

Part 4

Corporate Governance as a foundation for growth

The Sumitomo Forestry Group 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 based on its corporate philosophy. Through these efforts, the Company aims to continuously increase its corporate value and conduct management that lives up to the expectations of the various stakeholders of the Sumitomo Forestry Group by enhancing and strengthening

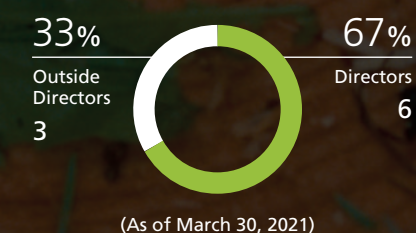
corporate governance.

Furthermore, to strengthen the supervisory functions of the Board of Directors, we adjusted the ratio of outside directors on the Board of Directors to one-third. Additionally, we will carry out a self-analysis and self-evaluation of the effectiveness of the Board of Directors on a regular basis and strive continuously to improve any recognized issues in order to further improve effectiveness.

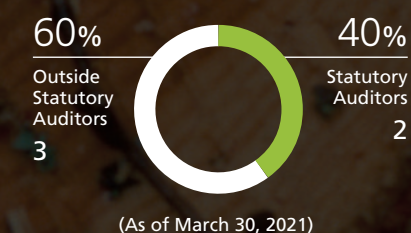
Outline of the Corporate Governance System

Organizational Structure	Company with a Board of Statutory Auditors
Number of Independent Officers	6
Number of Board of Directors Meetings (fiscal year ended December 2020)	10 times
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	https://sfc.jp/english/ir/management/pdf/CorporateGovernance.pdf

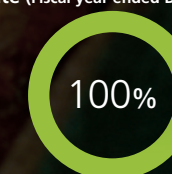
Number of directors and composition ratio



Number of Statutory Auditors and composition ratio



Outside Directors' Board of Directors Meeting attendance rate (Fiscal year ended December 2020)





Tatsumi Kawata	Shigeru Sasabe	Mitsue Kurihara	Junko Hirakawa	Akira Ichikawa	Toshiro Mitsuyoshi	Izumi Yamashita	Tatsuru Satoh	Atsushi Kawamura
Director	Representative Director	Outside Director	Outside Director	Representative Director, Chairman of the Board	Representative Director, President/Director	Outside Director	Representative Director	Director

Introducing the Board of Directors and Statutory Auditors (As of March 30, 2021)

Director

* Are independent directors. Attendance is the number of Board of Directors Meetings attended in the fiscal year ended December 2020, and Company Shares Held is current as of December 31, 2020.



Akira Ichikawa
Representative Director, Chairman of the Board (Born Nov. 12, 1954)

Career history
Apr. 1978 - Joined the Company
Jun. 2007 - Executive Officer
Jun. 2008 - Director, Managing Executive Officer
Apr. 2010 - Representative Director (current position), President/Director, President and Executive Officer
Apr. 2020 - Chairman of the Board (current position)

Attendance: 10/10 Company shares held: 73,700

Reason for appointment as a director
Akira Ichikawa has abundant experience and achievements related to the Sumitomo Forestry Group's business, serving as President and Director as well as Chairman of the Board.



Toshiro Mitsuyoshi
Representative Director, President/Director (Born May 23, 1962)

Career history
Apr. 1985 - Joined the Company
Jun. 2010 - Executive Officer
Apr. 2011 - Managing Executive Officer
Jun. 2014 - Director
Apr. 2018 - Senior Managing Executive Officer
Apr. 2020 - Representative Director (current position), President/Director (current position), President and Executive Officer (current position)

Attendance: 10/10 Company shares held: 16,300

Reason for appointment as a director
Toshiro Mitsuyoshi has abundant knowledge and management experience related to the Sumitomo Forestry Group's business. He was appointed to a leading management position of the Group as President and Director in April 2020.



