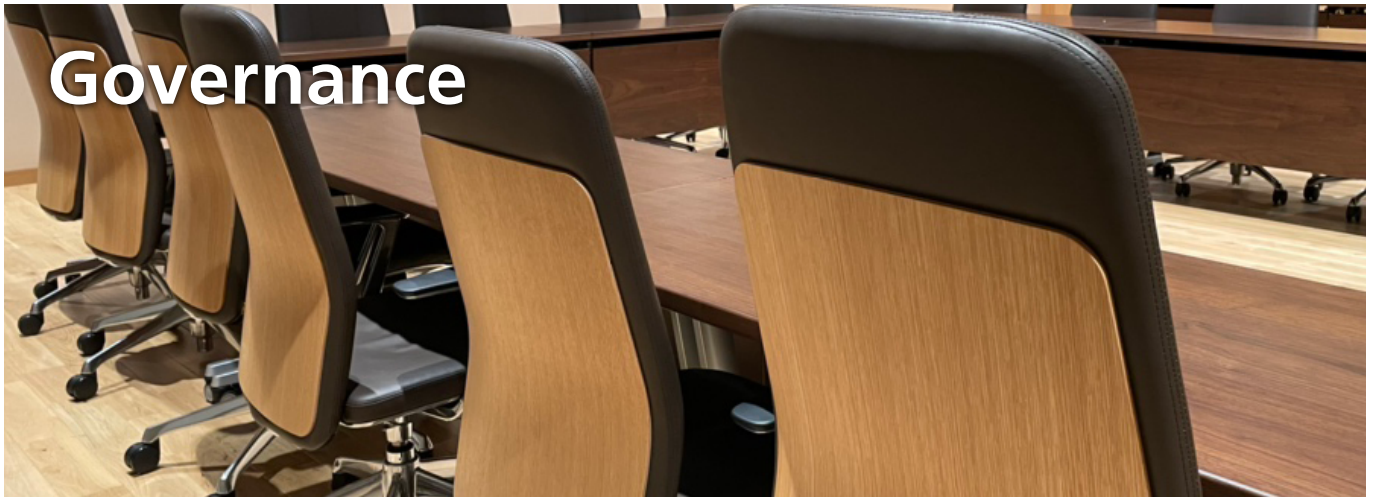


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# Governance

## Corporate Governance

### Basic Policy

The Sumitomo Forestry Group utilizes wood as a healthy and environmentally friendly natural resource to provide a diverse range of lifestyle-related services that contribute to the realization of a sustainable and prosperous society. All our efforts are based on Sumitomo's Business Spirit, which places prime importance on fairness and integrity for the good of society. Therefore, we strive to ensure management transparency, sound and legal business practices as well as rapid decision-making and business execution.

By further enhancing and strengthening its corporate governance through these efforts, the Company aims to continuously increase its corporate value and conduct management that lives up to expectations of various stakeholders around the Group.

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[Integrated Report](#)

### Corporate Governance and Internal Control

Sumitomo Forestry introduced the executive officer system to separate decision making and management oversight functions from operational execution functions. Comprised of nine directors (seven male/77.8%, two female/22.2%) including three outside directors (one male, two female), the Board of Directors is structured to make quick decisions. The oversight function of the Board of Directors has been strengthened, the lines of operational responsibility clarified, and the Chairman of the Board of Directors no longer serves as an executive officer. The Nomination and Remuneration Advisory Committee has been established to provide opinion to the Board of Directors on selecting director and statutory auditor candidates and executive officers as well as compensation of directors and executive officers, for the purpose of ensuring transparency and fairness of decision-making.

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

As of March 30, 2023, nine directors (including three outside directors), five statutory auditors (including three outside auditors) and 20 executive officers (including 5 persons concurrently serving as directors) were appointed to the Company. The Company notified Tokyo Stock Exchange, Inc. of the designation of the three outside directors and three outside statutory auditors as independent officers as required by its regulations.

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[Basic Policy on Corporate Governance](#) 

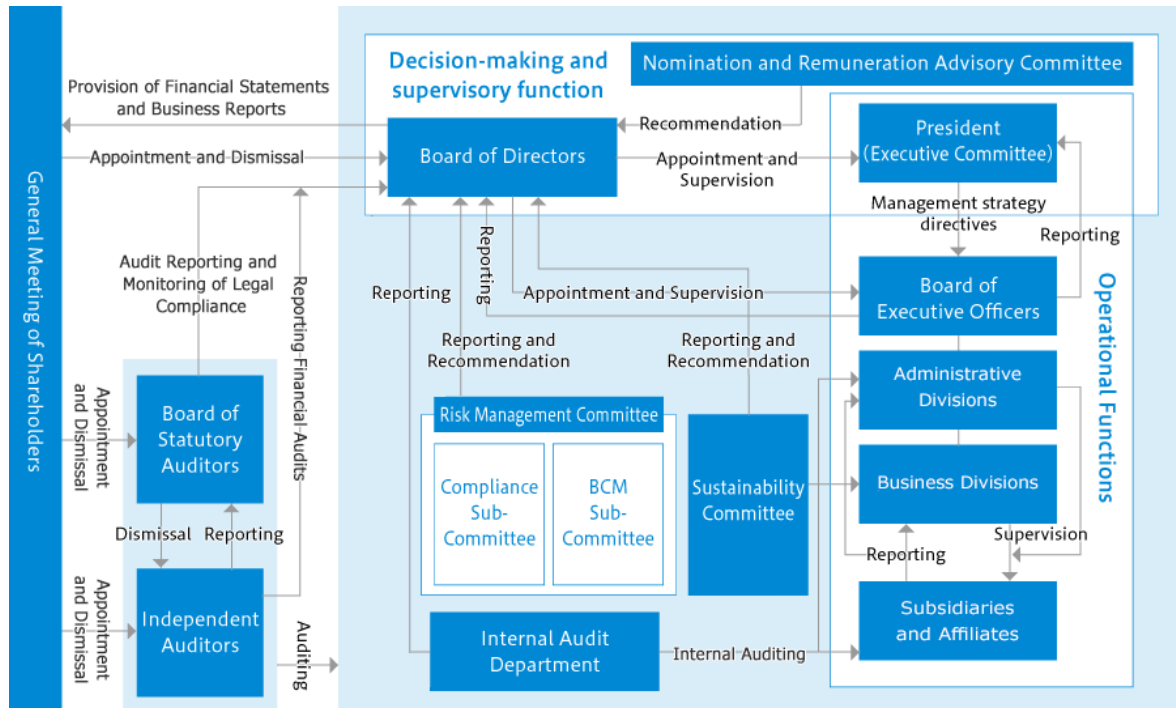
[Corporate Governance Report](#) 

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## Corporate Governance System



### Board of Directors and Executive Committee

In principle, the Board of Directors meets once a month, making decisions and carrying out its supervisory function for important issues in accordance with its discussion standards. In addition to making decisions on all important items and confirming business results, it supervises the directors' execution of their duties. Directors and statutory auditors are required to maintain an attendance rate of 75% or higher as a general rule.

The Executive Committee, which is an advisory body for the President, holds meetings twice a month, before the Board of Directors meeting to ensure that there is sufficient prior discussion on important issues. It is attended by those directors who also serve as executive officers, as well as the full-time statutory auditors as a general principle.

The Company ensures prompt decision-making and separation of supervision and operational execution functions, for effective performance of the Board of Directors. In fiscal 2022, the Board of Directors meetings were held 15 times while Executive Committee meetings were held 26 times.

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## List of Directors

Position* <sup>1</sup>	Name	Responsibility and Significant Concurrent Positions* <sup>1</sup>	Board of Directors* <sup>2</sup>	
			Attended Meetings (meetings)	Attendance Rate (%)
Representative Director, Chairman of the Board	Akira Ichikawa	Outside Director, Konica Minolta, Inc., Outside Director, Sumitomo Chemical Company, Limited	15	100
Representative Director, President and Executive Officer	Toshiro Mitsuyoshi	—	15	100
Representative Director, Executive Vice President and Executive Officer	Tatsuru Satoh	Administering Lifestyle Service Division, In charge of General Administration, Legal affairs, Secretary, External Relations, Human resource development/D&I, IT Solutions and Internal Audit, Director, Kumagai Gumi Co., Ltd.	15	100
Director, Senior Managing Executive Officer	Tatsumi Kawata	Administering Environment and Resources Division, In charge of Corporate Planning, Finance, Corporate Communications and Sustainability	15	100
Director, Senior Managing Executive Officer	Atsushi Kawamura	Administering Timber and Building Materials Division, In charge of Tsukuba Research Institute, Divisional Manager of Global Housing, Construction and Real Estate Division	15	100
Director, Managing Executive Officer	Ikuro Takahashi	Divisional Manager of Housing Division	12* <sup>3</sup>	100
Outside Director	Izumi Yamashita	Outside Director, AEON Bank, Ltd.	15	100
Outside Director	Mitsue Kurihara	Chairman, Representative Director, Value Management Institute, Inc., Outside Director, Chubu Electric Power Co., Ltd., Outside Director, Japan Finance Corporation	15	100
Outside Director	Yuko Toyoda * <sup>4</sup>	Attorney at Law	—	—

\*1 Position, responsibility and significant concurrent positions as of March 30 2023

\*2 Attended meetings and the attendance rate to Board of Directors meetings are in fiscal 2022

\*3 Attended meetings and attendance rate of Board of Directors meetings are after appointment as a director on March 29, 2022

\*4 Appointed on March 30, 2023



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### Structure of the Board of Directors

The Board of Directors is composed of 17 individuals in a structure built on expertise, such as knowledge, experience, skill, and diversity. Sumitomo Forestry considers diversity such as gender and nationality as well as expertise which includes those who have a wealth of experience and success in the operations of the Sumitomo Forestry Group, those who have a wealth of experience and success in business such as corporate management, industry and policy and those who have specializations such as law and accounting.

