Environmental and Social Report 2005

Sustainable

SUMITOMO FORESTRY CO.,LTD.

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■ Editorial policy

- Sumitomo Forestry has acquired companywide general ISO 14001 certification, the international standard for environmental management systems, and pursues sound environmental practices across the entire company. To promote understanding of our efforts, we have published an environmental report annually, since September 2001.
- The contents of this year's Environmental and Social Report describe Sumitomo Forestry's awareness of our corporate and social responsibilities and our activities that contribute toward a sustainable society in greater detail than ever before.
- This report was prepared with reference to the following guidelines:
  - The Ministry of the Environment's Environmental Reporting Guidelines, 2003
  - Global Reporting Initiative guidelines
- With a view to enhanced clarity, we incorporated feedback from our readers obtained through a reader's survey included in the 2004 report.

■ Reporting period and scope

- Reporting period: April 2004 to March 2005 (Includes some activities in or after April 2005 and future expectations.)
- Enterprise targeted: Sumitomo Forestry Co., Ltd.
- Parts of this report also cover the activities of the following Group companies:
  Sumitomo Forestry Crest Co., Ltd., Sumitomo Forestry Two-By-Four Homes Co., Ltd., Sumirin Construction Co., Ltd., Sumitomo Forestry Component House Co., Ltd., Sumitomo Forestry Home Tech Co., Ltd., Sumitomo Forestry Home Service Co., Ltd., Sumitomo Forestry Landscaping Co., Ltd., Sumitomo Forestry Timberland Management Co., Ltd., Sumirin Agro-Products Co., Ltd., Sumirin Enterprises, Ltd., Nelson Pine Industries Ltd. (NPIL), Alpine MDF Industries Pty Ltd., P.T. Kutai Timber Indonesia (KTI), P.T. Rimba Partikel Indonesia (RPI), P.T. AST Indonesia (ASTI)
- Understanding the environmental impact of Group companies and reporting in detail on their environmental activities are issues we are in the process of addressing.

■ Publication date

- June 2005 (English version published in September 2005)
- Next year's report is scheduled for publication in June 2006

■ Website

- To disclose our activities to a still wider audience, we also publish information on our website:
  http://www.sfc.co.jp/e/

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This mark on the cover symbolizes our commitment to sustainability.

2004 Highlights

Management Report

Review of fiscal 2004 (as of March 31, 2005)

- Sales: ¥598,853 million (Consolidated: ¥723,193 million)
- Operating income: ¥15,477 million (Consolidated: ¥18,692 million)
- Group companies: 40 subsidiaries, 6 affiliates

Management overview

- Overall, the housing industry experienced a surge in demand as purchases were stimulated by the looming expiration of tax breaks for housing loans. Sales, centered on housing built for sale, were steady. However, sales of owner-occupied housing, a vital part of Group housing business, declined.
- The timber and construction materials industry benefited from a rally in the housing market in the first half, and the market picked up in some product areas. In the second half, however, supply outweighed demand and timber-related products slumped overall.
- Against this background, the Sumitomo Forestry Group worked to improve earning capacity by cutting back housing production costs and carried out some reorganization of its business base aimed at boosting market share of owner-occupied housing in the Greater Tokyo area. We also worked to strengthen consolidated management by such measures as strategically allocating resources to our housing stock business — a priority growth area — as well as overseas businesses and collective housing.

Main organizational changes

- Sumirin Component House Co., Ltd. was dissolved on March 31, 2005, and withdrew from its business of wooden unit housing.
- Our Tokyo headquarters moved from Nishi-Shinjuku in Shinjuku-ku, to Marunouchi in Chiyoda-ku. We also abolished our Osaka head office, which we had maintained along with a Tokyo headquarters, and centralized our organization in the Tokyo headquarters.

Social Report

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Putting customers first

- To realize our commitment to putting customers first, we introduced a customer service management system.
- We operate a 24-hour-a-day, 365-day-a-year after-sales support system.
- We follow up with customers who have sustained damage in natural disasters such as the Chuetsu Earthquake in Niigata Prefecture.
- We received a Minister of Economy, Trade and Industry Award for responding promptly to customer needs.

Meeting the needs of all stakeholders

- We work in concert with construction firms involved in our home building operations to ensure the environment is protected and work safety needs are met.
- Our information disclosure, an indication of corporate transparency, was recognized when we were identified as a company that had demonstrated "outstanding achievements in improving disclosure."

Employment conditions

- We implement employee satisfaction surveys and strive to create a work environment were staff can work to their full potential.
- We introduce positive action initiatives to make the best use of staff with enthusiasm and ability regardless of gender.

Contributing to society

- As tree experts, we carry out afforestation and activities such as regeneration of ancient weeping cherry trees.
- As a good corporate citizen, we contribute to communities at home and abroad and support education.

Environmental Report

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Review of fiscal 2004 (year ended March 31, 2005)

- Sumitomo Forestry Group-owned forests in Japan totaled 40,497 hectares (plantation forest: 49%, natural forest: 42%, other: 9%) as of October 1, 2004.
- CO_2 balance sheet: CO_2 absorbed by Group forests = 231,605 tons; CO_2 emitted by the entire Group in the course of its business activities = 90,751 tons.
- Volume of timber handled: Approximately 4,892,000 m^3 (domestic timber: 1,557,000 m^3, imported timber: 3,336,000 m^3)
- Number of custom-built homes completed: 10,275 homes (of which 9,805 were supplied by Sumitomo Forestry itself rather than Group companies)
- Volume of waste generated by housing construction: 30,400 tons for new construction and 123,569 tons from demolition
- Recycling rate of waste wood generated during housing construction: 84% in new construction and 89% in demolition
- In fiscal 2004 we received no serious complaints, sustained no litigation, and violated no laws or regulations.

Review of activities

- Sumitomo Forestry Co., Ltd. has acquired and maintains companywide certification for its ISO 14001-based environmental management systems. Four Group companies within Japan and three overseas have also acquired ISO 14001 certification.
- Sumitomo Forestry is working to develop technologies that will enable it to effectively use domestic timber saplings and parts of domestic trees hitherto not fit for timber.

Manabu Akaike : Ryu Yano

Why is Sumitomo Forestry committed to the concept of sustainability? For this report Manabu Akaike, President of Universal Design Intelligence Inc., was invited to talk with Sumitomo Forestry President Ryu Yano on the topic of sustainability.

Similarities Between the Sumitomo Spirit and Universal Design

Akaike: As a science and technology journalist, I study corporate operations and social contribution activities. With an unwavering commitment to wood, Sumitomo Forestry makes social contributions in a number of ways, up to and including local construction firms. Today, I would like to ask you to explain the origin of this strong spirit of social contribution.

Yano: I think this attitude is embedded in our roots — the "Sumitomo Spirit." Sumitomo founder, Masatomo Sumitomo, expounded his business philosophy in his "*Monjuin Shiigaki*" (Founder's Precepts), which described how a merchant should conduct his business: "Conduct business that benefits the Emperor, the nation, society, and the people." In accordance with his teachings, we have always put the interests of the customer first and carefully considered the needs of the environment and society rather than being distracted by short-term gains. Over more than 300 years of corporate history, the "Sumitomo Spirit" has become entrenched in our corporate culture. The result is that we naturally act in a way that benefits society.

Akaike: Does the Sumitomo Spirit support your business activities?

Yano: You have put your finger on the key to our company. The "business that benefits society" as extolled in the Sumitomo Spirit is the business of social infrastructure. If we acknowledge that our social infrastructure businesses correspond to the Sumitomo Spirit, they directly link back to the interests of the people and customers, and so fulfill our customer-first philosophy. We believe that the definition: "Sumitomo Spirit = social infrastructure business = customer first" is an eternal formula.

Akaike: Universal design is my own specialty. But listening to you, I can see that universal design overlaps in many ways with the Sumitomo Spirit. As you are aware, before the term "universal design" gained currency, the term "barrier free" was widely used. The difference between the two is that while universal design considers the advantages to all stakeholders associated with a service or product, including for example, suppliers of raw materials, processors and manufacturers, and recycling companies, "barrier free" targets only the elderly or disabled.

It seems as if the Sumitomo Spirit, which seeks to contribute to society as a whole, can be considered the forerunner of universal design.