Shigeru Sasabe
Representative Director (Born Feb. 28, 1954)

Career history
Apr. 1977 - Joined the Company
Jun. 2008 - Executive Officer
Apr. 2010 - Managing Executive Officer
Jun. 2010 - Director
Apr. 2014 - Senior Managing Executive Officer, Divisional Manager of Overseas Business Division
Apr. 2016 - Representative Director (current position), Executive Vice President and Executive Officer (current position)
Apr. 2018 - Divisional Manager of Overseas Housing and Real Estate Division
Apr. 2020 - Divisional Manager of Timber and Building Materials Division

Attendance: 10/10 Company shares held: 41,121

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, having held positions such as Divisional Manager of Overseas Housing and Real Estate Division and Divisional Manager of Timber and Building Materials Division. He currently serves as Executive Vice President and Executive Officer.



Tatsuru Satoh
Representative Director (Born Dec. 14, 1955)

Career history
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)
[Important concurrent jobs] Statutory Auditor at Kumagai Gumi Co., Ltd.

Attendance: 10/10 Company shares held: 34,900

Reason for appointment as a director
Tatsuru 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.



Tatsumi Kawata
Director (Born Oct. 4, 1962)

Career history
Apr. 1986 - Joined the Company
Jun. 2016 - Executive Officer, General Manager of Corporate Planning Department
Apr. 2017 - Managing Executive Officer (current position), General Manager of Corporate Planning Department
Apr. 2018 - Managing Executive Officer
Jun. 2018 - Director (current position)

Attendance: 10/10 Company shares held: 9,700

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.



Atsushi Kawamura
Director (Born Feb. 24, 1965)

Career history
Apr. 1987 - Joined the Company
Jun. 2016 - Executive Officer, Deputy Divisional Manager of Overseas Business Division
Apr. 2017 - Managing Executive Officer (current position)
Apr. 2018 - Deputy Divisional Manager of Overseas Housing and Real Estate Division
Apr. 2020 - Divisional Manager of Overseas Housing and Real Estate Division (current position)
Jun. 2020 - Director (current position)

Attendance: 9/9 (after assuming office in June 2020)
Company shares held: 15,500

Reason for appointment as a director
Atsushi Kawamura has abundant experience related to the Sumitomo Forestry Group's business. After serving as Divisional Manager of the Overseas Housing and Real Estate Department and Deputy Divisional Manager of the Overseas Business Division, he was appointed Director in 2020. He currently serves as Managing Executive Officer and Divisional Manager of the Overseas Housing and Real Estate Division.



Junko Hirakawa*
Outside Director (Born Oct. 9, 1947)

Career history
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
Oct. 1997 - Established Hirakawa, Sato & Kobayashi (currently City-Yuwa Partners), Partner of Hirakawa, Sato & Kobayashi
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)
[Important concurrent jobs] Lawyer, Outside Director of Tokyo Financial Exchange Inc., Outside Director of Hitachi Construction Machinery Co., Ltd.

Attendance: 10/10 Company shares held: 0

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.



Izumi Yamashita*
Outside Director (Born Feb. 1, 1948)

Career history
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)
[Important concurrent jobs] Outside Director of AEON Bank, Ltd.

Attendance: 10/10 Company shares held: 0

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.



Mitsue Kurihara*
Outside Director (Born Apr. 7, 1964)

Career history
Apr. 1987 - Joined the Japan Development Bank (currently Development Bank of Japan Inc.)
Jun. 2008 - Served as a visiting fellow at the Freeman Spogli Institute for International Studies, Stanford University, U.S.A.
Jun. 2010 - Assistant Director of Finance, Development Bank of Japan Inc.
May. 2011 - Section chief in Corporate Finance 4th Medical & Lifestyle Office, Development Bank of Japan Inc.
Apr. 2013 - 6th Divisional Manager of Corporate Finance, Development Bank of Japan Inc.
Feb. 2015 - Full-time Statutory Auditor, Development Bank of Japan Inc.
Jun. 2020 - Chairman and Representative Director, Value Management Institute, Inc. (current position)
Mar. 2021 - Outside Director of the Company (current position)
[Important concurrent jobs] Chairman and Representative Director of Value Management Institute, Inc., Outside Director of Chubu Electric Power Co., Inc.

