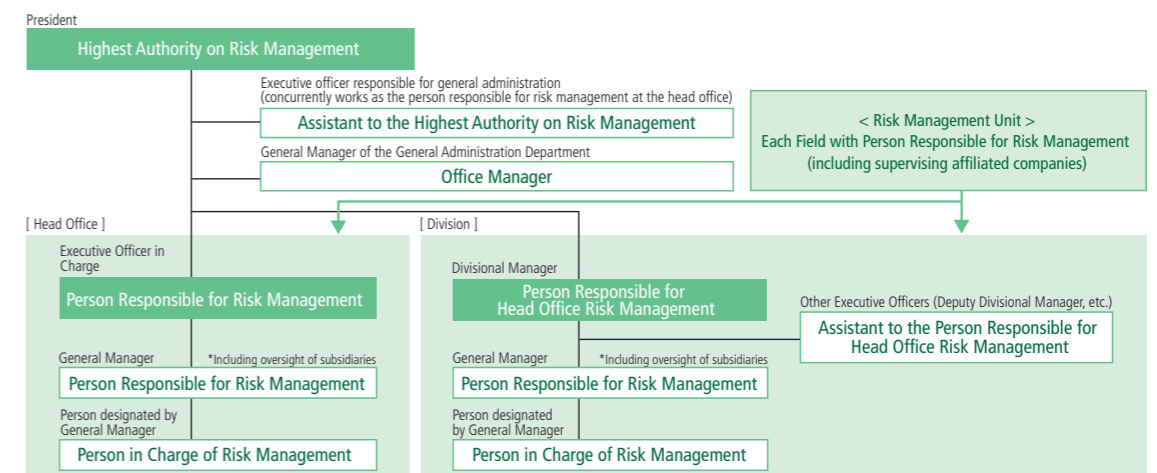
and the staff in charge of risk management, including those of the departments supervising subsidiaries. These subcommittees work to enhance the effectiveness of risk management pertaining to Group-wide risks, namely, compliance risks related to core business and business interruption. In fiscal 2018, the Risk Management Committee convened four times, the Compliance Subcommittee twice, and the BCP Subcommittee four times, and the Board of Directors received reports from them four times.

We are developing specific activities to improve our effectiveness in addressing the environmental, social, and governance risks specified in the Sumitomo Forestry Group Code of Conduct. For climate change, for example, the Company evaluates risks and opportunities that could have a significant impact on its finances at the corporate and division levels, based on the latest information and information obtained from each department. In fiscal 2018, each business division collaborated on a scenario analysis based on TCFD. The Sustainability Committee also discusses risks that have been judged as important from a longer-term perspective. The outcomes of these discussions are reported to the Board of Directors and reflected in business execution.

In fiscal 2019, in order to appropriately respond to changes in the risks surrounding the Group, we will continue to improve the inventory of the risks to be managed and the priority actions selected at the beginning of the fiscal year through the PCDA cycle to manage risk. We will strengthen the system.

* The BCP Subcommittee's name was changed to the BCM Subcommittee in April 2019 in order to facilitate the reinforcement of the BCM structure of the entire Group inside and outside Japan. The BCM Subcommittee aims to improve business continuity against various risks, expand alternative bases, and strengthen functions at the Emergency Headquarters.

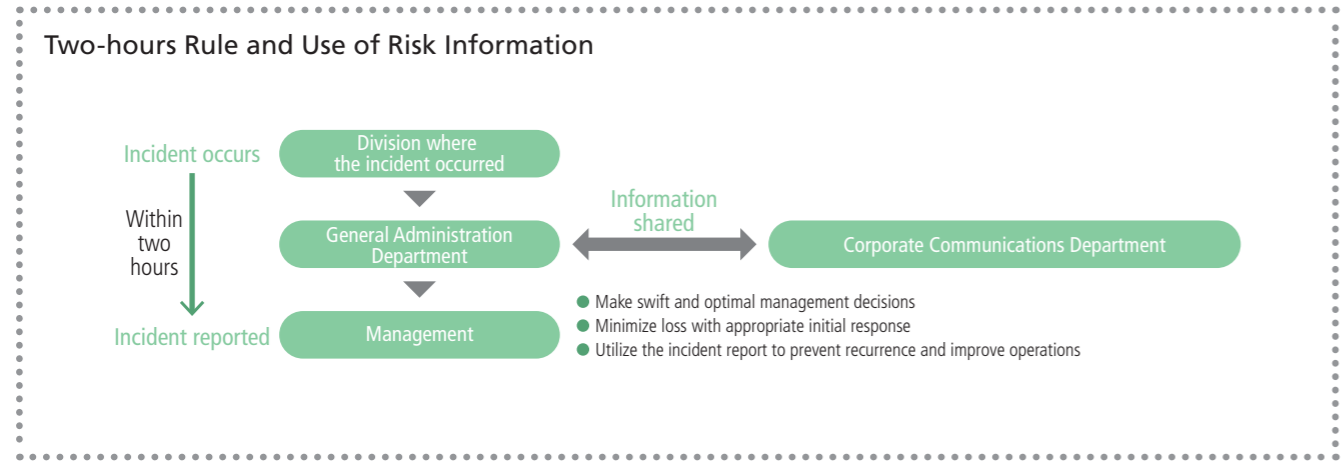
Risk Management Structure of the Sumitomo Forestry Group