Yano: In addition to the Sumitomo Spirit, we have established a Corporate Philosophy, Ethical Charter, and Environmental Philosophy. We are immensely proud of these three pillars that supplement the Sumitomo Spirit. I recognize that it is our role to ensure that these pillars continue to be maintained as the coordinate axes of our business.

Manabu Akaike
President of
Universal Design
Intelligence, Inc.

Born in Tokyo 1958. Graduated from Tsukuba University in 1980 with a degree in biology. In addition to operating a think tank undertaking social system design projects, Akaike writes and comments on manufacturing technologies and scientific and philosophic fields. He is an advocate of zero emissions, "bio regionalism," which is concerned with the creation of regional systems using local resources, and "millennial sustainability," which seeks to develop sustainability using renewable bio-resources. He is also involved in numerous industry creation projects utilizing local resources and regional tie-ups.

Use of Domestic Timber Is an Issue of Concern

Akaike: The forests owned by Sumitomo Forestry account for one thousandth of Japan's land area.

Yano: We are conscientious about cutting brush, thinning trees, and maintaining the forest roads in all of our forests throughout Japan. Though our company forests must be commercially viable, because of the difficulty of the situation surrounding forestry today, unfortunately our forests are not currently profitable. So we are working to develop our forest resources while contributing to the natural environment. The key to solving the problem of deterioration of Japan's mountainous forest areas is linked to how to utilize those lands, much of which are often owned by ordinary people such as farmers.

Akaike: I fully agree with you. At Universal Design Intelligence, Inc., we have developed "healthy *hinoki* tatami mats," made of waste Japanese cypress (*hinoki)* domestic timber. The natural components of *hinoki* help control house mites and mold and provide reassurance for those concerned about "sick house" syndrome.

At the same time, processing waste wood into a salable product provides jobs for people working in local mills and forests. While it's only a small thing, creating a cycle that helps curb the degradation of our domestic forests, even a little, is very positive.

Yano: Sumitomo Forestry has developed building materials such as lattice panels and Super Cypress engineered wood, that are based on domestic timber. In our housing business, the ratio of domestic timber is as much as 40% per house, a very high proportion. In the Hokkaido region, utilizing local larch timber has boosted the usage ratio of domestic timber to as high as 80%. Compared to the single-figure ratios of domestic timber use reported by other makers, this is an extremely high proportion. The government is also actively calling for greater use of domestic timber. I believe Sumitomo Forestry must take the lead in this area because we are a responsible participant in the wooden housing industry.

Advanced Technology Contributes to Society

Akaike: I, too, am interested in Sumitomo Forestry's lattice panels and Super Cypress building materials. I believe that the reason Sumitomo Forestry develops these new building materials is because of the technology that supports your sense of corporate mission.

Yano: When we look back on our history, we can see that technology has been a major support. For example, about 15 years ago, we installed CAD/CAM systems with a huge amount of initial investment, and we achieved a tremendous leap in design and calculation efficiency. We also introduced precutting, now considered normal, in advance of our competitors. This achieved a substantial reduction in construction times, making both customers and builders very happy. These results could not have been achieved without technology.

Ryu Yano
President and Chief Executive Officer, Sumitomo Forestry Corporation

Manabu Akaike : Ryu Yano

Akaike: Because of my job, I have many opportunities to speak with building contractors and carpenters, and I find that most give Sumitomo Forestry high praise. When I ask them why, they tell me it's because Sumitomo Forestry provides a wealth of information about both conventional framework construction methods and cutting-edge technologies. It seems they appreciate Sumitomo Forestry's willingness to share its new technologies with those at the building site rather than keeping them in-house.

Universal design means "sharing" with the next generation — our grandchildren.

Yano: As homes are the basis of our lives, the housing business is a social infrastructure business. When a new technology emerges in this area, it is also a kind of public technology. Rather than keeping it to ourselves, we want to please our stakeholders by being as open as possible, and we hope to be recognized as a provider that fulfills social needs.

Akaike: Can you mention any actual examples of new technology contributing to society?

Yano: We have a customer information gathering system known as "CROSS," which can make a contribution depending on how it's used. For example, when a typhoon occurs, we can use it to obtain information on which customers are in the path of the storm and create a useful support system for them. Several years ago we used the CROSS system for a major typhoon in Nara Prefecture, and were able to quickly support those affected.

Akaike: That is a real advantage of IT. You said before that Sumitomo Forestry had responsibilities in the area of wooden housing. This is one expression of that sense of responsibility.

Yano: It's exactly 30 years ago that we entered the housing business, and the president at that time expressed the lofty ideal of building "secure, safe, healthy, robust wooden houses that Japanese like." It's our duty to use advances in technology not just for our own benefit but also for the good of society at large.

However, this noble ideal does not just apply to housing. A few years ago a typhoon seriously damaged a government-owned forest on the slopes of Mt. Fuji, and we helped return the damaged forest to a natural habitat with our Manabi no Mori natural forest restoration project. This project emerged spontaneously from employees when we were making plans to celebrate our 50th anniversary. The Sumitomo Spirit is also expressed in this project. And recently, we began environmental forestry consulting to support other companies' corporate social responsibility (CSR) programs. As long as it relates to trees, we can do it. We are involved in a wide variety of business.

Aiming for Truly Eco-Friendly Housing

Akaike: To move on to something a little different, I recall that you once said: "we study the science of wood," which I thought was very interesting. Several years ago, Sumitomo Forestry actually succeeded in cloning *Togyu no Sakura*, the famed weeping cherry tree of the Daigoji Temple of the Shingon Buddhist sect in Kyoto. I find the idea of a cloned cherry tree both intriguing and romantic.

Yano: For this we used technology acquired through our Indonesian tropical forest regeneration project. This spring we moved the clones to Daigoji

Temple and they flowered there for the first time, quite magnificently. Speaking of biotechnology, we also supplied local entities with technology for converting sludge from water treatment plants into potting mix. Up until then, the sediment had been treated as waste. Normally, biotechnology improves profits, but in our case it hasn't resulted in such great profits (laughs). We are placing more emphasis on social contribution activities.

Akaike: I see (laughs). That brings us back full circle to what the company is doing. For example, the cherry tree cloning technology can be applied to greening the exteriors of houses, and could be used to create attractive gardens that maybe competitors can't create. And the technology for recycling sludge can be used to produce potting mix for gardens.

Yano: There seems to be an element of social contribution in every aspect of our business.

Toward a Sustainable Society

Akaike: That's very true. I'm beginning to see the striking similarity between Sumitomo Forestry's business and serving society. For example, while many companies are involved in afforestation, when you look at how that relates to their operations, there is often not much connection. In that sense, Sumitomo Forestry is thoroughly committed to trees, and this fits with the businesses it operates. This fit equates to Sumitomo Forestry's sense of responsibility.

To repeat what I said before, being sensitive to the needs of the environment and contributing to society links back to Sumitomo Forestry operations and at the same time, leads forward to new environmental responses and contributions to society, taking the company on to higher things. The keywords are "society," "environment," and "economy." By keeping these three in balance, Sumitomo Forestry already enjoys a system for taking its businesses to a higher level.

Finally, I would like to ask about Proudio-BF, the long-life Sumitomo Forestry home launched recently. Because the house can accommodate residents for several generations, it can be considered a "sustainable" house. Would you say that the Proudio-BF is a culmination of the business and social contribution activities that Sumitomo Forestry has pursued to date?

Yano: Yano: In the sense that the characteristic "Big-frame" configuration is the result of our research, it is an aggregation of various activities. But what we were really aiming for was truly eco-friendly housing. All aspects of the house, including the wastes that are generated at the construction stage, must be fully recyclable. But this is just the beginning of the sustainability that the future will demand. There is a lot we need to do yet.

Because houses are the basis of our lives, the housing business is social infrastructure business.