Attendance: - Company shares held: 0

Reason for appointment as a director
Mitsue Kurihara has deep knowledge and abundant experience in the field of finance, and is believed to be capable of playing an appropriate role in strengthening the Company's corporate governance by making recommendations to management from an expert point of view.

Statutory Auditors * Are independent officers. Attendance is the number of Board of Directors meetings (left), and Board of Statutory Auditors meetings (right) attended in the fiscal year ended December 2020

Senior Statutory Auditor (full-time)	Akihisa Fukuda Attendance: 9/9, 8/8 (after assuming office in June 2020) Reason for appointment: Akihisa Fukuda has abundant experience related to the Sumitomo Forestry Group's business, having served as Director, as an Executive Officer who oversees Corporate Planning, Finance and Information Systems, and as Divisional Manager of Timber and Building Materials Division among other positions.
Statutory Auditor (full-time)	Noriaki Toi Attendance: 10/10, 10/10 Reason for appointment: Noriaki Toi has served as a statutory auditor since 2015 and has a wealth of experience in financial and accounting matters.

Outside Statutory Auditors	Yoshitsugu Minagawa* Attendance: 9/10, 9/10 Reason for appointment: Since Yoshitsugu Minagawa 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* Attendance: 10/10, 9/10 Reason for appointment: As a certified public accountant, Yoshimasa Tetsu 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* Attendance: 9/10, 10/10 Reason for appointment: As a lawyer with extensive experience in corporate legal affairs both in Japan and abroad, Makoto Matsuo is expected to appropriately execute the Company's audit operations with his specialized perspective.

Executive Officers * Doubles as Director and Executive Officer

Position	Name	Responsibility
President and Executive Officer	Toshiro Mitsuyoshi*	
Executive Vice President and Executive Officers	Shigeru Sasabe*	Administering Timber and Building Materials Division, Environment and Resources Division
	Tatsuru Satoh*	Administering Lifestyle Service Division, in charge of General Administration, Secretary, External Relations, Personnel, IT Solutions, Intellectual Property, Internal Audit, and the Tsukuba Research Institute
Managing Executive Officers	Tatsumi Kawata*	Administering Housing and Construction Division, in charge of Corporate Planning, Finance, Corporate Communications and Sustainability
	Atsushi Kawamura*	Divisional Manager of Overseas Housing and Real Estate Division
	Kanpei Tokunaga	President and Director of Sumitomo Forestry Home Engineering Co., Ltd.
	Takahisa Higaki	President and Director of Sumitomo Forestry Residential Co., Ltd.
	Kunihiko Takagiri	Divisional Manager of Lifestyle Service Division
	Ikuro Takahashi	Divisional Manager of Housing and Construction Division
	Koji Tanaka	Divisional Manager of Timber and Building Materials Division