### Officer Skill Matrix

The table below outlines the skills (expertise, experience) that the Company takes into special consideration for each of the Directors and Statutory Auditors

	Title	Corporate management	Resources/ Environment	Construction/ Real estate development	Global	Financial accounting	Human resource development/ D&I	Legal affairs/ Risk management	IT/DX	Industrial policy
Director	Akira Ichikawa Representative Director, Chairman of the Board	•			•	•	•	•	•	•
	Toshiro Mitsuyoshi Representative Director, President/Director, Corporate Officer	•	•	•	•					
	Tatsuru Satoh Representative Director, Executive Vice President and Executive Officer	•	•			•	•	•	•	
	Tatsumi Kawata Director, Senior Managing Executive Officer	•	•		•	•	•			
	Atsushi Kawamura Director, Senior Managing Executive Officer	•	•	•	•					
	Ikuro Takahashi Director, Managing Executive Officer	•		•						

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	Title	Corporate management	Resources/ Environment	Construction/ Real estate development	Global	Financial accounting	Human resource development/ D&I	Legal affairs/ Risk management	IT/DX	Industrial policy
	Izumi Yamashita	Outside Director	●		●	●			●	●
	Mitsue Kurihara	Outside Director	●	●	●	●				●
	Yuko Toyoda	Outside Director			●			●		
Statutory Auditors	Akihisa Fukuda	Senior Statutory Auditor	●	●	●	●			●	
	Toshio Kakumoto	Statutory Auditor			●			●		
	Yoshitsugu Minagawa	Outside Statutory Auditor		●			●			●
	Yoshimasa Tetsu	Outside Statutory Auditor				●				
	Makoto Matsuo	Outside Statutory Auditor				●		●		

### Reasons for selection of the skills

Corporate management	The Company needs board members who have experience in corporate management to achieve further growth of existing businesses, which cover a wide variety of aspects of people's lifestyles, such as forestry management, timber and building materials distribution and manufacturing, housing construction, etc. and to fulfill our long-term vision amidst a global movement toward decarbonization.
Resources/ Environment	In our long-term vision, we have set out to enhance the value of "forests" and "trees" through sustainable forestry management. The Company needs board members who have expertise and experience in resources and the environment to develop new businesses through pursuing the value of forests as a carbon sink, to conduct scenario analyses and ongoing financial disclosure based on recommendations made by TCFD (Task Force on Climate-related Financial Disclosure) and to steadily implement initiatives to achieve our SBT-based greenhouse gas emissions reduction targets.
Construction/ Real estate development	The Company needs board members who have expertise and experience in construction and real estate development to expand our medium- and large-scale wooden construction operations as stated in our long-term vision and Medium-Term Management Plan, and to nurture and reinforce our real estate development operations into a new pillar of profit.



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Global	“Advancing globalization” is one of the business policies of our long-term vision. The Company needs board members who have global experience to promote the expansion of the business areas and scale of our overseas group operations.
Finance/Accounting	The Company needs board members who have expertise and experience in finance and accounting to improve capital efficiency, enhance shareholders’ equity, and make sustainable growth investments that raise corporate value.
Human resource development/D&I	In our long-term vision, we have set out to enhance “value for people and society”. The Company needs board members who have expertise and experience in human resource development and D&I to reinforce our ability to continually retain and nurture human resources who can respond to the diversification of our businesses, to improve engagement with our employees, to promote transformation in work styles, and to implement initiatives related to D&I (diversity and inclusion).
Legal affairs/ Risk management	The Company needs board members who have expertise and experience in legal affairs and risk management to create a corporate governance structure for sustainable growth and mid- to long-term improvement of corporate value, and to build a risk management system for the global growth of our business operations and other.
IT/DX	In our long-term vision, we have set out to enhance “value for the market economy”. The Company needs board members who have expertise and experience in IT and DX to promote digital transformation (DX) throughout the company and to enhance productivity through the development of an IT infrastructure and others.
Industrial policy	In our long-term vision, we have set out to enhance “value for the market economy”. The Company must create policy frameworks in relation to society and hence needs board members who have knowledge of industrial policy to develop businesses related to carbon credits of forests, which are a carbon sink.

### Nomination Procedure for Directors

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

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[Directors and Executive Officers](#)

### Summary of Analysis/Evaluation and Results of Overall Effectiveness of the Board of Directors

#### 1. Method of evaluation

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



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## 2. Result of evaluation

- As a result of the evaluation described in 1., the Company believes that the Board of Directors is functioning effectively.
- In terms of areas cited for improvement last fiscal year, the Company prepared and distributed materials on issues to be discussed at the Executive Committee meetings, which are held in advance of the Board of Director meetings to clarify discussion points and improve the management efficiency of Board of Director meetings. In addition, we confirmed that the progress of the Medium-Term Management Plan is regularly discussed at board member gatherings, which aim to enhance Board of Director meetings and the content of discussions conducted there.
- Future challenges based on opinions include the monitoring of succession plans for top management and the development of effective measures to counter new operational risks with the expansion of our business fields.

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

## Board of Statutory Auditors

The Board of Statutory Auditors meets to discuss and make decisions on important matters regarding audits. The five statutory auditors, including the three outside statutory auditors, utilize the deep insights and diverse perspectives they have acquired from their various business backgrounds to provide oversight for the directors' execution of duties. The Board of Statutory Auditors met 14 times during fiscal 2022.

The appropriate human resources are also appointed as statutory auditors at our main subsidiaries for the purpose of improving the effectiveness of auditing and informational exchange at these companies. Meetings of Statutory Auditors of Sumitomo Forestry and its subsidiary companies are held with members composed of full-time statutory auditors of Sumitomo Forestry as well as auditors of our main subsidiaries. This meeting was held five times in fiscal 2022.

### Board of Statutory Auditors

Position* <sup>1</sup>	Name	Responsibility and Significant Concurrent Positions* <sup>1</sup>	Board of Directors* <sup>2</sup>		Board of Statutory Auditors* <sup>2</sup>	
			Attended Meetings (meetings)	Attendance Rate (%)	Attended Meetings (meetings)	Attendance Rate (%)
Senior Statutory Auditor	Akihisa Fukuda	—	15	100	14	100
Statutory Auditor	Toshio Kakumoto* <sup>3</sup>	—	-	-	-	-
Statutory Auditor (Outside)	Yoshitsugu Minagawa	Chief Counselor of Norinchukin Research Institute Co., Ltd. Supervisory Committee Member of The Norinchukin Bank	14	93	13	93





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Position*1	Name	Responsibility and Significant Concurrent Positions*1	Board of Directors*2		Board of Statutory Auditors*2	
			Attended Meetings (meetings)	Attendance Rate (%)	Attended Meetings (meetings)	Attendance Rate (%)
Statutory Auditor (Outside)	Yoshimasa Tetsu	Certified public accountant, Outside Statutory Auditor, Daiwa Motor Transportation Co., Ltd.	15	100	14	100
Statutory Auditor (Outside)	Makoto Matsuo	Attorney, External Director, Capcom Co., Ltd. (member of the Audit and Supervisory Committee), Outside Director, Solasia Pharma K.K., Outside Statutory Auditor, Taisho Pharmaceutical Holdings Co., Ltd.	15	100	14	100

\*1 Position, responsibility and significant concurrent positions as of March 30, 2023

\*2 Attended meetings and the attendance rate to Board of Directors meetings and Board of Statutory Auditors meetings in fiscal 2022.

\*3 Appointed on March 30, 2023

## Outside Directors

In the selection procedure for outside directors and statutory auditors, determinations are based on the following standards of independence and professional criteria.

### (1) Criteria for independence

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

#### 1. An executive of the Company

An executive officer, operating officer, manager or other type of worker (hereinafter, executive) of the Company, its subsidiary or affiliate

#### 2. Consultant and other

(i) An employee, partner or other type of worker of a financial auditing company conducting financial audits for the Company or its subsidiary.

(ii) A lawyer, certified public accountant, tax attorney or other type of consultant who has received from the Company or its subsidiary outside of director compensation an annual average of 10 million yen or more in money or other types of financial gain in the past three fiscal years.

(iii) An employee, partner, associate or other type of worker of a law office, audit company, tax accountant office,



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consulting firm or other type of advisory firm that is a major transaction party to the Company or its subsidiary (has received from the Company or its subsidiary payment equivalent to 2% or more of average consolidated total revenues of the past three fiscal years).

### 3. Major shareholder (fiduciary owner)

An individual (or in the case of a corporate entity, an executive of that entity) who directly or indirectly owns at least 10% of the Company's total voting rights.

### 4. Major shareholder (owner)

An executive of a corporate entity that the Company or its subsidiary owns at least 10% of their total voting rights.

### 5. Transaction parties

(i) Customers (major transaction parties): An individual (or in the case of a corporate entity, an executive of that entity) to whom our sales amount to that individual or corporate entity is 2% or more of the Company's total consolidated revenues.

(ii) Suppliers (major transaction parties of the Company): An individual (or in the case of a corporate entity, an executive of that entity) to whom our purchase amount from that individual or corporate entity is 2% or more of their c Company's total consolidated revenues.

### 6. Lenders

Lenders who have lent the Company 2% or more of total consolidated assets (or in the case of a corporate entity, an executive of that entity).

### 7. Contribution recipients

An individual (or in the case of a corporate entity, an executive of that entity) that the Company or its subsidiary has contributed an average 10 million yen a year or 2% of total income, whichever is higher, over the past three fiscal years.

### 8. Family

A spouse or relative within the second degree of an individual who cannot be declared independent according to this standard (excluding persons of no importance\*).

### 9. Past requirements

An individual for which item 1 within the past 10 years, or item 2 or 7 within the past 5 years, applies.

### 10. Outside director reciprocal appointments

An executive or full-time auditor of a company that has an outside director who is an executive director or full-time auditor of the Company or its subsidiary.

\* Persons of no importance, in line with the independence standards stipulated by the Financial Instruments Exchange, is defined as follows.

- For each company, an individual who is not an executive director, operating officer, manager or general manager level employee.
- For advisory firms such as law offices, audit companies or other, an individual who is not the firm's employee, partner or associate.

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Three of our current outside directors and three of our outside statutory auditors are considered independent based on the above list of independency criteria, not to pose a conflict of interest with general shareholders.

## (2) Standards of Concurrent Board Positions

- (i) When concurrently holding a board or statutory board member position of another publicly listed company, the number of concurrent board or statutory board member positions will be follows:
  - (a) When serving as an executive director at another company exercising relevant execution of operations, only one company other than this Company;
  - (b) In situations other than (a), up to four companies other than this Company.
- (ii) An attendance rate at the meetings of the Board of Directors or Board of Statutory Auditors of at least 75%.