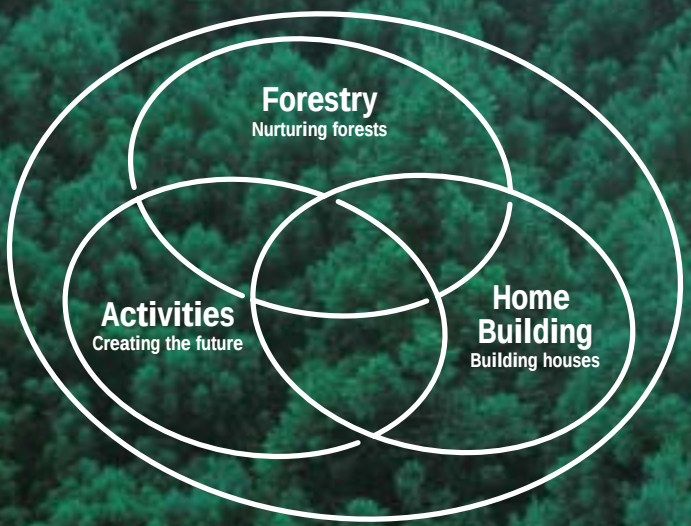
Akaike: "Universal design" translates to something like "common product development" in Japanese, which means commonality or sharing not only with those who are alive today, but also with the next generation — our grandchildren. The real meaning of "universal design" for housing is surely the creation of sustainable homes.

Yano: The 17th head of the Sumitomo family, Kichizaemon Sumitomo, expressed the Sumitomo Spirit as "Leave your self-interest behind, make your way with sincerity." I fully agree with him. As a company responsible for providing wooden housing, how can we contribute to the realization of a sustainable society? Considering this carefully and contributing to social infrastructure that can develop sustainably is an expression of "sincerity."

Akaike: I have every confidence in the ability of Sumitomo Forestry, a leading maker of wooden houses, to rise to the challenge of creating sustainable homes.

Yano: Thank you. We will certainly do our best.

S u s t a i



The Power of Forests Empowers the Future

Sustainable Forestry

Protecting forests for the good of the planet and all who dwell on it

Sustainable Home Building

Utilizing forests to build better lives

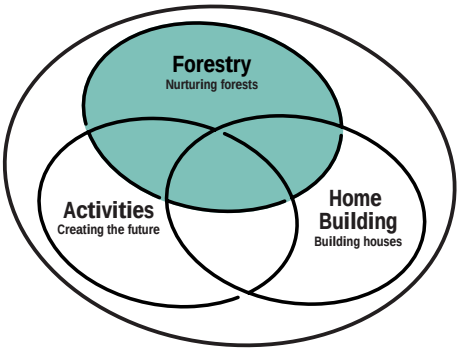
Sustainable Activities

Using our knowledge for the future of the planet

Through businesses utilizing wood, the only renewable resource, the Sumitomo Forestry Group brings happiness to many and contributes to the creation of a prosperous society.


n a b l e

Sustainable Forestry — NURTURING FORESTS —



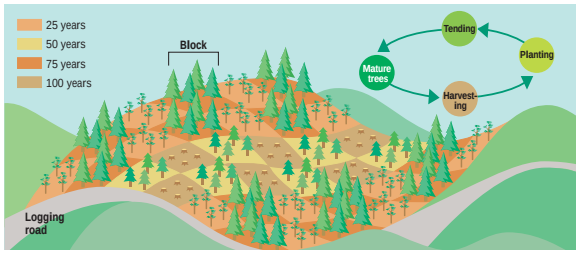
Planting Trees, Growing Forests... Looking 100 Years Ahead

Forestation plans initiated in 1894 were the genesis of the Sumitomo Forestry Group's environmental preservation activities

Founded in1691, Sumitomo Forestry traces its roots to the management of woodlands that supplied timber to the Besshi Copper Mine on the island of Shikoku. To remedy the degradation caused by mine development, the mine manager, Teigo Iba, an entrepreneur of the Sumitomo merchant family, prepared a large-scale forestation plan in the spirit of repaying what had been reaped from the land. This initiative was the origin of Sumitomo Forestry's stewardship.

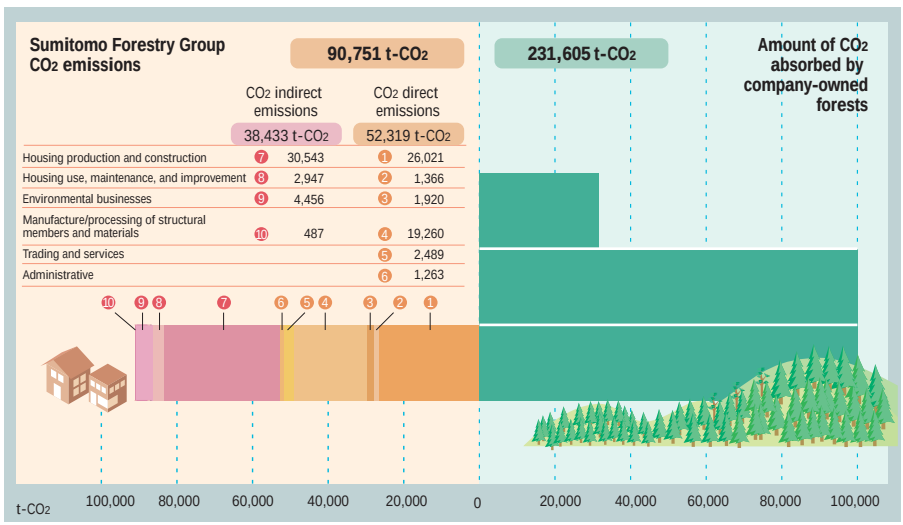
We have nurtured the ideal of sustainable forestry throughout our history

Sumitomo Forestry's company-owned forests are located in Hokkaido, Shikoku, Kyushu, and Wakayama. We have planted trees in forests covering one thousandth of Japan's total land area. We eventually cut those trees, use the timber in our business, return the revenues to the forests, and plant and nurture new forests. We have maintained the concept of "sustainable forestry" over the years and remain committed to the sustainable management of forests today.

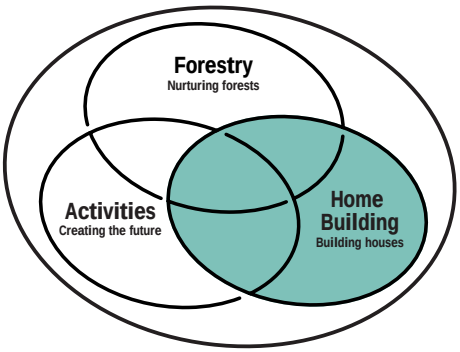


Our forests absorb approximately 2.5 times the amount of CO_2 emitted by our domestic business activities

Through the process of photosynthesis, trees absorb and sequester CO_2. Covering a total of 40,497 hectares, our forests absorb a total of 231,605 tons of CO_2 a year, equivalent to around 2.5 times the amount of CO_2 emissions generated annually by the Group's domestic business activities. The Sumitomo Forestry Group contributes to the prevention of global warming through sustainable forestry management.



Sustainable Home Building — BUILDING HOUSES —



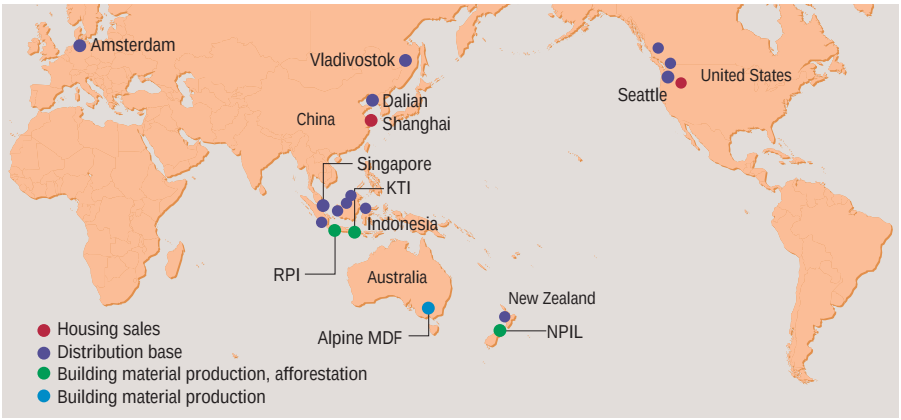
Supporting Lives with a Renewable Resource — Wood

Developing effective uses for thinnings, saplings, and unused timber materials

The Sumitomo Forestry Group manages its company-owned forests throughout Japan through careful planning. In the process of balancing harvesting and planting, the thinnings that are inevitably produced in maintaining the forest are used in such timber products as lattice panels and Super Cypress engineered wood (laminated timber). We also process larch from our Monbetsu Forest in Hokkaido into laminate, turning a timber for which no use had been developed into a useful material. Applications for laminate include poles, beams, and interior fittings.