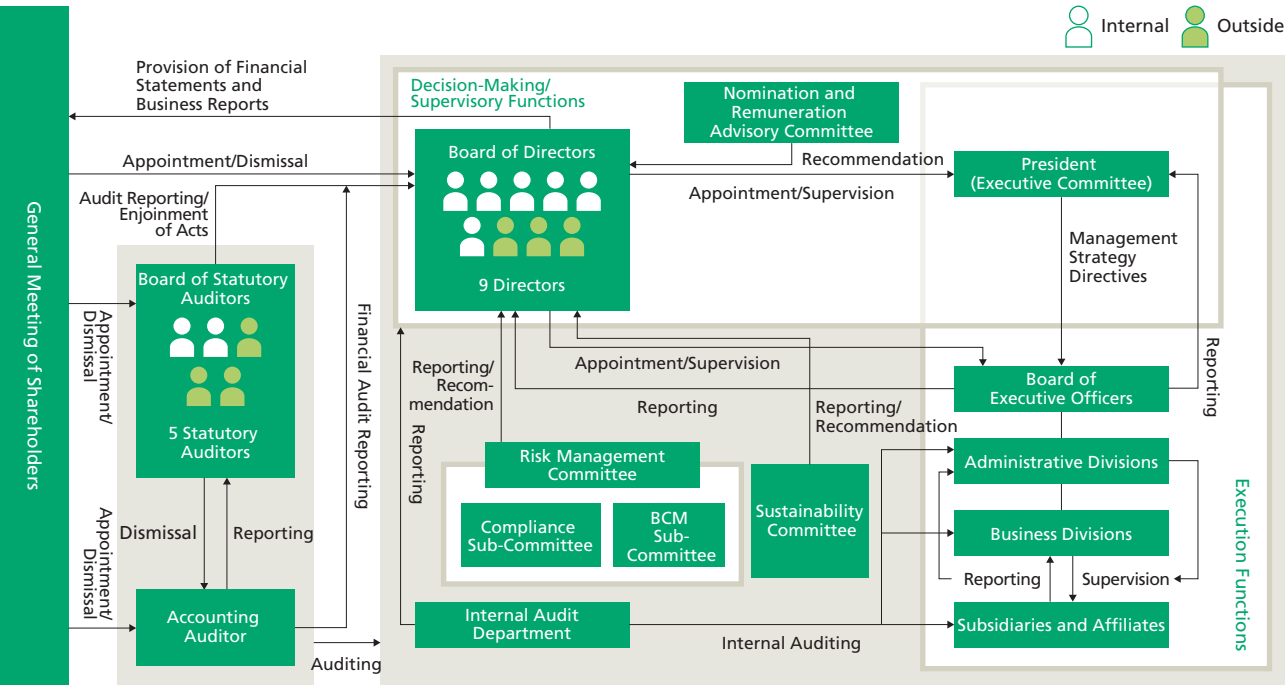
Position	Name	Responsibility
Executive Officers	Junko Saishu	In charge of Working-style Reform and Women's Empowerment and General Manager of Workstyle Diversification Department
	Koichi Shimizu	General Manager of IT Solutions Department
	Kazutaka Horita	President and Director of Sumitomo Forestry Crest Co., Ltd.
	Yoichi Hosoya	Deputy Divisional Manager of Timber and Building Materials Division and General Manager of Domestic Marketing Department
	Yutaka Kamiya	President and Director of Sumitomo Forestry Landscaping Co., Ltd.
	Atsushi Iwasaki	Deputy Divisional Manager of Overseas Housing and Real Estate Division (In charge of North American Business) and President of Sumitomo Forestry America, Inc.
	Takumi Shimahara	President and Director of Sumitomo Forestry Home Tech Co., Ltd.
	Masanobu Nishikawa	Divisional Manager of Environment and Resources Division
	Tomio Tozaki	Deputy Divisional Manager of Housing and Construction Division (Overseeing Customer Relations and Construction Market Development) and General Manager of Administration and Planning Department, Housing and Construction Division

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 9 directors (7 male and 2 female), including 3 Outside Directors (1 male and 2 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



Reforms to Corporate Governance (from 2014)

	2014	2015	2016	2017	2018	2019	2020	2021
Corporate Philosophy				2017: Added a Code of Conduct	2018: Revised to current corporate policies			
Director	2014: Appointed a woman as a director 2014 onward: Total set at 12 or fewer people (Articles of Incorporation)							2021: Increased the number of female directors to two
Outside Director	2014 onward: One person		2016 onward: Increased to two people					2021 onward: Increased to three people, making outside directors comprise 1/3 of the Board of Directors
Executive remuneration/personnel		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					2020 onward: Terms of directors shortened to one year	
Various committees					2018 onward: Established the Sustainability Committee			

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. Prior to the Board of Directors meeting, 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 10 times and the Executive Committee met 17 times in the fiscal year ended December 2020. Directors and statutory auditors strive to maintain a Board of Directors meeting attendance rate of at least 75%.

At the Ordinary General Meeting of Shareholders held on March 30, 2021, to strengthen the supervisory functions of the Board of Directors, the number of female outside directors was increased by one and the ratio of independent outside directors on the Board of Directors was increased to 1/3.