## Nomination and Remuneration Advisory Committee

The Board of Directors establishes a Nomination and Remuneration Advisory Committee as an advisory body from which it seeks opinions to ensure fairness and transparency in matters including the selection of candidates for the Board of Directors and auditing posts, the selection of executive officers, the dismissal of board members, statutory auditors or executive officers, evaluations of the chief executive officer and other executive officers, and remuneration for board members and executive officers. The Nomination and Remuneration Advisory Committee will consist of the Chairman, the President, and all outside executives (three outside directors and three outside statutory auditors) where the majority must be outside executives, and the chairperson must be an outside director.

The Board of Directors determines the directors and executive officers' remunerations within the amount specified by resolution of the General Meeting of Shareholders, taking into consideration the opinions stated by the Nomination and Remuneration Advisory Committee.



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### List of Nomination and Remuneration Advisory Committee Members

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

\*1 The position as of March 30, 2023

\*2 Attended meetings and the attendance rate to Nomination and Remuneration Advisory Committee meetings are in fiscal 2022.

\*3 Appointed on March 30, 2023

## Risk Management Committee

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

In fiscal 2022, Risk Management Committee was held four times, Compliance Subcommittee was held twice, BCM Subcommittee was held twice, and reports were made four times to Board of Directors respectively.

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## Sustainability Committee

In response to matters including Global Warming, SDGs and human rights issues, the Sustainability Committee was established in fiscal 2018 based on the growing requirements for medium to long-term initiatives and informational disclosure about the Environment, Society and Governance (ESG).

The Sustainability Committee is made up of executive officers also appointed as director, and divisional managers with representative director president and executive officer acting as the Committee chairperson. The Committee is convened four times a year to formulate and promote initiatives for medium to long-term ESG challenges related to the sustainability of the Sumitomo Forestry Group including climate change in addition to analyzing risks and opportunities, conducting progress management of the Mid-Term Sustainability Targets, which incorporate business strategies toward achieving the SDGs, including monitoring of implementation and effectiveness of the Our Values and Code of Conduct.

The content of all committee proceedings is reported to the Board of Directors to enable our business operations to become part of the solution for social issues.

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[> Risk Management Framework](#)

[> Responding to TCFD](#)

## Internal Audits

Sumitomo Forestry's Internal Audit Department draws on risk assessments in selecting about 60 business sites from among the roughly 200 business sites in the Group every year to conduct internal audits. The sites are selected by specifying an order of priority based on the two perspectives of operational risk (business results, size, complexity of business, etc.) and control risk (risk management framework). In principle, the assessment will be conducted by visiting the site, interviewing the parties concerned, and checking the actual documents and other items. We also conducted some interviews by remote audit (paper audit and video conference) during the time of travel restrictions because of outbreak of coronavirus disease (COVID-19). In addition, the company has been promoting DX on the occasion of calamity of coronavirus disease (COVID-19), including introduction of audit software to work on Computer Assisted Audit Techniques (CAATs), a technique for extracting large amounts of digital data and using audit tools to verify the validity of numerical values.

In the internal audits, the department checks on how a business site is executing its operations and managing its office work, including its compliance with laws and regulations, and it reports its findings to the President, the executive officer in charge of internal audits and to internal statutory auditors, as well as to the manager responsible for the business site and the executive officer or director in charge of the business site. Furthermore, plans and results regarding internal audits are reported directly to the Board of Directors, and a discussion session with outside officers has been held at least once a year regarding internal audits.

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## Executive Remuneration

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

### Total Remuneration Paid to Directors and Statutory Auditors

(Fiscal 2022)

Officer classification	Total amount of remunerations (million yen)	Total amount by type of remuneration (million yen)				Number of eligible officers (persons)
		Monthly remuneration	Financial - performance-based remuneration (bonus)	Non-monetary remuneration		
				Old system (before March 2022)	New system (after March 2022)	
				Restricted stock remuneration	Financial-performance-based restricted stock remuneration	
Director (excluding outside directors)	489	267	163	8	51	7
Auditor (excluding statutory auditors)	50	50	–	–	–	2
Outside Director	41	41	–	–	–	3
Outside Statutory Auditor	33	33	–	–	–	3

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

\*2 The above includes one director who retired at the conclusion of the 82nd Ordinary General Meeting of Shareholders held on March 29, 2022.

\*3 The total amount of non-monetary remuneration for directors is respectively (i) 8 million yen, the amount to be expensed in the current financial year in respect of the allotment of restricted shares granted to six directors (excluding outside directors) under the old system (a remuneration plan for shares with restriction on transfer before March 2022) and (ii) 51 million yen, the amount to be expensed in the current financial year in respect of the allotment of restricted shares under the new system (performance-based remuneration plan for shares with restriction on transfer after March 2022), which is the estimated amount of monetary compensation claims based on the estimated number of shares to be delivered after the three-year evaluation period.

## Executive Remuneration

[Remuneration for directors]

### 1. Basic policies

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

- (i) The remuneration plan should be highly linked not only to short-term performance but also to medium- to long-term performance and improvement of corporate value;



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- (ii) The plan should be linked to the value to be newly created and provided in the course of promoting the ESG integrated management;
- (iii) The plan should be designed to be linked to the shareholder value of the Company;
- (iv) The remuneration level should be such that the Company can secure and maintain the human resources necessary to achieve its long-term vision; and
- (v) The plan should ensure transparency and objectivity in the remuneration determination process.

## 2. Remuneration level

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

## 3. Composition of remuneration

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

A summary of each type of remuneration is as follows:

### <Fixed remuneration>

1. The Company will determine the amount of fixed remuneration for each position of director in accordance with their responsibilities and roles. The fixed remuneration will be monthly, and a fixed amount will be paid in cash on a fixed date of each month.
2. The amount of remuneration for outside directors, consisting only of monthly remuneration as fixed remuneration, will be determined in accordance with their responsibilities and roles.

### <Annual performance-based bonus>

1. The amount of annual performance-based bonus will be judged comprehensively and determined by multiplying the standard bonus amount stipulated for each position with a payout ratio that fluctuates (lower limit 0%~upper limit 180%) in proportion to the base profit for each business year (the amount obtained by deducting actuarial differences regarding employees' retirement benefit obligation and net income attributable to non-controlling interests from consolidated recurring income for the relevant fiscal year).
2. The Company has adopted the method of amortizing actuarial differences regarding employees' retirement benefit obligation as a lump sum in a single business year. Accordingly, any significant fluctuation in actuarial differences due to stock price fluctuations, interest rate conditions, or other at the end of the business year will have a significant impact on business performance. Therefore, to calculate base profit, the Company uses consolidated recurring income after deducting actuarial differences regarding employees' retirement benefit obligation.
3. Payment of annual performance-based bonus to each eligible director will be decided upon by the Board of Directors taking into consideration the opinions of the Nomination and Remuneration Advisory Committee, which is chaired by an outside



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director and in which a majority of its members are outside officers.

#### <Performance-based restricted stock remuneration>

1. Performance-based restricted stock remuneration is structured to reflect the Company's performance during each period (three years) of the Medium-Term Management Plan. The standard stock remuneration amount prescribed for each position consists of (i) a portion linked to the growth rate of the Company's market capitalization relative to TOPIX (two-thirds of the standard stock remuneration amount by position), and (ii) a portion linked to the achievement rate of SBT (Science Based Targets) greenhouse gas emission reduction targets (one-third of the standard stock remuneration amount by position), each during the relevant period.

To promote management that emphasizes medium- to long-term enhancement of shareholder value, performance-based restricted stock remuneration is a plan to grant restricted stocks to eligible directors after the final fiscal year of the three-year Medium-Term Management Plan as an incentive to increase corporate value during the period of the Medium-Term Management Plan, in accordance with the achievement status of the Medium-Term Management Plan. The applicable period of the plan is the three years from January 1, 2022, to December 31, 2024 (hereinafter, the applicable period).

The amount of performance-based restricted stock remuneration is calculated using two indices and the method for calculation is as follows.

- (i) Remuneration linked to market capitalization growth rate

The aim of this system is to compare the Company's market capitalization growth rate with the TOPIX growth rate to objectively measure and reflect the Company's relative stock market valuation in the remuneration amount.

<Calculation formula> Amount equivalent to two-thirds of the standard stock compensation amount by position x payout ratio (growth rate of Company's market capitalization during the period of the Medium-Term Management Plan/TOPIX growth rate during the same period)\*

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

- (ii) Remuneration linked to sustainability indices achievement rate

By setting a payout ratio upper limit of 100%, if the Company fails to achieve its SBT (Science Based Targets<sup>\*1</sup>) greenhouse gas emission reduction targets<sup>\*2</sup>, the amount of remuneration will be reduced from the standard stock remuneration amount in accordance with the status of target achievement, thereby creating a strong incentive to achieve the targets.

<Calculation formula> One-third of the standard stock remuneration amount by position x payout ratio (percentage of achievement of Medium-Term Management Plan SBT greenhouse gas emission reduction targets)<sup>\*3</sup>

<sup>\*1</sup> Refers to the emission reduction targets set by companies and to be achieved in five to fifteen years to comply with the level required by the Paris Agreement that was adopted at the 21st Session of the Conference of the Parties to the United Nations Framework Convention on Climate Change (COP21) and took effect in 2016 (which sets a goal of limiting global warming to well below 2°C above pre-industrial levels and pursuing efforts to limit the increase to 1.5°C).

<sup>\*2</sup> The emission reduction target for the initial coverage period has been set at -21.7% compared to the Company's figures in fiscal 2017.

<sup>\*3</sup> The payout ratio range will be from 0% (lower limit) to 100% (upper limit).

2. The stock remuneration amount to be paid to each eligible director will be determined by the Board of Directors after the end of the subject period by calculating the cumulative amount of stock remuneration during the subject period based on the actual value of each evaluation index and considering the views of the Nomination and Remuneration Advisory Committee.





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#### 4. Remuneration composition ratio

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

#### 5. Remuneration governance

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

#### 6. Forfeiture of remuneration

If the Board of Directors confirms any wrongdoing or other misconduct by a director, the Company may demand a payment restriction or return of the performance-based restricted stock remuneration paid to such director.