(Rapidly Identifying and Responding to Risk)

In addition to the normal reporting line, we operate a two-hours rule system designed to rapidly and accurately relay information to the management via the headquarters' risk management division in the event of an emergency situation that may cause a serious impact on Company management. This allows us to make swift and optimal management

decisions and take immediate action so as to avoid or minimize losses. The information thus reported is also used to compile case studies, which are shared to prevent recurrences of the same incident and improve business operation. When a major issue arises, the information is shared with the Corporate Communications Department and disclosed to stakeholders in a timely and appropriate manner.



Compliance Promotion System

The Compliance Subcommittee responds to compliance risk across the Group. The subcommittee has set Group standards, including management systems and tools for legal compliance with the Construction Business Act and other laws and regulations, and efficiently responds to compliance risk. The subcommittee was convened twice in fiscal 2018 and undertook ongoing improvement of the compliance system. Specific steps included continuing Group-wide initiatives from the previous fiscal year of conducting simultaneous inspections of risks regarding legal and regulatory requirements, such as permits and licenses business. Moreover, at a compliance seminar to which external experts were invited as instructors, the Group provided opportunities for individuals in charge of compliance at each company, including subsidiaries, to keep up with up-to-date knowledge, improve their skill levels, work on the same level as others, and develop a shared awareness of risk. These activities of the subcommittee are reported quarterly to the Board of Directors, putting a system in place to reflect the findings in business execution. The activities are also reported to the Statutory Auditors and the Internal Audit Department monthly. Critical Group-wide matters and risk information are shared with the statutory auditors of each Group company through the Group Board of Statutory Auditors. We maintain a

compliance promotion framework through an approach on and off the business execution line.

(Internal Audits)

Sumitomo Forestry's Internal Audit Department operations encompass a scope of around 200 business sites including subsidiaries, and the department selects around 60 business sites to undergo internal auditing each year. These business sites are given priority and selected based on two perspectives: operational risks (performance, scale, business complexity) and risk control (management system for risks). The audits are conducted to verify the status of each business site's business execution, including compliance, and management of administrative actions. The results of these assessments are reported to the president, executive officer in charge of internal audits and statutory auditors as well as managers, executive officers and directors in charge of the business sites being audited. In the case that audit findings are made, the Internal Audit Department verifies that improvements are being implemented at the business site by requesting written reports and implementing quarterly follow-up audits in line with laws and internal regulations. These actions are reported to the president and executive officer in charge of internal audits.

Business Continuity Management

System for Managing Business Continuity

Sumitomo Forestry has established the BCP Subcommittee (currently BCM Subcommittee) to promote initiatives based on the business continuity plan (BCP), and to address risks such as major natural disasters and outbreaks of new strains of influenza, which could interrupt operations, are extremely difficult for a company to prevent on its own, and can have serious impacts on headquarters functions. Because Group companies are important parts of the supply chain for one another's businesses, each company works to increase the overall Group's resiliency, and tackles issues with the aim of improving business continuity. In fiscal 2018, Sumitomo Forestry held four BCP Subcommittee meetings. These meetings included a review of critical initial responses in the event of powerful earthquakes, including those that occur underneath the Tokyo metropolitan area, which were confirmed as adequate. Various drills and training programs were planned and implemented.

addition to cost and convenience. Also, we work to prevent and mitigate possible accidents in offices, such as preventing office equipment from falling over and keeping large multi-function printers set on casters from moving around.

Furthermore, in order to protect and preserve data, we take measures such as keeping data backups at locations far removed from data centers.

(BCP Simulation Training)

To overcome the chaos immediately following a large-scale earthquake and to transition quickly to action ensuring business continuity, it is vitally important that the people in charge can initially respond and make decisions according to the situation at hand. For that reason, the Sumitomo Forestry Group has implemented BCP Large-Scale Earthquake Countermeasures Simulation Training for the persons in charge at each domestic Group company since fiscal 2011. In this training, participants experience a simulated earthquake "crisis," and acquire an awareness of the issues by being prompted to make immediate decisions again and again based on tough hypothetical scenarios. In addition, at the time of the training, responsible persons from Group companies who are located nearby meet



BCP simulation training sessions

up to share their awareness of risk and enhance their ability to collaborate during emergencies. More than 550 people have participated in this training to date.

Furthermore, we have put in place high-level security systems for situations in which employees to work remotely if they have difficulty getting to work. The system allows for important business operations, such as payment of salaries and payments to business parties, to be carried out from home or other remote locations. Drills for these situations are also conducted every year.