Effectively using plantation forests and plantation timber overseas

The Sumitomo Forestry Group has established overseas affiliates in New Zealand, Australia, and Indonesia to produce and sell medium-density fiberboard (MDF), laminated veneer lumber (LVL), plywood, and particleboard. Our forests in these countries are also managed to ensure a stable supply of lumber and preserve the environment. Our forestry activities everywhere are based on sustainable management.



Offering highly reliable housing and building materials in Japan and overseas

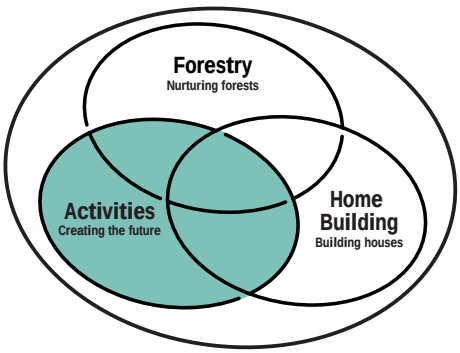
Maximizing our analysis and advisory skills to effectively discern customers' needs, and our distribution systems to rapidly source and sell products, our wood products and building materials distribution business enables us to offer a timely supply of high-value-added timber and building materials in Japan and overseas. In addition to supplying building materials to North America, Oceania, Asia, and Europe, we also sell housing in North America and China.

Sumitomo Forestry houses are based on the ideal of putting the customer's needs first. As well as being comfortable to live in, they also fulfill a range of other needs, including energy conservation, durability, earthquake resistance, and safety. As a total housing and living related business that knows trees and houses, we help our customers create their ideal homes.

Building forests in the city

Even when trees are felled and made into timber, they continue to sequester the CO_2 they have absorbed in the form of carbon. The amount of carbon stocked in each cubic meter of wood is about 0.25 tons. A calculation based on the timber used in a standard wooden home of 147 m^2 reveals that an average home sequesters approximately six tons of carbon, which is equivalent to the amount of carbon in around 900 m^2 of forest. Because of this, building wooden homes is like "building a forest in the city."

Sustainable Activities — CREATING THE FUTURE —



Using our Expertise to Support the Future of the Planet

R&D to help man live in harmony with nature

As a company that lives with trees and is committed to nature, the Sumitomo Forestry Group seeks to bring happiness to large numbers of people and contribute to society in a broad range of areas. Maximizing our expertise on trees, the Tsukuba Research Institute carries out research aimed at realizing these ideals. Our research seeks to improve the functions of housing, identify new possibilities for timber, and enhance the functionality of forests and trees.

Developing cloning technology, regenerating devastated tropical forests

Alarmed by the increasingly serious shrinking of tropical forests, the Sumitomo Forestry Group embarked on a tropical forest regeneration project at Sebulu in East Kalimantan, Indonesia in 1991. This project involved the development of a propagation technique for the large-scale cloning of the tropical rainforest's main native species *Dipterocarp* (Lauan). As a result of this, we were successful in restoring the devastated tropical forest to health. When the project was completed in March 2004, we had regenerated around 277 hectares of forest, and wild animals such as orangutans, deer, and wild pigs had begun to return. Using the know-how we acquired through this regeneration project, we have also been carrying out a Clean Development Mechanism (CDM) feasibility study into afforestation with the local people in another area of Indonesia. We are examining ways of managing forests that are effective in both supporting the sustainable development of the people of Southeast Asia and absorbing CO_2.

Large-scale propagation of clones bring cherry blossoms back to Kyoto's Daigoji Temple

Daigoji Temple in Kyoto, home to the famed *Togyu no Sakura* weeping cherry, was favored by feudal warlord Hideyoshi Toyotomi for cherry blossom viewing. But the temple's weeping cherry was in danger of dying, and a way of preserving it had to be found. Using large-scale clone propagation techniques developed through our tropical forest regeneration project, we recreated cloned seedlings of the tree and returned them to the Daigoji Temple in Kyoto. In April 2005, these seedlings began to blossom in the temple grounds. In the future we plan to use this technology to help save other trees that are in danger of extinction.

Changing from "scrap & build," to creating valuable housing stock

To create a home that is a quality asset able to support its inhabitants from generation to generation, we developed the "Big-frame" (wooden beam Rahmen structure) configuration, which does away with the need for continuous columns, and became the first domestic constructor to obtain Ministry of Land, Infrastructure and Transport approval for the technique. Our three-story "Proudio: BF" home, which uses the new configuration, can be constructed with fewer internal walls than conventional homes, allowing major revisions to the layout to accommodate future changes in the way people live.

Social Report

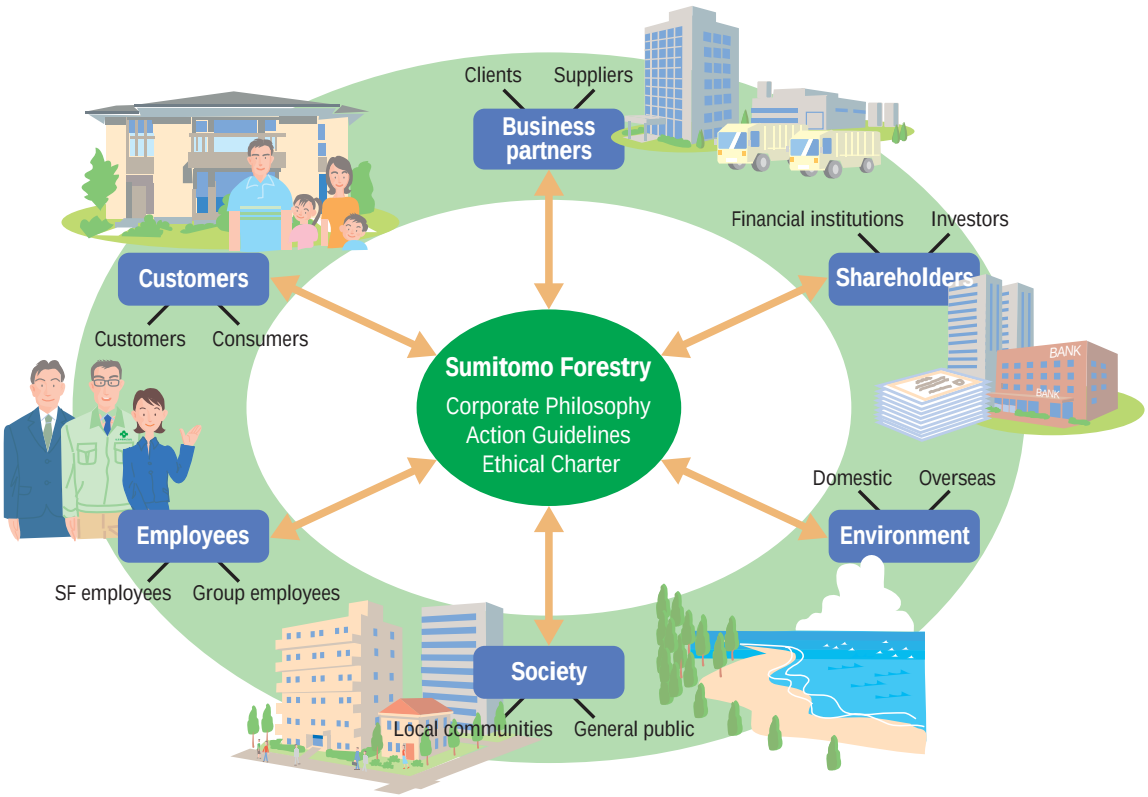
Kazuo Kai
Director
Senior Executive Officer
(Responsible for CSR)

The concept of sustainability is woven into every aspect of our operations

The social order we enjoy today is the valuable legacy of our forefathers who worked to shape our history, while the environment has evolved through the natural processes of our planet. The common issue facing all of us today is the need to pass these gifts on in better condition to the generations to come.