#### [Remuneration for Statutory Auditor]

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

## Strategically-held Shares

Article 5 of Sumitomo Forestry's Basic Policy on Corporate Governance cross-shareholding is as follows.

1. The Company may acquire and hold shares in its business partners and counterparties when the Company determines that such shareholdings will contribute to mid- to long-term enhancement of the Company's corporate value from the perspective of, among others, maintenance and reinforcement of long-term and stable business relationships with those partners and counterparties as well as expansion of the Company's business as a result of such closer ties with those parties.
2. At meetings of the Board of Directors, the Company will regularly examine whether the holdings of the shares under the preceding paragraph (the "Strategically-held Shares") lead to the improvement of its corporate value through analyzing the relationship between the profits/risks associated with such holdings and the cost of capital, and will verify the purpose and rationale of such holdings. When the Company judges that the rationale and necessity of such holdings cannot be confirmed, it will reduce the number of such Strategically-held Shares.
3. The Company will appropriately exercise its voting rights pertaining to the Strategically-held Shares in accordance with its voting criteria and based on its comprehensive judgment from the perspective of the improvement of its corporate value.

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# Governance

## Risk Management

### Risk Management Framework

In order to reinforce its framework for managing business risks for the entire Group, Sumitomo Forestry has created the Risk Management Basic Regulations and has appointed the President of Sumitomo Forestry as the highest authority on risk management for the Sumitomo Forestry Group, Executive Officers in charge of Head Office Department and each Division have been appointed authorities on risk management of their department, and general managers have been appointed to promote risk management. The Regulation encompasses risks in environmental, social, and governance aspects, comprehensively.

In addition, the Risk Management Committee comprised of Executive Officers as members is held once every three months in accordance with the Regulation to identify and analyze management risks as well as share and discuss plans to respond to those risks that have been formulated. A Compliance Subcommittee and a Business Continuity Management (BCM) Subcommittee have also been established under the command of the Risk Management Committee to carry out specific activities for increasing effectiveness of responses to compliance and business interruption risks regarded as cross-sectional risks affecting the Group. The Board of Directors receives reports on these activities while management has put in place a system to reflect this in business execution, such as the implementation of management reviews. In fiscal 2022, Risk Management Committee was held four times, Compliance Subcommittee was held twice, BCM Subcommittee was held twice, and reports to Board of Directors were made four times respectively.

We keep developing specific activities to improve the effectiveness in our response to environmental, social, and governance risks and emerging risks described in Sumitomo Forestry Group Code of Conduct. With respect to climate change, for example, international trends are considered together with the business condition of each Division in order to evaluate risks and opportunities that are thought to have a severe financial impact at the corporate and divisional levels. Since fiscal 2019, each Division joined together in conducting TCFD-based scenario analyses.

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

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[> Corporate Governance and Internal Control](#)

[> Business Continuity Management System](#)

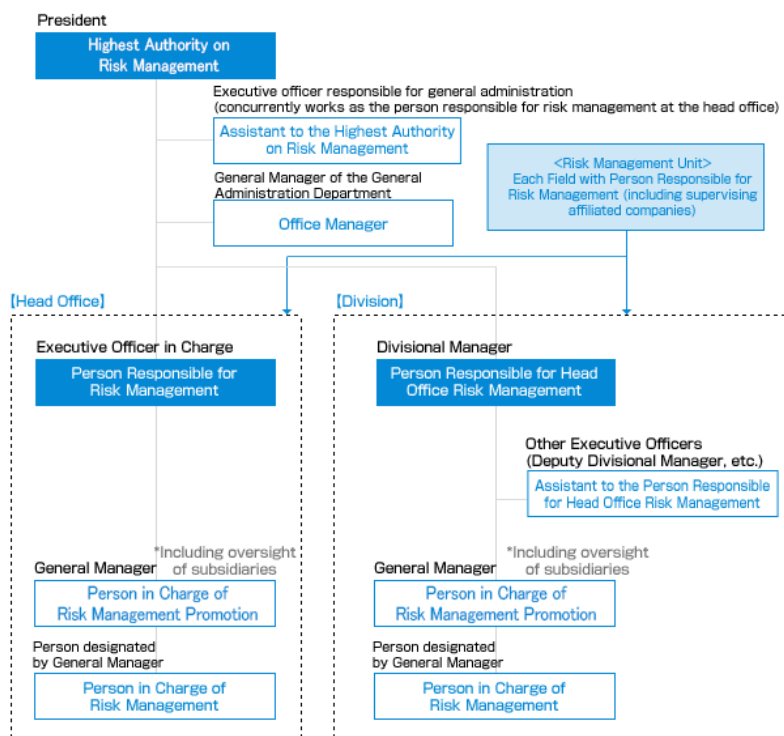
[> Sustainability Committee](#)

[> Responding to TCFD](#)



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## Risk Management Structure of the Sumitomo Forestry Group



## Risks in Operations

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

1. Risks related to trends in housing and real estate markets worldwide
2. Risks related to procurement and sales of raw materials, timber and building materials
3. Legal and regulatory risks
4. Foreign exchange risks
5. Quality assurance risks
6. Credit facility risks of business partners
7. Overseas business risks
8. Risks of mountain forests and plantation forest operation locations held and managed
9. Risks involving information security
10. Risks in accounting retirement benefits
11. Risks regarding the environment including climate change
12. Risks of emergency situations caused by natural disasters, etc.



## Risks associated with quality assurance

Sumitomo Forestry Home Tech (Home Tech), which is undertaking a reform project, announced its Non-Conformance to Building Standards Act (This Case) in the extension work of detached houses on September 18, 2019. Home Tech conducted an on-site examination of the extension works to the detached houses in the prefectures of Aichi, Mie and Gifu (the "Three Tokai Prefectures") that it had contracted for in the past. Furthermore, on September 27, 2019, Home Tech established a special investigation committee composed by members including outside experts (the "Special Investigation Committee") and requested that the Special Investigation Committee investigate the facts, analyze the causes of the Incidents and propose recurrence prevention measures, and received "Report" ("This Report") from the Special Investigation Committee on August 11, 2020.

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

### 1. Outline of the results and progress of investigation by Home Tech

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

As a result of the investigation, we confirmed that 219 of the 347 cases for which the case inspection was completed as of December 31, 2022 had Non-conformance with the Act, and 129 of them had been repaired. These Legal Non-Conformances were all caused by the fact that the design work that should be adapted to the Building Standards Act had not been properly implemented, and the work necessary to conform to the Act had not been incorporated into the design. Home Tech will endeavor to promptly carry out the necessary repair works with respect to which the Legal Non-conformance has been confirmed.

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

### 2. Causes of the Incidents

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

- (1) Building designers lacked sufficient knowledge and experiences and had a low regard for ensuring the Legal Conformance;
- (2) No organizational checks had been conducted to ensure the Legal Conformance of design work;
- (3) The managing architects stationed at each of the branches, who were supposed to supervise the technical matters

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in the architectural office, were not in a condition to fulfill their functions to oversee the design work by the architects belonging to their respective branches; and

(4) With respect to checking of the Legal Conformance of the design drawings, the scope of the tasks outsourced to independent architectural offices was not clear, and the deliverables of the outsourced tasks had not been sufficiently checked.

### 3. Recurrence prevention measures based on the Incidents

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

Raising of awareness of compliance of design work with laws and regulations, acquisition of pertinent knowledge and accumulation of relevant experiences;

Reinforcement of organizational checking systems to ensure the Legal Conformance of designs;

Improvement of outsourcing to independent architectural offices; and

Enhancement of communications between the head office and branches as well as sharing and accumulation of technical and technological information.

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[Securities Reports/Internal Control Reports \(in Japanese\)](#)

[Compliance](#)

[Business Continuity Management](#)

## Risks Associated with Illegal Logging and Conversion Timber

Illegal logging is recognized as a crucial issue globally, and progress is being made to strengthen related laws and regulations in a number of countries and regions. Japan has announced the Act on Promotion of Use and Distribution of Legally-Harvested Wood and Wood Products (The Clean Wood Act) on May 20, 2016, which was enacted on May 20, 2017. Addressing stronger control of illegally harvested wood not only responds to the requirements of the world but it is also extremely important for the Sumitomo Forestry Group to continue businesses sustainably. Fiscal 2020 results of departments and affiliated companies registered by the Sumitomo Forestry Group have been reported to each registration agency certified by the Japanese government. In addition to legality of the procured timber and wood products, sustainability of forests that produce wood has been in question recently. "Conversion timber" is timber generated during the conversion of natural forest areas to non-forest use (such as oil palm plantation). While the conversion to farm land is often discussed from the commodity side (oil palm, soy, rubber and cattle), conversion timber now poses sustainability risks to forestry industry.

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[Responsible Material Procurement](#)

[Supply Chain Management](#)

### Impact on the Sumitomo Forestry Group

The Sumitomo Forestry Group could jeopardize its own businesses that handle wood resources if it neglected its duty and dealt in illegally logged timber. Moreover, these actions would harm the image of the Company and could directly damage our business performance such as compensation for damage and turnover.

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## Risk Countermeasures

The Sumitomo Forestry Group has been committed to responsible wood procurement, pioneering legislation in Japan and having established the Timber Procurement Philosophy and Policy in 2005, to bring contributions to a sustainable society via business activities of "wood" - a renewable resource. In 2015, Timber Procurement Philosophy and Policy was extended beyond wood and became subject to procurement of building materials, raw materials of products, and end products, and reestablished as Sumitomo Forestry Group Procurement Policy. We have also been engaged in responsible wood procurement activities since 2018, formulating the Timber Procurement Management Regulations and Timber Procurement Due Diligence Manual among other measures. Sumitomo Forestry has drafted and is executing an action plan to accomplish by the end of fiscal 2021 founded in the fiscal 2019 actions for strengthening due diligence through the Timber Procurement Committee and diffusing the use of sustainable forests and wood to promote the procurement of timber from more sustainable forests.