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 the Internal Audit Department. They also 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, meets 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 10 times and the Group Board of Statutory Auditors met 4 times in the fiscal year ended December 2020.

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 (3 outside directors and 3 outside statutory auditors) so that the majority of members are outside officers. An outside director serves as the committee chair.

Attendance at Nomination and Remuneration Advisory Committee Meetings (fiscal year ended December 2020)

Position	Name	Nomination and Remuneration Advisory Committee	
		Number of meetings attended	Attendance rate
Director, Chairman of the Board	Akira Ichikawa	2	100
Director, President	Toshiro Mitsuyoshi	2	100
Director (Outside)	Junko Hirakawa	2	100
Director (Outside)	Izumi Yamashita	2	100
Statutory Auditor (Outside)	Yoshitsugu Minagawa	2	100
Statutory Auditor (Outside)	Yoshimasa Tetsu	2	100
Statutory Auditor (Outside)	Makoto Matsuo	2	100

Analysis / Evaluation and its results of effectiveness of the Board of Directors

The Company carries out regular self-analysis and self-evaluation of the effectiveness of the Board of Directors. We strive to further enhance the effectiveness of the Board of Directors by making continuous efforts to improve any issues identified.

Main issues in the effectiveness evaluation performed in the fiscal year ended March 2020

- Improve the way Nomination and Remuneration Advisory Committee meetings are run.
- Make better use of preliminary meetings among officers to enhance deliberations by the Board of Directors.
- Hold discussions about future business strategies in light of the COVID-19 crisis.



Effectiveness evaluation and its results for the fiscal year ended December 2020

Evaluation method

- Questionnaire for all directors and statutory auditors (response method: anonymous format, answers were sent directly to an external party to protect anonymity)
- Confirmation by the Board of Directors as to the status of implementation of the role of the Board of Directors as designated by the Sumitomo Forestry Basic Policy on Corporate Governance.
- Exchanging opinions with outside directors and outside statutory auditors

Results of evaluation

- The Company's Board of Directors was found to be functioning effectively.

<Efforts to address matters recognized as issues during the evaluation for the fiscal year ended March 2020>

- Confirmed the status of initiatives concerning the training and appointment of management talent identified by the Nomination and Remuneration Advisory Committee.
- Confirmed whether officers had discussed future business strategies in light of the COVID-19 crisis and the next medium-term management plan at informal meetings in order to enhance deliberations at Board of Directors' meetings.

<Future issues>

- Strengthening collaboration between the Internal Audit Department and outside officers
- Improving Board of Directors materials
- Establishing rules for the reappointment of outside directors

Executive remuneration

Sumitomo Forestry has created an officer remuneration system commensurate with the duties of directors and statutory auditors that are expected by stakeholders in order to realize the Group's Corporate Philosophy.

Remuneration for Directors (Excluding Outside Directors)

Remuneration for directors, excluding outside directors, is comprised of basic remuneration and performance-linked remuneration. Basic remuneration comprises monthly remuneration and remuneration paid as restricted stocks (referred to below as "restricted stocks").

The Company sets the amount of basic remuneration commensurate with the duties and responsibilities of each director's position. Under basic remuneration, monthly remuneration is paid as a fixed amount of cash. Furthermore, as a basic principle, 10% of the basic remuneration is paid in the form of restricted stocks. The amount of cash payments, based on a resolution passed by the General Meeting of Shareholders, does not exceed ¥40 million per month (and no more than ¥5 million for outside directors). 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 presupposed amounts calculated based on a certain mathematical formula (a calculation method where the size of the bonus fluctuates in proportion to the amount of profit) that are commensurate with profit attributable to owners of the parent as well as consolidated recurring income, excluding actuarial differences in retirement benefit accounting for the relevant accounting period, which are generally decided upon and approved by the General Meeting of Shareholders.

Remuneration for Directors (Excluding Outside Directors)

Types of Remuneration		Outline
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 (and no more than ¥5 million for outside directors).
	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 maximum limit of monetary remuneration allocated to directors, excluding outside directors, through restricted stock was resolved to be ¥100 million annually. * 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	Bonuses	A set amount is approved at the annual Ordinary General Meeting of Shareholders.