Faced with the rapid deterioration of the environment and structural problems in the social fabric, the way to deal with these issues is to engage not only individuals, but organizations of all kinds, including corporations, governments, and NPOs, and the importance of corporate social responsibility (CSR) is widely recognized. In April 2005, Sumitomo Forestry formed the CSR Promotion Office, uniting the entire Sumitomo Forestry Group in working to create systems that reflect the spirit of CSR. Sumitomo Forestry's history dates back to the Genroku period (1691). Since those days, the "Sumitomo Spirit" has remained at the core of our business management. The Sumitomo Spirit is expressed in precepts such as avoiding the pursuance of easy gains, repaying for what had been reaped from the land, and making your way with sincerity to serve the national interest. These precepts are reflected in today's CSR philosophy in that we endeavor to contribute to the greater good of society through our business activities.

The implementation of our CSR activities draws on the "sustainable" philosophy ingrained in our corporate culture, which developed over more than three centuries of managing forests. We recognize the undeniable fact that our corporate activities rest upon social sustainability, and that our own actions are interwoven with the concept of sustainability in all aspects of our business. We are serious about making sustained efforts to raise the quality of our management until all our actions as a corporation become a practical expression of the principles of CSR.



Our Social Responsibility

Because we enjoy the trust of the community, sustainability must be the basis of all our corporate actions.

Origins of the Sumitomo Forestry Group

Based on the ideals of the Sumitomo Spirit and on repaying for what had been reaped from the land, Sumitomo Forestry has practiced sustainable forestry for more than three centuries. Our Corporate Philosophy of sustainability has become embedded in our corporate culture.

■ The Sumitomo Spirit

The Sumitomo Spirit, the basis of Sumitomo, originated with the "*Monjuin Shiigaki*" (Founder's Precepts) written by founder Masatomo Sumitomo (1585-1652), who expounded how a merchant should conduct his business. These precepts were codified into "Rules Governing the House of Sumitomo" in 1882. These rules developed into the Sumitomo Spirit, which is passed on to Sumitomo staff from generation to generation.

Our Business Principles

Article 1. Sumitomo shall achieve strength and prosperity by placing prime importance on integrity and sound management in the conduct of its business.

Article 2. Sumitomo shall manage its activities with foresight and flexibility in order to cope effectively with the changing times. Under no circumstances, however, shall it pursue easy gains or act imprudently.

■ Repaying for what had been reaped from the land

In the latter half of the 1870s, Japan's mining industry was modernized with the introduction of Western technologies, and forests were devastated by mining. Saddened by this, in 1894 the Besshi copper mine manager, Teigo Iba, introduced a large-scale forestation plan. Every year more than a million Japanese cedar (*sugi*) and cypress (*hinoki*) seedlings were planted, and the Besshi mine precincts were nurtured back to health as a green area. In January 1900, when Teigo Iba was appointed Sumitomo's second Director General, his instructions regarding business activities were that while benefiting Sumitomo itself, they must at the same time promote the welfare of the country and of mankind in general. This spirit was the genesis of the CSR of the Sumitomo Forestry Group.

■ The ideal of sustainable forestry

The cultivation of *sugi* and *hinoki* that started at the Besshi mine developed into sustainable forestry where trees were planted and nurtured into a forest. Trees are replanted whenever timber is harvested. The ideal of sustainability, developed through the practice of sustainable forestry, is a consciousness we strive to maintain.

The Sumitomo Forestry Group approach to CSR

■ Philosophy of CSR

Our corporate philosophy of sustainability is a value that underpins all of the Sumitomo Forestry Group's business. CSR is what we find when we return to Sumitomo's roots and rediscover the corporate philosophy of sustainability. Our activities are aimed at maintaining our position as a corporation that enjoys the trust of society by remembering and fulfilling our social responsibilities.

■ The ideal of sustainability in business

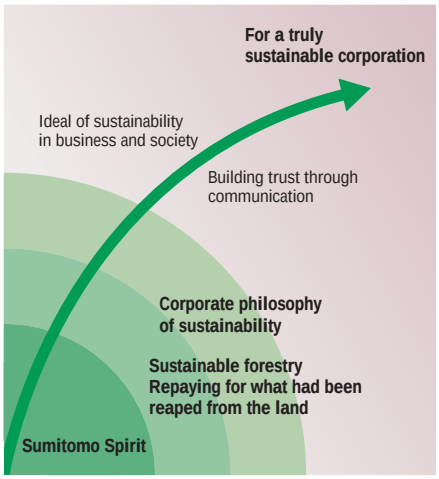
Sustainability applies to all Group business areas. Through our business activities, we contribute to creating a prosperous society in the following ways:

- Business sustainability
  We practice truly sustainable business, adopting the philosophy of sustainability at every level.
- Social sustainability
  We work to resolve social issues through our core business of forestry to help build a better society.
- Investing in future generations
  We actively follow business practices that reflect the needs of future generations and promote efforts to contribute to society.

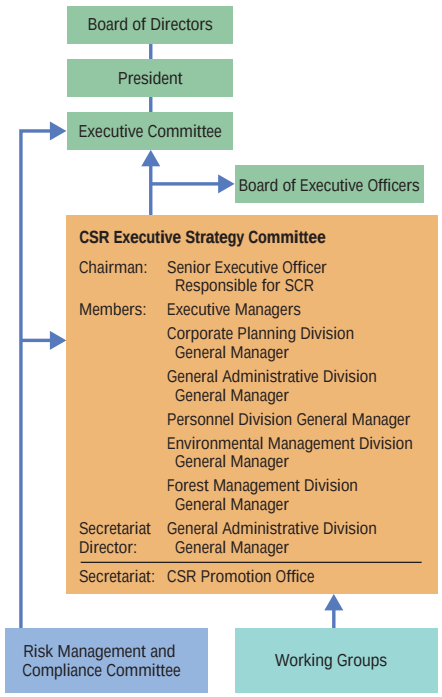
■ Building trust through communication

We build win-win relationships by being acutely sensitive to the needs of society and improving communication with all stakeholders in an effort to become an understanding and responsive member of the community.

Sumitomo Forestry Group's CSR



CSR promotion system



Devastated Besshi copper mine (Meiji Period)

The fully recovered Besshi copper mine today

Our Social Responsibility

Corporate governance

Because it secures management transparency and enables swift decision-making and business execution, the enhancement and strengthening of corporate governance is an issue of the highest priority.

■ Executive officer system

In June 2002, we introduced the executive officer system, which separates decision-making and supervisory functions from business execution functions. The system is intended to speed up management decision making, strengthen supervisory functions and clarify responsibility for business execution.

■ Board of Directors

Board of directors meetings are, as a rule, held once a month. In addition to making decisions on important matters and checking the progress of business results, the board of directors meetings serve the important function of supervising the execution of business.

■ Executive Committee

The Executive Committee, which determines the direction for business strategy, generally meets once a month.

■ Auditing functions

Sumitomo Forestry applies an auditing system that requires two of its four auditors be appointed from outside the company. The auditors attend board of directors and management committee meetings.

Basic risk management and compliance system

For a company to advance its business continuously, a sound risk management system capable of dealing appropriately with various risks is essential. Sumitomo Forestry has developed a risk management system that implements seamless crisis communications functions and strictly monitors compliance. Since it began business 300 years ago, the Sumitomo Group has consistently practiced fundamental risk management and social contribution as the basis of its corporate spirit. As part of the Sumitomo Group, Sumitomo Forestry also respects this spirit that has been passed down through the years, and genuinely embraces risk management and compliance.

■ Role of Risk Management and Compliance Committee

Setting thorough information disclosure, prompt decision-making and action, and a customer-focused perspective as criteria for risk management, we use the natural self-regulation that emerges from a healthy tension between management and business spheres to identify prior risk and take appropriate action.

To complement risk management in everyday business activities, we have also established a Group-wide Risk Management and Compliance Committee headed by the general manager of the General Administrative Division. When specific issues arise, special panels are formed consisting of representatives of the operational level posts concerned, and these panels investigate the situation, devise measures, and provide guidance. As of March 2005, the following panels were gathering information, analyzing risk, and investigating remedial measures.

• Information Security Panel: Ensures the security of information systems

Sumitomo Forestry Ethical Charter

Acknowledging the necessity for a corporate ethical position from an international perspective, aware of our growing corporate responsibility, and resolved to achieve further development as a member of society and to contribute to society, we proclaim the Sumitomo Forestry Ethical Charter and will aim to create a new corporate culture.