[Click here for related information](#)

[Distribution Business Initiatives](#)

## Risks Associated with Carbon Accounting on Biomass Fuel

Biomass power generation using wood chips and wood pellets as fuel has been considered as "carbon neutral" and as clean energy. However, since burning wood fuel generates methane (CH<sub>4</sub>) and nitrous oxide (N<sub>2</sub>O), making it not "GHG neutral," it is only required to report emissions other than CO<sub>2</sub>. However, SBT initiative announced its updated criteria in April 2021;

Bioenergy accounting:

Direct emissions from the combustion of biomass and biofuels, as well as GHG removals associated with bioenergy feedstock<sup>1</sup>, must be included alongside the company's inventory and must be included in the target boundary when setting a science-based target and when reporting progress against that target. If biogenic emissions from biomass and biofuels are considered climate neutral, the Company must provide justification of the underlying assumptions. Emission of N<sub>2</sub>O and CH<sub>4</sub> by bioenergy raw materials must also be included in the Company inventory and targeted range.

Nevertheless, detailed information is not yet available from the initiative, nor the guidance on what could be the justification for biomass to be considered climate neutral.

### Impact on the Sumitomo Forestry Group

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

If it is required to add CO<sub>2</sub> emissions to currently reported methane (CH<sub>4</sub>) and nitrous oxide (N<sub>2</sub>O) from the biomass power generation operation, Sumitomo Forestry Group's SBT emission reduction target would be extremely challenging.

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

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### Risk Countermeasures

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

### Risk Associated to Emerging ESG Mandatory Disclosures

In June 2023, the International Sustainability Standards Board (ISSB) released its inaugural standards which set out requirements for sustainability-related (**IFRS S1**) and climate-related (**IFRS S2**) financial disclosures (ISSB Standards) for business entities. The new standards consolidate the requirements of multiple other leading sustainability reporting frameworks and is expected to be mandated by regulatory authorities. While it is a welcoming trend for business in a long run with a globally unified standard to report against and lowering cost of sustainability disclosure, transitional period poses a great risk for companies to adopt to new mandates coming into forces on a different time scale in each country.

#### Impact on the Sumitomo Forestry Group

Sumitomo Forestry, headquartered in Japan and listed on the Tokyo Stock Exchange Prime Market, is required to follow the regulations by the Financial Agency of Japan, which plans to adopt the ISSB standards in 2025. In addition to Japan, the Group has its operations in, sources from and sell to about thirty countries, and each jurisdictional decision would affect the Group. These sustainability disclosure requirement trends coincide our rapid growth in overseas operations through merges and acquisitions and collecting and managing especially social aspects of non-financial data and measures poses challenges to the Group. While Scope 3 disclosure has already been realized and been updated, among already known requirements, below are time consuming and cost rising items we need to adopt; simultaneous reporting with the financial statement, connected information to sustainability-related risks and opportunities linking to the financial reporting information, and potentially broader third-party assurance to name a few. With IFRS intention to expand the disclosure content, biodiversity, human rights in supply chain and human capital development are in scope for the future requirements. Failing to meet these disclosure requirements or disclosing incorrect information would risk our access to market, which jeopardizes the fundraising.

### Risk Countermeasures

Sumitomo Forestry Group has been conducting Internal Sustainability Survey since 2012 to collect non-financial data, review sustainability readiness of each Group entity and to implement any necessary measures to mitigate risks. Building up on these initiatives, we plan to incorporate necessary measures in the upcoming mid-term sustainability target.

### New Business Plan Risk Assessment

All new business and project plans that are brought for deliberation to the Board of Directors and the Executive Committee, which is the advisory body to the president, Sumitomo Forestry conducts risk assessment for the following categories, considering the entire supply chain. If a risk is confirmed, a report is made regarding the risk and measures to deal with it, which is used to determine implementation. In addition, the same risk assessment is recommended for new business projects that are not brought for deliberation to these meetings because they can be implemented under the jurisdiction of the respective Division or affiliated company. In fiscal year 2022, 35 new businesses and projects were discussed.

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

## Understanding and Assessing Housing and Real Estate Development Risks

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

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



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

## Risk Education

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

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

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> [Communication in Employee Evaluation and  
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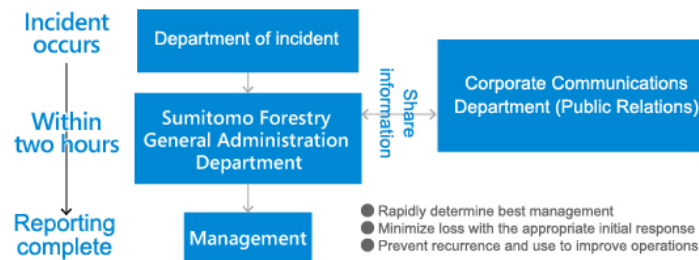
## Rapidly Comprehending and Dealing with Risks

The Sumitomo Forestry Group operates Two-hour Rule system designed to quickly and accurately communicate information to management in the event of an emergency situation that may have a grave impact on company management. In addition to the regular reporting line, it utilizes communication via the Division responsible for risk management. Through this system, management can take the best decision speedily, ensuring an initial response which avoids loss and controls the situation. Moreover, it serves a role in collecting and accumulating reported cases and assists in improved business practice and prevention of recurrence.

At our overseas offices, too, there are examples of employees providing feedback with regard to the details of risk assessments. For example, this includes the process where each department identifies latent risks during risk assessment activities and reports them through weekly safety meetings or the presence of reward systems that provide a reward to proposals when a near miss occurs, such as an event that could lead to a serious accident. Through this initiative, we are raising awareness among employees to make it easier to discover risks.

Furthermore, the structure is organized so that, by sharing information with the public relations departments, important situations are disclosed to stakeholders properly and in a timely manner.

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





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# Governance

## Compliance

### Basic Policy

The Sumitomo Forestry Group has established the Sumitomo Forestry Group Code of Conduct as a foundation for its policies and regulations based on its Corporate Philosophy and Our Values. The Sumitomo Forestry Group uses the Code of Conduct for compliance not only at its Group companies but also at its suppliers to prevent corruption such as bribery, engage in fair business practices, maintain informational confidentiality, build healthy relationships with politicians, and respect human rights. In this manner, we ensure that the entire Group's operations follow the Code of Conduct including in the supply chain.

### Compliance Promotion

Sumitomo Forestry established the Compliance Subcommittee as a subordinate organization under the Risk Management Committee, chaired by the general manager of the General Administration Department and comprised of the persons responsible for risk management, including those from the responsible departments at each group company. As a cross-cutting organization across the group, the subcommittee promotes responses to compliance risk. It has established the group standard risk management system and tools to ensure compliance with the Construction Business Act of Japan and other laws throughout the group, for efficient response to compliance risk.

A meeting was held by the committee twice in FY2022 to continuously improve the compliance system through the following activities. Through these efforts, compliance officers of the entire group are able to coordinate their viewpoints from the bottom up and share a sense of crisis.

- Combined inspection of compliance with the Construction Business Act, Act on Architects and Building Engineers, and the Real Estate Brokerage Act
- Combined inspection of safe operation management system
- Combined inspection of compliance with the Subcontracting Act
- Combined inspection of responses to administrative procedures and legal requirements specific to Tsukuba Research Institute and Group companies
- Training led by an outside instructor for employees responding to whistleblowing
- Results and commentary from the compliance survey conducted on all employees of Group companies in Japan

These activities are outlined and reported to the Board of Directors once every quarter to build a system to reflect this information into the execution of our businesses. In addition to making monthly activity reports to auditors and internal audit divisions, any particularly important initiatives or risk information that is common to the group is shared with the auditors in each group company via the meetings of statutory auditors of Sumitomo Forestry and its subsidiary companies. Thus, the group has developed a system for promoting compliance in its lines of business execution using internal and external approaches.



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Based on the Sumitomo Group Procurement Policy, Sumitomo Forestry Group responds to compliance risks in supply chains by working with suppliers to ensure that wood procurement is performed legally and in a sustainable manner with consideration of legal compliance, human rights, labor practices, biodiversity conservation, and local communities. The Wood Procurement Committee convened four times in fiscal 2022 led by the officer in charge of sustainability promotion as chairperson and procurement managers from the Timber and Building Materials Division, Housing Division, and each department procuring timber and wood products at affiliates as members. This committee receives reports on results from local interviews and the Sustainability Procurement Survey, including the level of supplier compliance awareness, and requires corrective actions to rectify any supplier issues found.

## Compliance Training

In order to heighten awareness among each and every employee about compliance, Sumitomo Forestry Group conducts compliance training for new employees to promote their understanding about general compliance issues, such as information security. In fiscal 2022, training was administered to a total of 321 new graduate recruits, and to 95 mid-career recruits (Sumitomo Forestry). Compliance training was also provided to groups of employees at specific levels, including "Training for New General Managers."

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

In FY2022, 12,232 employees of whom 5,611 and 6,621 belong to the parent company and Group companies, respectively, took the class.

## Compliance Hotline

The Sumitomo Forestry Group is committed to creating a workplace environment equipped with a self-corrective function for catching any misconduct concealed in day-to-day operations at an early stage. The Group established the Compliance Hotline (advice desks) in 2002 to allow for the reporting of compliance violations. Furthermore, in October 2019, we put in place a whistleblowing mechanism shared with our main overseas Group companies as our Group expands businesses around the world. An external multilingual operator is used for this reporting system to receive reports in English, Chinese, Indonesian, Vietnamese, and Thai.

We received 31 consultations, including cases of suspected misconduct and harassment in fiscal 2022. In addition, we established an internal whistleblower response system pursuant to the Whistleblower Protection Act, which took effect in June the same year.