Outside Director remuneration

Remuneration for outside directors consists solely of monthly remuneration as basic remuneration. The amount set is commensurate with the duties and responsibilities of the outside director.

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 system. We reference the results of a third-party assessment of executive remuneration at Japanese companies to ensure the objectivity and fairness of executive remuneration including for outside officers and set an appropriate level of remuneration.

Remuneration (fiscal year ended December 2020)

* Excluding Outside Directors and Outside Statutory Auditors (¥ million)

	Total remuneration	Total remuneration by type			Number of eligible officers
		Monthly remuneration	Restricted stock compensation	Bonus	
Directors*	341	211	24	106	9
Statutory Auditors*	36	36	—	—	3
Outside Officers	42	42	—	—	5

*1 The above includes three directors and one auditor who resigned at the end of the 80th Ordinary General Meeting of Shareholders held on June 23, 2020.

*2 The 81st Ordinary General Meeting of Shareholders held on March 30, 2021 approved a resolution that sets the amount of performance-linked remuneration for six directors, excluding outside directors, at ¥106 million.

*3 The total amount of restricted stock paid as basic remuneration to nine directors excluding outside directors was ¥24 million.

Risk management

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. Executive officers in charge of the Head Office Administrative Division and each business division are appointed to positions responsible for risk management, while general managers are responsible for advancing risk management. The basic regulations also comprehensively encompass risks with ESG aspects.

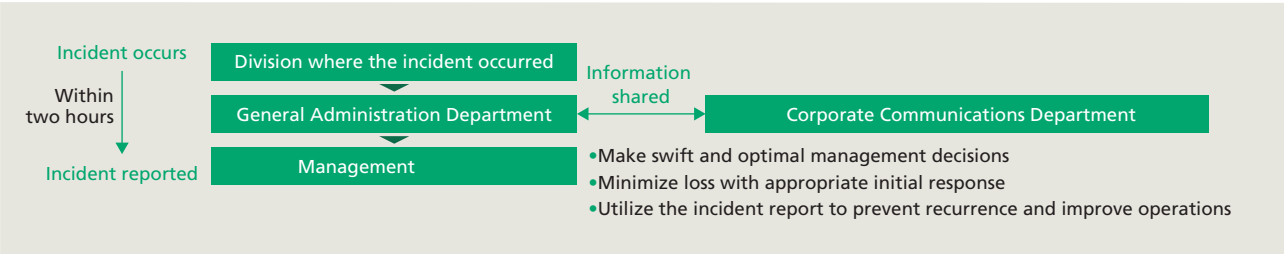
The Company has established the Risk Management

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 the state of plan execution. The committee discusses short-term risks, such as compliance pertaining to prevention of corruption and other matters, and responses to risks that have already materialized. These activities are reported to the Board of Directors, and reflected in business execution.

Established under the umbrella of the Risk Management Committee, the Compliance Subcommittee and the BCM 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 the fiscal year ended December 2020, the Risk Management Committee convened three times, the Compliance Subcommittee once, and the BCM Subcommittee twice, and the Board of Directors received reports from them three times.

Two-hours rule and use of risk information



Rapidly identifying and responding to risk

In addition to the normal reporting line, we have a “two-hours rule,” which is a 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.

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 auditing

The Internal Audit Department conducts additional risk assessment for the approximately 200 business sites of the Sumitomo Forestry Group. It selects around 60 business sites every year and conducts an internal audit. 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). In principle, the auditors travel to the site to check and evaluate the actual documents, but in the fiscal year ended December 2020, to prevent the spread of the COVID-19 pandemic, we included the method of auditing data and written documents without the auditors visiting the site.

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 offices 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 carrying out quarterly follow-up audits. These actions are reported to the president, executive officer in charge of internal audits, and statutory auditors.