1. **We will act as good citizens.**
   Sumitomo Forestry's employees and executives will, as good citizens first and members of the corporation second, comply with ethical principles by obeying the law and respecting the human rights of others.
2. **We will act as good Sumitomo people.**
   Sumitomo Forestry's employees and executives will maintain the spirit of Sumitomo that values impartiality and trust and whose principle is positive and trustworthy management, and will act as good Sumitomo people who enhance this trust.
3. **We will act as good employees.**
   Sumitomo Forestry's employees will act as good employees as they strive to increase the satisfaction of our customers, perform fair transactions, and create safe workplace environments while obeying company regulations and abstaining from unlawful and anti-company actions.
4. **We will act as good executives.**
   Sumitomo Forestry's executives will, conscious of their responsibilities as managers, provide a good example to improve the ethical consciousness within the company, and act as good managers by improving company systems and preparing for unexpected circumstances.
5. **Sumitomo Forestry will act as a good corporate citizen.**
   Sumitomo Forestry will act as a good corporate citizen by contributing to society as a member of that society through its business activities, responding to internationalization by deepening mutual understanding as a good neighbor to other countries, and contributing to the conservation of the global environment.

To maintain our standing as a respected member of society, we recognize the importance of systematic corporate governance and sincere response to the expectations of our stakeholders.

• Personal Information Protection Panel: Meets the needs of the Personal Information Protection Law
• Russia Timber Panel: Verifies the sustainability of Russian timber
• Industrial Wastes-Related Panel: Investigates Group-wide disposal of industrial wastes

Emergency hotline and two-hour rule

To provide a prompt and appropriate response should an emergency occur, we have established a dedicated telephone hotline for employees throughout the Sumitomo Forestry Group. This service can convey emergency information to staff at headquarters involved in risk management 24 hours a day, 365 days a year.

We also instigated a "two-hour rule" for reporting emergencies to top management. Depending on the situation, top management can also use this system to convey instructions for handling the problem.

■ Manuals

Risk response manuals relating to special topics are prepared and distributed to employees. In FY2004, we prepared and distributed two manuals: the "Insider Trading Prevention Manual" and the "Earthquake Manual."

Compliance

Identifying compliance as one of our most important issues, in 1998 we created the Sumitomo Forestry Ethical Charter. The aim was for each employee to understand the concept of compliance and be able to make the right decisions and take the right action based on a healthy respect for the law and sound ethical judgement as a good citizen and a good employee.

■ Compliance Corner

To improve understanding of the significance and importance of compliance, we regularly feature a "Compliance Corner" in our in-house magazine. We are also creating an environment for displaying this information on our in-house Intranet. When a compliance-related incident becomes an issue in the wider community, we provide information on the event and issue cautions to our own managers to remind them not to overlook such points themselves.

■ Compliance Counter

To promptly identify and correct compliance issues difficult to rectify through ordinary business processes, we established the advisory Compliance Counter staffed by the general manager of our General Administrative Division and a consulting lawyer.

As a result of promoting a thorough understanding of the details of the Compliance Counter through our in-house Intranet, in FY2004 employees provided information on four compliance incidents. Measures are taken to protect individual privacy so that no employee is penalized in his or her work as a result of information released through the Compliance Counter.

Measures for the protection of personal information

In response to the Personal Information Protection Law enacted in April 2005, we created our own personal information protection policy. Because of the nature of the products we provide, we store detailed personal information on customers for extended periods of time. For this reason, we established the following thorough personal information protection measures.

• Modification of workflow and standard company forms to disclose the purpose for which personal information will be used
• Revision of in-house regulations and restriction of provision of personal information to third parties
• Security management through implementation of security measures
• Collection of declarations on the protection of personal information from all employees
• Establishment and publicizing of a channel to deal with customer complaints and requests for the disclosure and revision of personal information.

Personal Information Protection Policy

Sumitomo Forestry Co., Ltd. ("the Company") adheres to the laws and ordinances and other norms pertaining to the protection of personal information with respect to the personal information of customers, other parties with which it has business relationships, employees, etc., that it handles in the course of its business activities, and shall formulate internal rules and establish structures for the protection of personal information. For that purpose the Company hereby lays down the Personal Information Protection Policy set out below, and declares that this policy shall be implemented and also revised and improved continuously.

1. The Company shall lay down internal rules such as rules for the protection of personal information, shall ensure that all Company employees (officers, full-time employees, staff employed on a contract basis, temporary staff, part-time staff, etc.) and other persons involved are made thoroughly acquainted with them, and shall implement them.
2. The Company shall formulate and implement appropriate information-security measures such as those to address illegal access and computer viruses, in order to prevent the loss, destruction, tampering, leakage, etc., of personal information.
3. When acquiring personal information, the Company shall do so in a lawful and fair manner and shall state explicitly to, or notify, each person to whom personal information pertains ("the Principal") of the purpose of use, etc., of that personal information, or shall announce this publicly on the Company's website.
4. The Company shall restrict the use of personal information to what is necessary for the performance of its business within the bounds of the purpose of use of that information, and shall not use personal information for any purpose other than its purpose of use unless the consent of the Principal is given in advance.
5. Unless the consent of the Principal is given in advance, the Company shall in principle not provide personal information to a third party.
6. In cases such as those in which the Company provides personal information to a third party that it commissions to undertake some business activity on its behalf, or in which personal information is used jointly with an affiliate of the Company, the Company provides the personal information only to persons that it deems appropriate, and only as necessary for the performance of its business and as recognized by law. In these cases the Company shall conclude the necessary confidentiality agreements with the third parties to which it consigns business and shall take other measures required by law.
7. The Company shall, with respect to personal information that it holds, put in place a structure to enable it to respond promptly in the event that the Principal requests disclosure, amendment, suspension of use, etc.
8. The Company shall endeavor to deal appropriately and quickly with any complaint concerning its handling of personal information, and shall put in place a structure for this purpose.

Working with Our Customers

To meet the expectations of customers, we pursue a "Customer-first" policy as part of our Action Guidelines and work to achieve customer satisfaction in all areas of our business.

Putting customer satisfaction first

The Sumitomo Forestry Group helps build social infrastructure through its forestry, timber, building materials, housing, and greening businesses. Our established Action Guidelines advocate "putting customers first," and we work to make the customer-first approach a reality in all parts of our business.

■ Customer first in the housing business

In the case of housing, which involves large expenditures, failing to deliver satisfaction means that the loss felt by the customer can be huge. To avoid any dissatisfaction, we create optimal plans for customers, including: (1) Home reinforcement and earthquake-proofing; (2) Measures to cope with "sick house" syndrome; (3) Alteration of the layout to cope with future change; and (4) Measures for living in old age. In addition to designs that meet the trend for longer housing life, we also protect customers' valuable assets through long-term guarantees and after-sales follow-up.

Customer first training

■ Customer-First Handbook

To entrench the customer first attitude, we prepared a "Customer-First Handbook" and distributed it to staff company-wide. Illustrated with a wealth of concrete examples, the handbook describes what can be done to meet and exceed customers' expectations.

Customer-First Handbook

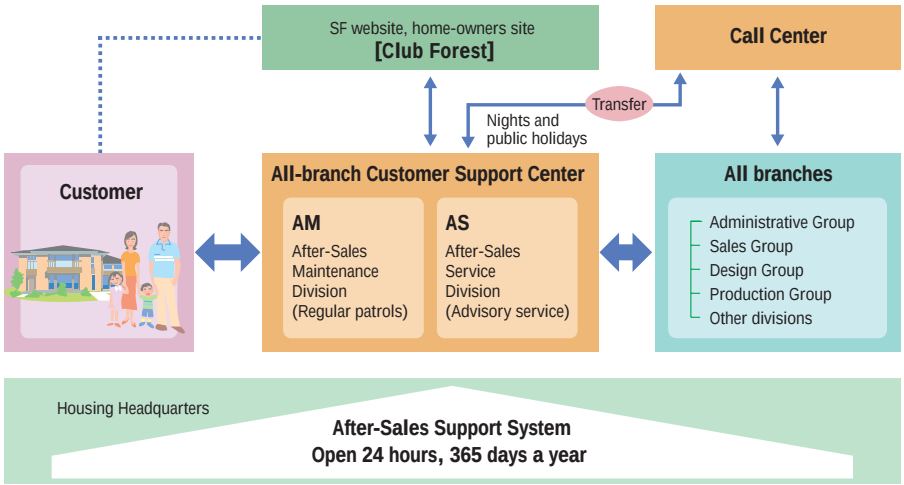
■ Customer-first video

To strengthen the customer-first approach among company staff, we also produced an in-house training video. This video demonstrates how sales discussions can go wrong, gives tips, and shows examples of particularly successful customer relationships. The video is used to train new staff and is shown at in-house training sessions.