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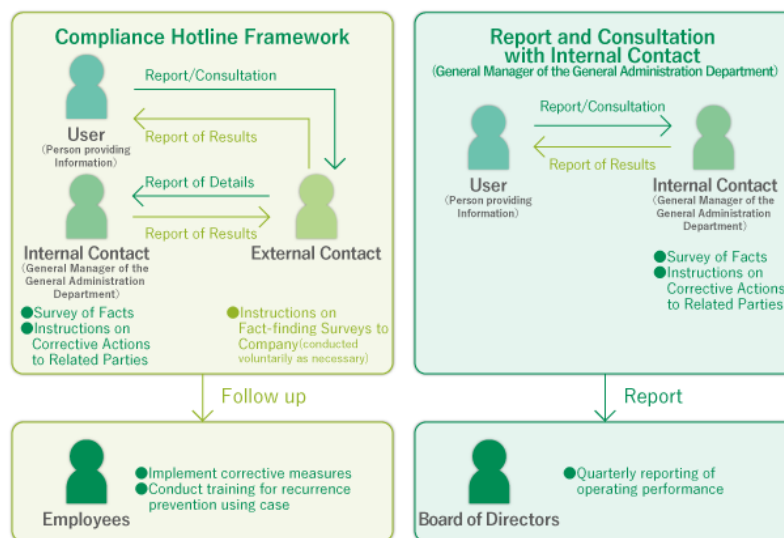
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## Compliance Hotline Framework

The Group has two Compliance Hotlines, one within the Group (general manager of the General Administration Department is responsible) and one external to it (lawyer), ready to provide advice and receive reports via telephone or a dedicated email address. Sumitomo Forestry clarified the protection of rights for persons seeking advice or making reports in relevant regulations while publicizing this information on its intranet. We are also striving to create an environment where everyone can easily use this hotline through measures such as the distribution of leaflets including the contact information—internal and external—for the compliance hotline to all employees including those of Group companies.

When a report is received, an investigation will be carefully conducted. If a compliance violation, etc. is confirmed, necessary corrective measures will be taken. The operating performance of the Compliance Hotline is reported to the Board of Directors quarterly, and case studies of reports are used as learning opportunities in training as needed in an effort to prevent recurrence.

## Compliance Hotline Framework



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[Grievance Desk](#)

## Compliance Auditing

The Sumitomo Forestry Group audits compliance-related matters at each business site through internal audits and follows up with guidance on for corrective actions or improvements for any problems that are found.

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[Internal Audits](#)

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## Preventing Corruption

Based on the Sumitomo Forestry's Regulations for Prevention of Bribery of Officials including Public Servants, we aim preventing corruption both in Japan and overseas. Basic principle of these regulations is to pay attention to facilitation payments (small payments to facilitate ordinary administrative services) and to provide conditions and prior approval for donations such as political contributions. The regulations also stipulate that no offer, promise, implementation, or approval will be made for the provision of money, goods, or other benefits to public officials, etc. We also introduce overseas consolidated subsidiaries common tools such as a Sales Commission Checklist to help prevent bribery. On-site visits to overseas Group companies became difficult due to impact of the coronavirus disease (COVID-19) pandemic. However, we continued to identify risks and educate Group employees by conducting online hearings and training on the status of anti-bribery efforts..

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

Furthermore, there were no reports of bribery, including facilitation payments, taking place in the Sumitomo Forestry Group in fiscal 2022.

## Promotion of Fair Competition and Appropriate Transactions with Subcontractors

Sumitomo Forestry published the Antimonopoly Act Guide Book, and via articles on its intranet website, e-learning and other methods, it works to enhance understanding and awareness regarding the intent and outline of the Antimonopoly Act and about the risk of cartels stemming from contact with competitors, for the purpose of promoting fair competition. To foster understanding and entrenchment of appropriate subcontracting, every year, we conduct combined inspection of compliance with the Subcontract Act (law for preventing delays in payments to subcontractors) in an effort to improve business and commercial practices.

Furthermore, there were no reports that any breaches or issues related to the Antimonopoly Act and Subcontract Act involving any member of the Sumitomo Forestry Group in fiscal 2022.

[Click here for related information](#)

[Partnership Building Declaration](#)

## Political Contributions Policy

The Sumitomo Forestry Group states in its Code of Conduct: "We shall maintain a healthy and transparent relationship with the government that is in conformance with all laws." This statement has been included to ensure a healthy relationship with the government. The Sumitomo Forestry Group Code of Conduct Handbook distributed to every employee working at Group companies in and outside Japan clarifies "As a general rule and in accordance with relevant laws and company regulations, only the division in charge is permitted to make political contributions" and "If circumstances require another division to make a political contribution, make sure that there is adequate prior consultation with the division in charge or top management."

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## Restriction of Insider Trading

The Sumitomo Forestry Group adheres to the Financial Instruments and Exchange Act as well as other relevant laws to prevent insider trading. Regulations to prevent insider trading maintains and improves the trust society has for the company in the stock market by clarifying procedures to prevent insider training by executives and employees as well as the management of information and disclosure methods. In addition, executives and employees who have the potential to come into contact with insider information on a daily basis are required as policy to gain the prior approval of the General Manager of the General Administration Department if they plan to buy or sell company stock to ensure the appropriateness. The Group also has published an Insider Trading Prevention Manual and raises awareness through its internal websites in addition to reminding the executives and employees twice a year about the prevention of insider trading as a general rule.

Furthermore, there were no reports of breaches or issues related to insider trading in the Sumitomo Forestry Group in fiscal 2022.

## Rejection of Influence from Anti-Social Forces

The Sumitomo Forestry Group's Code of Conduct state that the "influence from anti-social forces will be met with a resolute attitude and no compromises will be tolerated" as its basic policy. The General Administration Department is designated as the division to coordinate overall response and systematically cooperates with external expert bodies such as the police and lawyers in order to gather information about anti-social forces, and when required, gives guidance in issuing warning notices. In addition, in accordance with the enforcement of laws of each prefecture for the exclusion of organized crime, Sumitomo Forestry takes appropriate action including standardization such that all contracts that Group companies enter into with third parties include a clause to exclude anti-social forces.

Furthermore, we have requested that all business partners, including existing contracted partners, provide declarations guaranteeing that neither they nor their parent, subsidiary or subcontracting companies are anti-social forces.

## Prevention of Traffic Accidents and Violations

Sumitomo Forestry Group promotes use of a standard Group system for safe driving to manage the risks associated with traffic accidents and violations.

Specifically, Sumitomo Forestry established 10 common items to address, including standardizing accident report forms, acquiring Certified Driving Records\*, and rolling out a Safe Driving Management System which centrally manages basic driver and vehicle information. We have also established systems for ensuring that the fulfillment of statutory obligations and driver instruction are carried out in a timely and appropriate manner, and every year, we conduct combined inspections of compliance under these systems.

We also share the results of analyses on monthly traffic accidents with each business division, which helps in formulating measures to prevent accidents and in educational activities.

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Moreover, we provide safe driver training throughout the year. This includes uniquely tailored practical driving training and safe driving classes for employees with a higher risk of accidents or infractions due to inexperience or inadequate driving skills (new graduate hires, older employees, and employees who have previously caused an accident or infraction, etc.).

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



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# Governance

## Tax

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### Basic Policy

All of the officers and employees of the Sumitomo Forestry Group adhere to laws and regulations, social norms of behavior and corporate regulations to act with the highest regard for ethics. We clarify fair accounting and tax practices based on accurate records in the Sumitomo Forestry Group Code of Conduct that defines basic policy when engaging in business. We also distribute this information to every employee at all Group companies worldwide. We have put in place policies for tax practices as well and strive to maintain and enhance tax compliance through efforts that include awareness raising for employees.

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

### Tax Governance System

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

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

[Click here for related information](#)

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[> Risk Management Framework](#)

[> Compliance Hotline](#)

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## Initiatives Against Tax Risks

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

## Relationships with Tax Authorities

The Sumitomo Forestry Group strives to maintain favorable communication with the tax authorities and remains sincere and honest in all of our correspondences based in facts. In the event an issue is pointed out by the tax authorities, we investigate the cause of the problem immediately and take the appropriate measures to properly correct or improve the problem to prevent recurrence, except in cases involving a formal objection or appeal related to the measures or view of the tax authorities.

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# Business Continuity Management

## Business Continuity Management

### Business Continuity Management System

The Sumitomo Forestry Group has established BCM Subcommittee in order to respond to business interruption risks, such as natural disasters and new strains of influenza, which are extremely difficult to prevent through corporate efforts and may have a significant impact on functions of the head office. We disseminate and strengthen the Business Continuity Management System (BCM system) and formulate, review, and improve the Business Continuity Plan (BCP), and conduct training based on the plan.

In fiscal 2022, the BCM Subcommittee met two times. To deepen understanding of decision making required during a disaster and the information that should be collected, we conducted initial response scenario training led by an outside instructor and carried out inspections on the status of business continuity systems of Group companies, and provided commentary on the future direction of these systems based on the inspection results.

### Resilience certification

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

Sumitomo Forestry has set acquisition of "Resilience Certification" as one of the indicators to evaluate the achievement of the qualitative goal of "strengthening risk management and compliance systems" set forth in the "Mid-Term Management Plan Sustainability Edition 2021." Since fiscal 2019, we have been reviewing and improving our BCM system. In addition, since the Great East Japan Earthquake, through the Japan Wooden Housing Industry Association, to which we belong, we have concluded agreements on disaster prevention and reduction with local governments around the country, and are working to revitalize local communities and solve social issues in addition to building safe and secure communities. As a result of these efforts, we have been awarded certification. We will continue to accelerate our efforts to increase resilience in order to minimize the impact of business disruptions and recoveries from major disasters and pandemics.



**レジリエンス認証**  
事業継続および社会貢献  
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## Ensuring the safety of employees

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

Therefore, we have established an emergency communication system for each organization. In addition, we have introduced a safety confirmation system that automatically transmits information in conjunction with a disaster to each domestic Group company so that more safety information can be obtained before communication becomes concentrated or disconnected after a disaster. In addition to establishing a safety confirmation system through multiple routes, the Safety Confirmation Manual summarizes the matters that each employee should be equipped with on a daily basis in an easy-to-understand manner and is regularly disseminated. Every year, Group companies in Japan conduct safety confirmation drills. A total of 15,505 employees participated in 2022.