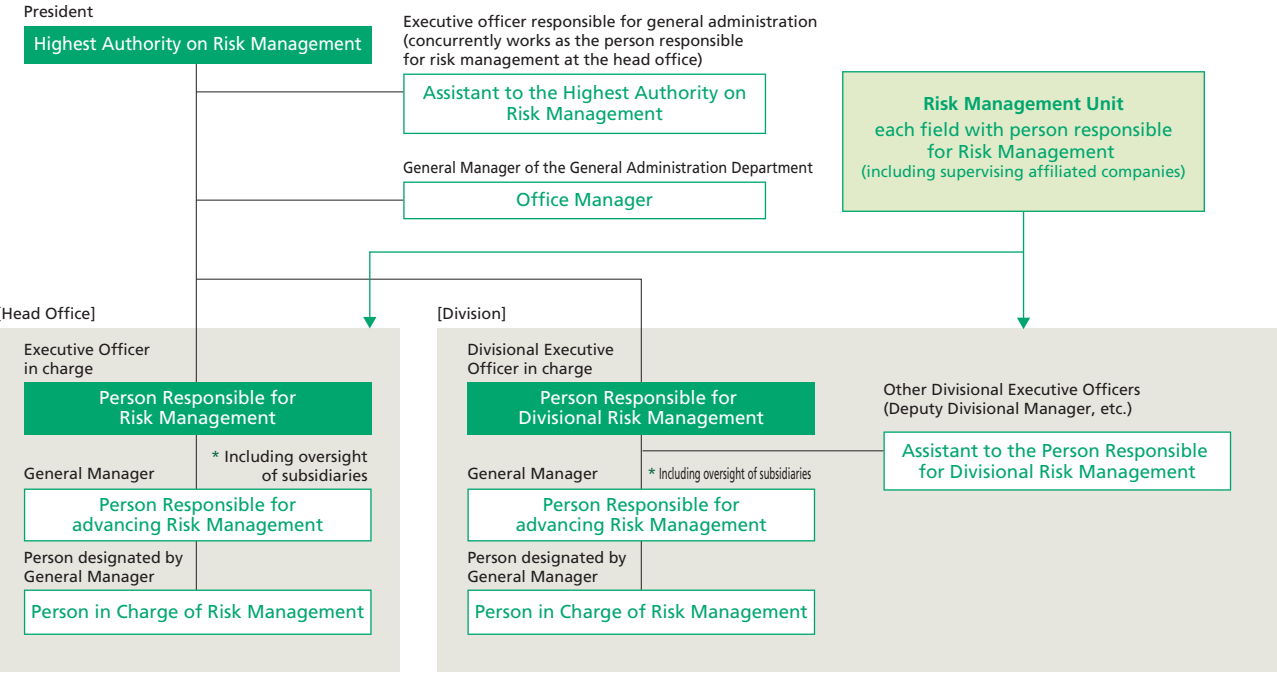
Compliance promotion system

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 once in the fiscal year ended December 2020 and undertook ongoing improvement of the compliance system such as by studying important legal and regulatory requirements essential for the continuation of business.

Moreover, at a compliance seminar to which external experts are invited as instructors, the subcommittee provides opportunities for individuals in charge of compliance, including individuals working for 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,

Risk management structure of the Sumitomo Forestry Group



Managing business continuity

System for managing business continuity

Sumitomo Forestry has established the BCM Subcommittee to address risks presented by events or emergency situations which are extremely difficult for a company to prevent on its own, and which can have serious impacts on headquarters' functions such as, for example, major natural disasters and outbreaks of new strains of influenza. The BCM Subcommittee is responsible for spreading awareness of and strengthening the business continuity management (BCM) structure, formulating, revising and improving business continuity plans (BCP), and conducting drills based on BCP. In the fiscal year ended December 2020, the BCM Subcommittee met twice, providing an opportunity to organize the basic approach to BCM. In addition to encouraging each department and company to tackle BCM proactively and voluntarily, the committee also provided information about the changes the Company has made to the organization of its fire brigade due to the COVID-19 crisis.

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 the fiscal year ended December 2020, a total of 14,860 people participated in these drills.