Customer service management

Putting the customer first is more than just an abstract ideal. Sumitomo Forestry ensures that all staff take the "customer-first" approach seriously in the performance of their daily duties. To implement this, we introduced customer service management company-wide to ensure that our corporate philosophy is reflected in day-to-day customer service. We have set specific goals for every part of our organization to improve customer service. We implement a PDCA (Plan, Do, Check, Action) cycle to carry out continuous customer service improvement in an effort to achieve still higher levels of customer satisfaction.

Customer follow-up system



24-hour, 365-day technician response system

In our housing business, customers rely on us not only for product quality but also for support after their homes are built. Our specialized Customer Support Centers, staffed by full-time technicians who are always ready to respond promptly and reliably, offer after-sales support at all offices nationwide. In combination with our Call Center for evenings and public holidays, we can now offer 24-hour-a-day, 365-day advice and response to telephone requests for repair work.

Call Center

Long-term support system

Lengthening the lifecycle of the nation's housing has become an urgent social priority to promote a recycling-oriented society. To address this social need, in April 2003 we launched our Long-Term Support System to provide a 60-year back-up for our customers. The main points of the system are:

- To ensure the principal structural parts of the house have an expected durability of at least 75 years
- To determine a service life for each material and design the home to facilitate inspections, repairs, and replacement
- To implement regular inspections over the 60 years of the home
- To implement proposals from the design stage that will allow for future changes in the life stages of the occupants
- To propose maintenance programs that include maintenance management and renovation proposals over a 60-year period.

Topics: Total Support System for Housing

Our 60-year long-term support system: Helping customers look after their valuable homes

When a customer is thinking of building a home, he or she has dreams and ideals. Our housing business employs a “freestyle design” concept to try to turn these dreams into reality. We have also established the Long-Term Support System to maintain the strength and amenity of Sumitomo Forestry homes and ensure customers can live in them comfortably. In addition to advising customers on everyday maintenance and simple adjustments and repairs, our home professionals make regular inspections. We offer all kinds of effective maintenance services to sustain the life of our buildings. We also maintain communication with home purchasers and suggest renovation plans to keep up with changes in the structure of the family.

Relationship between Sumitomo Forestry and customer

Create design plan ⟩ Building and construction

- Ask about wants and needs
- “Freestyle design” based on customer input
  - We ascertain the customer’s wants and needs and design their home based on our “freestyle design” concept

60-year Long-Term Support System

- Deliver home
  - Deliver our written Building Guarantee
- One-month visit
  - Suggest maintenance based on our maintenance guidebook “ABCs for a Comfortable Home”
- Three-month regular inspection
- One-year regular inspection
- Two-year regular inspection
- Five-year regular inspection


Building Guarantee

Home maintenance manual

Structural framework, watertight guarantee period

10-year extension of guarantee

Free regular inspections

10 years

- Ten-year regular inspection

Extended guarantee inspection: For fee-based maintenance

- Ten-year extended guarantee for customers who have paid for repainting of external walls, FRP watertight layer on balcony, termite extermination

20 years

- 15-year regular inspection

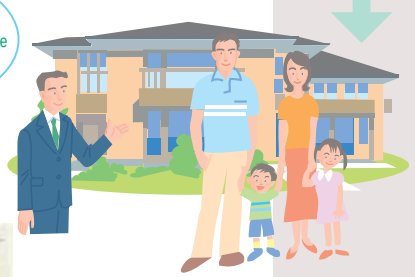
Regular inspections are conducted according to elapsed period (3 months, 1 year, 2 years, 5 years, 10 years, 20 years...) We also conduct customer questionnaires at regular periods (move-in, 2 years, and 10 years) to ascertain wants and needs.


Inspection sheet


Questionnaire

Propose extension and renovation plans to keep up with changes in lifestyle and the evolving structure of the family

Extensions



- 20-year regular inspection

Fee-based regular inspections

30 years

- 30-year regular inspection

40 years

- 40-year regular inspection

50 years

- 50-year regular inspection

60 years

Propose extension and renovation plans to keep up with changes in lifestyle and the evolving structure of the family

Remodeling for barrier-free access

Renovations

- We also suggest maintenance plans, on request, after the 60-year mark.

Working with Our Customers

New approaches to land use contribute to local communities

As a new business, our Collective Housing Headquarters plans the construction of day care centers for landowners. These centers, which serve the needs of the elderly and infirm, please local people and contribute to the community. In addition to our usual building services such as design and construction, we create stable business plans based on predictive analysis of business viability and provide a full range of support, from advertising for helpers and residents, to administration and business consulting.

At the design and construction stages, we use the full extent of Sumitomo Forestry's technologies to create spaces with a truly open feel. The result is welcoming, accessible communication spaces.

Built by Sumitomo Forestry, the Umemori Day Service Center is distinguished by an expansive entrance.

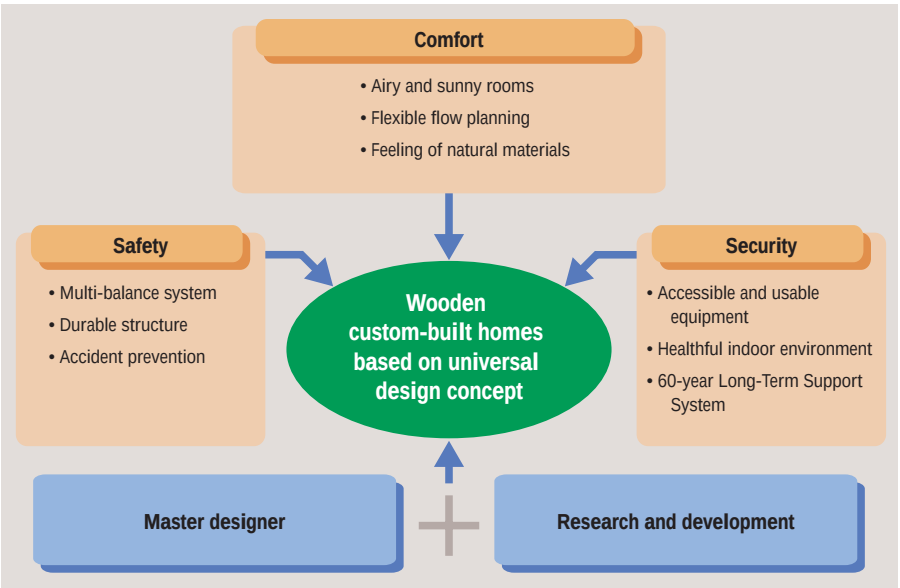
Staff and clients in the rehabilitation and exercise room

Universal design

Certain housing needs are the same for everyone. A house needs to be comfortable, safe, and secure. Themes we have identified are "houses that are comfortable to live in for all the family" and "houses that will remain easy to live in well into the future." Based on these ideals, we are working to realize universal designs through the flexibility that is a specialty of our freestyle design, wooden, made-to-order homes.

The main reason for the short lifecycle of Japan's housing compared to other comparable countries is said to be the lack of flexibility of Japan's housing designs. Universal design is clearly a key part of realizing the ideal of sustainable housing.

Sumitomo Forestry universal design



Introductory tours for potential homeowners

Sumitomo Forestry hosts introductory tours for those considering building new homes to educate them about the fundamentals of our housing construction. Our first introductory tour in 2003 targeted the Tsukuba Research Institute. In 2004 we conducted tours to Shikoku where we have maintained company-owned forests for 300 years, and to our housing showroom, which shows various applications of timber.

The Shikoku tours took place over the two days of July 24 and 25. On the first day, ten groups of customers chosen by drawing visited the Besshi Copper Mine Memorial House and toured SF company-owned forests. The next day, they visited our Niihama model home and showroom where they were able to experience the comfortable functions and safety specifications of our wooden homes.