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

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

**全従業員用 平時に確認しておくこと**

- 緊急連絡網の確認 (安否報告手段の確認)**  
人事異動の際は、各部署で勤務する緊急連絡網を必ず確認・更新！  
・各組織の緊急連絡網は、安否確認の主ルートです。  
・電話・メール・LINE・LINE@のいずれも活用可能。各組織で定められた緊急連絡手段が有効であることも、定期的に確認してください。
- 安否確認システムの登録情報確認**  
メールアドレスや電話番号は定期的に確認・更新！  
・地震発生時の「安否確認メール」は、安否確認システムに登録されたメールアドレスに届きます。  
・安否確認システムにはメールアドレスを複数登録することができます。例えば、緊急連絡先として勤務先や自宅を登録することができます。  
※緊急連絡メールアドレスは、連絡メールが届かない場合は、必ず登録メールアドレスに連絡をお願いします。  
※安否確認メールが届かない場合は、必ず登録メールアドレスに連絡をお願いします。
- ハザードマップの確認と日頃の情報収集**  
職場や自宅付近の自然災害リスクを確認し、ハザードマップで適切な避難ルートを確認してください。  
避難ルートは必ず事前確認を必ず行ってください。  
※国土交通省 防災ポータルサイト <http://hazard.mhlw.go.jp/>  
※国土交通省 防災ポータルサイト <https://www.mhlw.go.jp/hazard/>

**全従業員用 地震発生時の対応**

**全員必ずやること**  
自分自身や家族の安全を確認してから、次の対応を実施。

- 緊急連絡網で安否状況を報告**  
各組織の緊急連絡網は安否確認の主ルート！  
自分や家族の安否状況、現在地を速やかに報告すること。
- 安否確認メールに応答**  
安否確認メールが届いたら速に返信。  
返信はそのまま、避難後の中心から発信する際の安心ポイントとして報告を本文に入力・返信。  
※安否確認メールは、事前に所属部署の連絡先情報に設定して送信されます。  
※安否確認メールの返信は、送信元情報から確認されます。

**できること**  
会社からの連絡にすぐに応答する。  
安否確認システムに登録されたメールアドレスに返信する。  
安否確認システムに登録された電話番号に返信する。  
安否確認システムに登録されたLINE IDに返信する。  
安否確認システムに登録されたLINE@に返信する。  
安否確認システムに登録されたメールアドレスに返信する。  
安否確認システムに登録された電話番号に返信する。  
安否確認システムに登録されたLINE IDに返信する。  
安否確認システムに登録されたLINE@に返信する。

**主管者用 地震発生時の対応**

**全員必ずやること**  
全員の安全を確認してから、次の対応を実施。

**自分が自身や家族の安全を確認してから、次の対応を実施。**

- 所属員の安否状況を確認**  
所属員への安否確認の安否確認を行う。  
所属員の安否確認の状況が把握できず、安否が確認できない場合は速に報告する。
- BCPortal(所属員安否報告)に報告**  
BCPortalの所属員安否報告フォームから、所属員の安否確認状況や連絡の確保状況を確認する。  
1日目の所属員安否報告は、発生後24時間以内！  
※ 24時間以内の報告は、所属員安否報告フォームから！

**できること**  
安否確認システムからの安否確認メールにすぐに応答する。  
安否確認システムに登録されたメールアドレスに返信する。  
安否確認システムに登録された電話番号に返信する。  
安否確認システムに登録されたLINE IDに返信する。  
安否確認システムに登録されたLINE@に返信する。

Safety Confirmation Manual Summary

## Initiatives for continuity of critical operations

The Sumitomo Forestry Group established the BCM Regulations in October 2019 and has formulated a Business Continuity Plan (BCP) based on the assumption of a crisis event that may cause suspension of the head office functions and a crisis event that may cause damage to the residential safety of a large number of homes, etc. Specific important operations, such as employee safety confirmation and payment, are specified in this BCP. In addition to building a system that enables the

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continuation of important operations at the two bases in Tokyo and Osaka, and working to minimize the impact, such as preparing IT equipment for emergencies, we also take measures such as remote backup of various systems and data necessary for the execution of operations in an emergency.

## Training and Education Activities

At each disaster site, even in a situation where the chain of command with the head office is disconnected, it is necessary for the responsible person to make flexible decisions and respond quickly to the initial response. Therefore, "Simulated Initial Response Training" is implemented to enhance response-ability. This training has been implemented since 2011. It was not implemented due to measures against COVID-19 in 2020. However, the training format was changed to an online format, and training was implemented for a total of 53 operational managers of different sites in 2022.

## Disaster Prevention and Reduction Countermeasures

In preparation for those who have difficulty returning home in the event of a major earthquake, we have established a minimum common standard disaster prevention stockpile at each workplace at all Group sites in case they are required to stay at the office or walk long distances home. In particular, in major urban areas (Tokyo metropolitan area, Osaka city, and Nagoya city) where a large number of people are expected to be unable to return home, we store emergency supplies in anticipation of three days of work stays.

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

## Strengthening Supply Chain Business Continuity Plan

In readiness for potential disruption of its construction business supply chain following a disaster, Sumitomo Forestry shares the specifications and processes for property construction along with site progress status information with business partners including component makers and building contractors. By enabling advanced procurement of materials and production in this way, the Company is striving to reduce the risk of a disruption to operations. However, there were some delays in material procurement and constructions due to the worldwide spread of the COVID-19 in 2020.

In light of this situation, if a supplier is affected by an earthquake or other natural disaster or other accident such as fire, we ask the supplier about the extent of damages and make every effort to continue supply. We will now explore ways to reinforce this system, including systemization for more quickly ascertaining the actual situation at the affected suppliers. In addition, Sumitomo Forestry works to build a purchasing system which has at least two companies that can supply the same materials as a general rule to ensure readiness for these types of unforeseen situations (including at least two production sites for the same materials).

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We are taking measures to prevent delays in procurement materials caused by the COVID-19 pandemic through ongoing discussions with suppliers. We are reducing risks by increasing inventory at each material supplier where delays occurred as a short-term measure and decentralization of production facilities as a medium- to long-term measure, such as setting up production sites in multiple countries rather than single.

Sumitomo Forestry also reviews its suppliers of building and construction materials, with supplier evaluations conducted every year for determining whether to continue business with them. Business continuity items, such as systems for ensuring alternative supply routes during a disaster, have been added to these evaluations. These efforts will work to further reduce risks that may interrupt business operations in the future.

## Continuity of Customer Service

Sumitomo Forestry has setup call centers in Tokyo and Okinawa, thereby facilitating 24-hour after-sales service. (These services entail various consultations including home maintenance/repairs accepted 24 hours a day 365 days a year.)

Sumitomo Forestry has also developed a mechanism whereby any call center can back up the functions of another call center in the event it is affected by a disaster. Through a unified emergency system, the Group can share damage information pertaining to owners nationwide, enabling us to respond quickly to disaster and requests for repairs.

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# Governance

## Information Security/DX

### Information Security Policy

In order to ensure the confidentiality, integrity and availability of its information systems, the Sumitomo Forestry Group is raising the security level of its systems through the enhancement of both the operational rules and technology aspects of information security. Recognizing that the protection of customer information is of particular and utmost importance, the Group continues to conduct employee training to ensure dissemination of the rules and verifies their level of awareness.

### Development of Security Operations System

In terms of operational rules, we have formulated Sumitomo Forestry Group Information Asset Protection Guidelines for all Group companies in Japan and at the same time, created a checklist based on these guidelines. The person responsible for the department in charge of information systems at each Group company conducts checks of the information security level every year. Moreover, we developed guideline of the same level for overseas group companies.

### Increasing Employee Knowledge of Security

All employees of the Group, including temporary employees and part-time employees, are required to take education on information security every year through the intranet. Successful completion of the course is contingent upon passing a test to measure the effectiveness of the course.

Furthermore, in FY2023, we will conduct information security audits in collaboration with the Internal Audit Department in order to investigate on-site compliance with the guidelines and strengthen security measures.

### Strengthening Security Measures

For the technology aspects of information security, the Group has introduced encrypted computer start-ups and data export restrictions on computers that are taken outside the Company.

We responded to the dramatic increase in security risks brought on by the promotion of telework system during the coronavirus disease (COVID-19) pandemic. Sumitomo Forestry enhanced a VPN<sup>\*1</sup> environment employing strong security measure, which were expanded to all of its Group companies. Additionally, in FY2023, we will develop a support system for overseas Group companies in an effort to speed up the execution of measures for strengthening security measures following the guidelines.

Sumitomo Forestry had no information leaks, cyberattacks or other such issues in fiscal2022.

\*1 A Virtual Private Network (VPN) is technology to expand a private network by configuring a virtual tunnel between users who connect over the Internet, etc.

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## Systems for Protecting the Privacy of Customers (Protection of Personal Information)

Sumitomo Forestry has formulated internal rules to safeguard the personal information of customers, such as the Personal Information Protection Policy and the Personal Information Protection Regulations. In addition, the executive officer responsible for general administration is designated as the chief executive in charge of protection of personal information, the head of each department is assigned as the supervisor and an information security officer is placed in each department. In these ways, the Company has established a protection system that extends from the Head Office through to each office.

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

[Click here for related information](#)

[Personal Information Protection Policy](#)

## Systems for Managing Information Security

### Management System at the Executive Management Level

The general manager of the IT Solutions Department, under the supervision of the executive vice president and executive officer in charge of IT solutions, is responsible for promoting information security measures for the Sumitomo Forestry Group, such as the formulation and management of rules and regulations, the proposal and implementation of technical measures, the education and training of employees, and the investigation of accidents and implementation of countermeasures. The IT Strategy Committee comprised of directors and divisional managers who meet regularly on the progress of information security measures receives reports and gives instructions on measures. Social trends in information security and status of implementation of Sumitomo Forestry Group's measures are periodically reported at the IT Strategy Committee, in which President, the officer in charge of the Administrative Division, and the General Manager of each Business Division participate, and are instructed to take measures.

### Management System On-site

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

Furthermore, the Group also holds regular meetings of the Affiliated Companies IT Managers Council, which is attended by the persons responsible for departments in charge of information systems at Group companies in Japan. The council raises awareness and ensures thorough compliance to the guidelines as well as promotes the introduction of security systems.

The Risk Management Committee, for which all executive officers serve as standing members, stipulates as one of its items for priority management the risk of confidential information leaks due to an outside attack. The committee shares information and



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discusses ways to prevent and reduce the impact of such leaks at committee meetings held regularly every quarter. These activities are reported to the Board of Directors and a system to reflect this in business execution is put in place.