In response to COVID-19, Sumitomo Forestry introduced a flexible work schedule system Company-wide, and put employees on staggered shifts to reduce the number of people at one workplace at the same time, while encouraging employees to balance working from home with commuting to work. During the state of emergency, employees in regions subject to lockdown were required in principle to work from home.

Initiatives towards supply chain business continuity initiatives

In preparation 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 statuses and 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. The COVID-19 outbreak that spread across the world in 2020, however, led to delays in construction projects and parts and materials procurement.

In light of these circumstances, in the event of an earthquake or other natural disaster, or a fire accident, we asked our suppliers to examine their methods for reporting disasters to Sumitomo Forestry and developing systems for historical records management. We are also endeavoring to build a structure where as a principle we can procure the same parts or material from two or more companies (including two or more production locations for the same part of material) as a way of guarding against such contingencies.

To deal with delays in parts and materials procurement caused by COVID-19, Sumitomo Forestry asked its suppliers to stockpile inventories of materials that experienced delays, as a short-term preparation. For medium- to long-term preparations, Sumitomo Forestry plans to work with its suppliers on reducing risk by geographically dispersing their production bases, moving from having them in a single country toward establishing bases in other countries. Regarding suppliers of construction materials and other materials, Sumitomo Forestry added questions related to business continuity, such as whether alternate supply routes can be ensured during an emergency, to the supplier survey it conducts every year to facilitate decisions on whether to continue transactions with each supplier. Through these efforts, the Company strives to further reduce the risk of business disruption.

Maintaining customer service

Sumitomo Forestry has set up call centers in Tokyo and Okinawa that are able to provide 24-hour after-sales services. We are also developing a mechanism whereby either call center can back up the functions of the other call center in the event of a disaster. We strive to enable a quick response to requests for repairs by managing information for each base through a unified emergency system which allows the Company to share disaster information pertaining to owners nationwide.

Ensuring 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 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

At the General Meeting of Shareholders, we endeavor to provide reports and explanations that are easy to understand. Additionally, we display a wealth of IR information in Japanese and English such as accounting-related information like financial results, Factbooks and summaries of financial results and forecasts on our website along with information about monthly orders in the housing business. We also display detailed information about sustainability initiatives on the website in both English and Japanese.

Since the fiscal year ended March 2017, the Sumitomo Forestry Group has published the Integrated Report with the objective of improving the disclosure of financial information about its initiatives to increase corporate value, as well as non-financial information related to ESG. Apart from the Integrated Report, Sumitomo Forestry proactively offers information by publishing Japanese and English translations of its business activity reports and Notices of Convocation of the Ordinary General Meeting of Shareholders, among other documents, in print as well as on its website.

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.

Separate meetings

After the quarterly announcement of accounts, the Company holds separate meetings for securities analysts and institutional investors. We spoke with a total of 117 companies in Japan and abroad in the fiscal year ended December 2020. In addition to

this, we will also hold small meetings and on-site briefings as appropriate.

Briefings for individual investors


We regularly hold briefings for individual investors. Due to the influence of the spread of COVID-19 in the fiscal year ended December 2020 and the fact that we changed our accounting period, briefings were not held, but in the fiscal year ended March 2020, we held a briefing in Osaka and Nagoya which many individual investors participated in. At these briefings, in addition to giving details about the Sumitomo Forestry Group's businesses, we explain the Group's growth strategy, set up exhibition booths, and introduce the Sumitomo Forestry Group's custom-built detached houses, rental apartments, renovation services, private-pay elderly care facilities and overseas real estate to interested individual investors.

IR activities for overseas institutional investors and shareholders

We issue English versions of accounting-related material for the benefit of overseas institutional investors and shareholders. Additionally, in the fiscal year ended December 2020, management held an online meeting with institutional investors and shareholders in Europe. There was an exchange of opinions in addition to explanations about business performance and strategy.

In order to provide further opportunities for dialog, we also participate in conferences organized by securities firms.

Visit our website for information about future IR activities and events organized.

 IR Calendar <https://sfc.jp/english/ir/calendar.html>