Initiatives towards Supply Chain Business Continuity Initiatives

In readiness for the potential disruption of its Housing and Construction Business supply chain following a major disaster, Sumitomo Forestry shares the specifications and processes for property construction along with site progress status and

Ensuring Employee Safety and Continuation of Company Operations

The Sumitomo Forestry Group has distributed a portable risk response card to all Group employees in Japan. The card contains instructions to follow in the event of a major earthquake as well as rules for reporting to supervisors in their divisions. All Group companies in Japan have introduced safety confirmation systems linked to weather information, in addition to the emergency contact networks within the organization in order to obtain as much information as possible about the safety of employees before communication lines become congested and restrictions are placed on outgoing communications. These initiatives allow safety confirmations to be made via multiple routes. Furthermore, safety confirmation drills are conducted at domestic Group companies every year. In fiscal 2018, a total of 14,763 people participated in these drills.

(Disaster Prevention and Mitigation)

All workplaces have been stocked with standard emergency supplies based on the minimum stock for each workplace, and in preparation of a situation following a major earthquake in which employees are unable to return home and must stay in the office, or must walk a long distance to return home. In particular, at business sites in major cities (Tokyo metropolitan area, Osaka, and Nagoya) where a large number of people are expected to be unable to return home, three days worth of emergency supplies have been stockpiled.

Also, when selecting a new office or other business site, the headquarters disaster prevention staff are involved from the standpoint of disaster prevention and mitigation, in

other information with business partners, including component makers and building contractors. By enabling advanced procurement of materials and production, the Company is striving to reduce the risk of a disruption to operations.

We also review suppliers for building and construction materials and others with regard to business continuity issues, including whether they have planned alternative supply routes in the event of a disaster.

Going forward, in the event of an earthquake or other natural disaster, or an accident such as a fire occurring at a supplier, we plan to further reduce the risk of business interruption by examining the creation of a system for suppliers

to give a damage report to Sumitomo Forestry and a system to manage damage histories.

Maintaining Customer Service

Sumitomo Forestry has set up call centers in Tokyo and Fukuoka that are able to provide 24-hour after-sales services, developing a mechanism whereby either call center can back up the functions of the other call center in the event of a disaster.

By managing information for each base through a unified emergency system, the Company can share disaster information pertaining to owners nationwide, enabling a quick response to requests for repairs.

External Recognitions (As of August 2019)



The FTSE4Good Global Index is a stock market index of the index provider FSTE, a joint venture between of the UK's Financial Times and London Stock Exchange. We have been consecutively included in this index every year since 2004.



Sumitomo Forestry was awarded the Gold Class commendation for the fourth time in the Sustainability Yearbook 2019, a CSR rating by RobecoSAM. At the same time, we are also recognized as an "Industry Mover" as the company with the largest improvement in scores compared to the previous year in the Homebuilding Industry. In addition to being selected as one of the world's most sustainable companies for the 12th straight year in the Home Building Industry Sector.



CDP is one of the world's leading SRI evaluation bodies, and scores companies on their greenhouse gas emissions and climate change strategies. Sumitomo Forestry was selected for the third year running as a Climate Change A List company by CDP, its highest ranking. Of the companies selected for the A List in 2018, there were 126 global firms and 20 Japanese companies, including Sumitomo Forestry.



Sumitomo Forestry was selected as a constituent of the "Dow Jones Sustainability Asia Pacific Index," a global ESG investment stock index, and "Industry Leader" the Homebuilding Industry, the highest level of recognition.



Sumitomo Forestry is a composite stock in all three passively managed ESG indexes (FTSE Blossom Japan Index, MSCI Japan ESG Select Leaders Index, and MSCI Japan Empowering Women Index), selected by the Government Pension Investment Fund (GPIF).

*The inclusion of Sumitomo Forestry in any MSCI Index, and the use of MSCI logos, trademarks, service marks or index names on websites do not constitute a sponsorship, endorsement or promotion of Sumitomo Forestry by MSCI or any of its affiliates. The MSCI Indexes are the exclusive property of MSCI. MSCI and the MSCI Index names and logos are trademarks or service marks of MSCI or its affiliates.

Sumitomo Forestry has been selected for inclusion in the "S&P/JPX Carbon Efficient Index," an environmental index jointly developed by the Tokyo Stock Exchange and S&P Dow Jones Indices and that has been adopted as an index for the Government Pension Investment Fund (GPIF).



Sumitomo Forestry was selected as one of the "New Diversity Management Selection 100 in FY2018" (commendation by the Minister of Economy, Trade and Industry) sponsored by the Ministry of Economy, Trade and Industry, which recognizing companies that use diverse human resources to create value.



Sumitomo Forestry has been selected as a Certified Health and Productivity Management Organization (in the large company category) for three consecutive years as a company that strives to strategically consider employee health management from a management perspective.



The convertible bonds with stock acquisition rights issued in September 2018, the world's first Green Convertible Bond that complies with the Green Bond Principles and has obtained a second-party opinion from a major evaluation organization. Sumitomo Forestry was the first Japanese company to receive an award in the "New Products" category of the "4th Green Bond Pioneer Awards" sponsored by the Climate Bonds Initiative.



Financial Section