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

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

## Initiatives to Strengthen Information Security

With a growing number of incidents involving leaks of personal information, targeted email attacks and other threats to information security, Sumitomo Forestry Group will continue to make investments in information security in fiscal 2023, including endpoint security enhancement. We have been executing security diagnostics through simulated attack methods at least once a year on any system infrastructure with Internet access. In addition, a training program about targeted email attacks is implemented for all employees in Japan.

### Establishment of CSIRT

Sumitomo Forestry established a CSIRT<sup>1</sup> in October 2022 to conduct monitoring for prevention of security incidents and to have an organization in place to implement appropriate response in case of an incident.

In addition, we conducted practical training on response scenarios in case of a security incident.

<sup>1</sup> Abbreviation for Computer Security Incident Response Team. A dedicated team that addresses incidents considered to pose security threats.

## Promotion of DX

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

### Digitization of business

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

### Digitalization of organization and working methods

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

### Digitalization of customer relations

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

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### Digitalization of society and economy

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

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

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



# Governance

## Intellectual Property Management

### Intellectual Property Management Policy

The proper protection and use of copyrights, trademarks and other intellectual property rights have a major impact on business competitiveness, while illegal actions such as intellectual property rights infringement is one of major risks in corporate management. The Sumitomo Forestry Group strives to properly manage intellectual property rights, including the protection of intellectual property based on the unique characteristics of each business and proper handling of third-party intellectual property as necessary to sustain and improve competitiveness.

### Systems for Managing Intellectual Property

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

### Intellectual Property Education

Sumitomo Forestry Group conducts intellectual property classroom training for employees under a systematic program that compiles content appropriate to each department. The purpose is to systematically teach the correct knowledge and fundamental actions for handling intellectual property from the perspectives of compliance and the risk management of intellectual property. In fiscal 2022, from the perspective of preventing spread of Coronavirus disease (COVID-19), we incorporated group training online, as well as conducting on-site training with a prevention measure against infection in place. We conducted five intellectual property training sessions for persons in charge of research & development, sales planning, advertising and catalog production as well as managers, at the Tsukuba Research Institute, profit centers, and affiliated companies. These sessions were designed for thorough compliance and risk management of intellectual property to prevent infringement of the intellectual property rights of others.

We have also established an environment in which all Sumitomo Forestry Group employees can access intellectual property-related classes that place emphasis on aspects of compliance at all times through our e-learning website. This course is a mandatory course that must be taken by each Sumitomo Group employee every year.

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# Governance

## Responsible Advertising/Promotional Efforts

### Basic Policy

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

### Observance of Laws, Standards and Norms

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

Sumitomo Forestry did not violate any laws or regulations related to marketing or advertising in fiscal 2022. Furthermore, Sumitomo Forestry holds every other month meetings of the Brand Communication Committee, comprised of advertising personnel from relevant departments and Group companies in Japan, holding study sessions that include prevention of non-compliance in an effort to raise awareness. Through these efforts, Sumitomo Forestry made certain of prior checks, and endeavored to ensure customers were not misled by unreliable information.

### Initiatives to Improve Company-Internal Literacy

In fiscal 2022, the Brand Communication Committee held study sessions on the Copyright Act, Portrait rights, Act Against Unjustifiable Premiums and Misleading Representations, and Unfair Competition Prevention, and Trademarks Act. These training sessions bring understanding about laws related to advertising, labeling, and violations that can easily occur as well as evoke caution in managers and other staff in charge of marketing materials.

A web discussion session is also held once a quarter. Additionally, the Committee created website management guidelines and provided relevant division and Group company website teams in Japan with information and instructions on personal information and information security.



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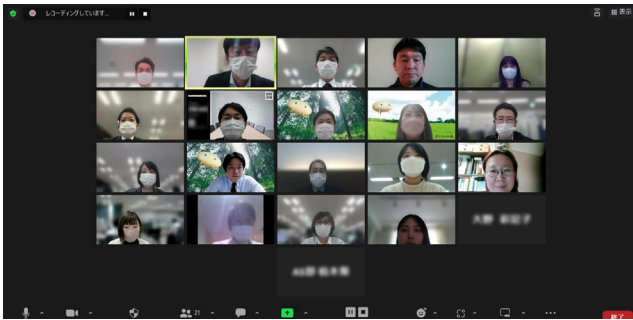
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The Brand Communication Committee



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# Governance

## Return to Shareholders and IR Activities

### Basic Policy

In recent years, institutional investors have shifted the way to evaluate a company. One emphasis from this perspective of evaluation is engagement. The dialogue between companies and their shareholders as well as investors is growing in terms of strategies and efforts to improve corporate value. Trends to promote even broader engagement are growing after the publishing of the Stewardship Code even in Japan.

The Sumitomo Forestry Group places great importance on engagement from the perspectives of properly assessing the corporate value and earning trust from the market. The Group discloses a wide range of information, including non-financial information, in a timely and transparent manner to facilitate understanding among stakeholders of our management policies and business strategies, while regularly feeds back the opinions and requirements of investors who are a vital stakeholder into operations to put in place measures toward sustainable growth.

### Returns to Shareholders

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

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

Going forward, in addition to improving return on equity (ROE) and enhancing shareholders' equity by making good use of retained earnings for effective investment and research and development activities that help improve long-term corporate value, Sumitomo Forestry will continue to pay an appropriate level of shareholder returns in line with earnings while reflecting an overall balanced consideration of factors such as business fundamentals, financial conditions and cash flow.

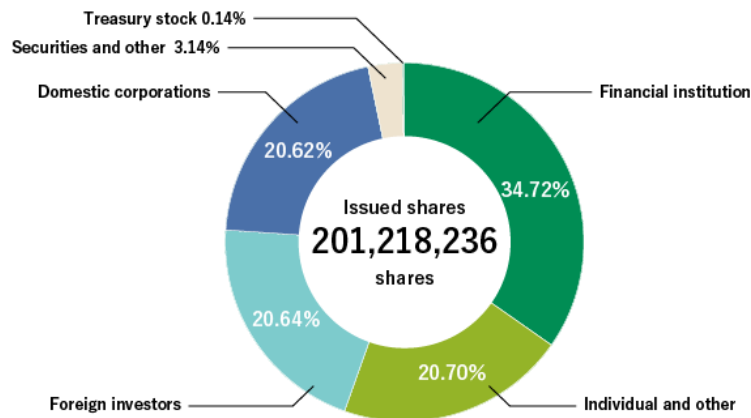
#### Dividends in the Fiscal Year Ended December 31, 2022

In the fiscal year ended December 31, 2022, a year-end dividend of 65 yen per share and an interim dividend of 60 yen per share were issued. This corresponds to a full-year dividend of 125 yen per share.



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## Share Distribution by Shareholder Type (As of December 31, 2022)



\* Digits below unit values displayed are cutoff on the chart

## Information Disclosure and Communication

### Basic Policy on Information Disclosure and Communication

In the interest of greater management transparency, Sumitomo Forestry takes a proactive approach to information disclosure.

We strive to provide reporting and explanations in an easy-to-understand manner at the General Meeting of Shareholders. We also publish a wealth of IR information in Japanese and English such as information about the settlement of accounts that includes short financial statements, fact book and a summary of financial results and forecasts, and monthly order information in the housing businesses on our website. In addition, we also publish detailed information about sustainability initiatives in Japanese and English on our website.

Furthermore, News releases share the latest information about Sumitomo Forestry Group with stakeholders. Sumitomo Forestry published 78 news releases in fiscal 2022.

We have been publishing the Integrated Report since fiscal 2017 in place of the Annual Report published up until now in order to strengthen informational communication for both financial information and non-financial ESG information about the initiatives to improve corporate value throughout the Group. Besides the integrated report and the Japanese language report for shareholders on business activities, we also strive to actively provide information that includes the publishing of notifications for our Ordinary General Meeting of Shareholders in both English and Japanese in print and online forms.

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

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Integrated Report 2022



Japanese reports for shareholders on business activities (Year ended December 31, 2022)

## Two-Way Communication with Shareholders and Investors

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[IR Policy and Disclaimer](#)

### General Meeting of Shareholders

Through various initiatives, we endeavor to get as many shareholders as possible to participate at the meetings and exercise their right to vote. These initiatives include sending out and posting online convocation notices (in Japanese and English) earlier than legally required and accommodating shareholders who wish to cast their votes electronically (online, etc.).

### Individual Meetings

Sumitomo Forestry holds individual meetings with security analysts and institutional investors following the announcement of its quarterly results. In fiscal 2022, we conducted a total of 254 consultations in Japan and overseas. Additionally, we held small meetings focused on the Overseas Housing and Real Estate Business and ESG, and three outside directors engaged in direct dialogue with institutional investors in Japan. We will also regularly hold forums such as small meetings and on-site briefings.

### IR Informative Meetings for Individual Investors

Sumitomo Forestry holds regular IR informative meetings for individual investors. In November 2022, we held two IR informative meetings for individual investors online. During these meetings, we explained about the Sumitomo Forestry Group's history and business lines, in addition to our long-term vision. Meetings were concluded with a Q&A session.



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### IR Activities for Overseas Institutional Investors and Shareholders

Sumitomo Forestry management team held online conferences with institutional investors and shareholders in the United States, Europe, Asia, and other regions in fiscal 2022, in addition to engaging in efforts such as the distribution of English versions of financial information to all of our institutional investors and shareholders overseas. In Europe, we held an overseas roadshow for the first time in three years to exchange ideas in addition to explaining aspects of our business such as our business performance and business strategies.

We also participate in conferences held by stock brokerage firms to have even more opportunities for dialogues.

### Issuance of Green Bonds

Sumitomo Forestry Group promotes initiatives informed by an awareness of the global environment in all of the activities it pursues. In September 2018, as part of this initiative, Sumitomo Forestry issued ten billion yen of Convertible Bonds with Stock Acquisition Rights in accordance with the Green Bond Principles and with a second party opinion received from a leading evaluation agency (hereinafter "Green CBs"). This was the first instance of the issuance of Green CB worldwide, and this advanced initiative was highly evaluated and won the New Products category at the 4th Green Bond Pioneer Awards hosted by the Climate Bonds Initiative as a result. We were the first Japanese company to receive a Green Bond Pioneer Award. This initiative contributes to activating ESG investment markets and expanding the base within and outside of Japan.

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