A group visiting company-owned forests in Shikoku on an introductory tour in 2004

Each member of the Sumitomo Forestry Group works to put the customer first in every area of operations. Our follow-up system after natural disasters and our universal design approach are examples of this.

Disaster follow-up

When natural disasters like earthquakes or floods occur, we station a recovery team in our local branch office to assess the damage to customers in the area and alleviate their anxiety and distress.

■ Kobe Earthquake

The Kobe Earthquake that occurred in January 1995 was a magnitude 7.3 event on the Japanese scale with its epicenter under northern Awaji Island. This earthquake damaged more than 500,000 homes. Although damage to Sumitomo Forestry homes was light (with only one home totally and three partially destroyed because of their location on top of the active fault), we inspected each Sumitomo Forestry home in the disaster area to quickly alleviate homeowners' anxieties while the aftershocks continued.

■ Strengthening crisis management in disaster areas

Based on the experience of the Kobe Earthquake, we further strengthened our crisis management systems for dealing with natural disasters. We also published and distributed to our staff an "Earthquake Manual," which specifies what to do when an earthquake occurs.

In 2004, we responded to floods caused by concentrated rainfall and to the Chuetsu Earthquake in Niigata Prefecture with surveys of customer damage and subsequent follow-ups.

Customer service initiatives recognized with Minister's Award

In FY2004 we received the METI Minister's Award (Consumer Advice Category) as "an outstanding consumer-oriented company." In an effort to protect and promote consumer interests, the Minister of the Ministry of Economy, Trade and Industry (METI) recognizes companies which have achieved excellent results in their consumer-oriented systems by understanding consumer needs and reflecting them in corporate management. Specifically, we received the award for our Customer Support Centers and Call Center and in recognition of our 60-year Long-Term Support System.

Sumitomo Forestry Two-By-Four Homes' customer-first activities

As part of its customer-first activities, Sumitomo Forestry Two-By-Four Homes carries out "clean worksite" patrols. As all staff participate in these patrols, they include business-related staff who normally never have the opportunity to visit a construction site. Along with these activities, the company created "The Fundamentals and Principles of Activities to Put Customer Satisfaction First," which was signed by the president and distributed to all general managers. This document seeks to educate everyone in the company on the correct attitude toward the environment and beautification.

A "clean worksite" patrol

VOICE

Calling up to say: "Watch out, they're forecasting snow"

Koji Takahashi
Kofu Branch, Housing Headquarters

It was six years ago that I got a call from a customer asking me to introduce her to someone who could shovel her snow, as she had no-one to do it for her. It was my first winter after joining the company. Coming from Tokyo, which gets little snow, I was surprised at the 80 centimeters of snow in the streets. But what really astounded me was the fact that the water heaters would not work because of the snow. Because the equipment on the outside of the house was buried and couldn't take in air, the gas would not combust properly. On cold winter mornings I keenly felt the lack of hot water in the kitchen and bathroom.

After my first experience, I would always check the weather forecast, and if a lot of snow was expected, I would call up customers and tell them: "Make sure you clear the snow before going to bed," or "A typhoon is coming, so you'd better secure everything." When I went around at the year's end to pay my respects, customers would say to me: "No other housing company ever bothers to warn us: 'it's going to snow so make sure the boiler doesn't get covered'. We brag about it to the neighbors." I felt somehow proud and happy when I heard that.

Working with Our Business Partners

In keeping with our Green Procurement Guidelines, we make every effort to procure environmentally friendly raw materials and resources. We also work with builders and other contractors to ensure on-the-job safety.

Green Procurement

In FY2003, we established our own Green Procurement Guidelines in an effort to source materials and resources with minimum environmental impact. In FY2004, we reviewed the Guidelines to reflect revisions in JIS standards and in the Green Purchasing law.

■ Selecting suppliers

The Green Procurement Guidelines are used to assess suppliers and their operations on three criteria: (1) Preventing environmental pollution; (2) Reducing environmental impacts; and (3) Building a recycling-oriented economy and society.

■ Green procurement product evaluation

Products that meet the following seven assessment criteria are certified as green products and earmarked for active sourcing. The seven points are:

(1) Reduction of the use of substances or emissions that affect the environment or human health
(2) Reduced consumption of energy resources
(3) Sustainable use of recyclable natural resources
(4) Usability over the long term
(5) Suitability for recycling
(6) Use of recyclable materials and reusable components
(7) Ease of proper treatment or disposal at end of life cycle

■ Results in FY2004

As of March 2005, 80% of business partners conformed to corporate activity assessment standards, and 96% of products conformed to product assessment standards

Cooperating with Precut Forum 21

In building wooden housing, precutting of materials at the factory and transporting them to the construction site is an effective way to streamline the building process and shorten construction time. Established in 1997, Precut Forum 21 is a nationwide network that aims to improve quality and productivity at precut factories. As an industry leader, Sumitomo Forestry is actively involved in operation of the Forum.

Initially, the Forum carried out collective training sessions aimed at raising skills and creating a quality management format that all members could share. These activities led to ISO seminars aimed at obtaining ISO 9001 series certification, and today 60 companies, or 75% of the precut factories that are Forum members, are ISO 9001 certified.

A training session at Precut Forum 21

The Precut Forum regards ISO 9001 series certification as a way station, and aims to further enhance quality control awareness through training courses in construction methods at our Sumitomo Forestry School of Professional Building Techniques, study tours of member precut factories and makers in other industries, and various specialized seminars.

Utilizing plantation timber

The Log Group of the Wood Products Trading Division of Business Headquarters is expanding procurement of timber from countries that belong to the International Tropical Timber Organization (ITTO) or from business partners with man-made forests based on sustainable forestry plans. In FY2004 we handled a total of 418,000 m^3 of plantation timber, and plan to increase this to 481,000 m^3 by FY2006.

NPIL-owned forest in New Zealand

"Upstream to downstream" exchange at Kumamoto, Kyushu

The Kumamoto Branch of Housing Headquarters and the Hyuga Forestry Office, which manages the company-owned Hitoyoshi forest, promote mutual exchanges based on an "upstream to downstream" theme. In June 2004, business partners of the Kumamoto Branch were invited to visit Sumitomo Forestry's Hyuga forest and a materials distribution center to learn about the source of the timber they are using. The following week, Forestry Office business partners were shown around a housing showroom and a construction site using Hitoyoshi cypress as a building material to illustrate the role our forests play in the construction of homes. These collaborative exchanges will continue in the future.

Forestation activities at the company-owned Hitoyoshi forest

Enhancing safety at construction sites

Sumitomo Forestry has established Health and Safety Management Guidelines and works with builders to reduce work-related accidents on construction sites. Of the accidents that occur on building sites, we are focusing specifically on falls and slipping; heavy machinery; and power tool accidents, and are tightening safety management in an effort to improve safety in these areas.

■ FY2004 safety record

In FY2004, we recorded 46 accidents that resulted in absences of three days or less, and 19 accidents that caused absences of four days or more. No serious accidents occurred in FY2004.

Working with Our Shareholders

**We actively disclose information in an effort to increase management transparency.
In FY2004, we received an award for "outstanding achievements in improving disclosure."**

Investor relations

By stepping up information disclosure and enhancing management transparency, we aim to improve the quality of our management, and we are constantly working to improve investor relations (IR) activities. We particularly emphasize active response, timeliness, and accuracy. By disclosing information to the stock market, we hope to build better relationships with shareholders and investors.

Communication with shareholders and investors

■ General Meeting of Shareholders

We have improved our General Meeting of Shareholders, held in June each year, to make it easier to participate in and understand. From the 60th General Meeting of Shareholders in June 2000, we began using on-screen displays to clarify information. Shareholders now receive notices of the meeting well in advance, and we are continuing these and other efforts to make Sumitomo Forestry more transparent and more shareholder-friendly.

■ Business reports, website

In the business reports sent to shareholders after the announcement of interim and end-of-period results, we go further than simply stating results; we have also devised ways to make them easier and more interesting to read. As a result of comments received through the IR section on our website, we substantially redesigned the website in April 2005.

Business report

Website

Investor/analyst briefing

■ Investor/analyst briefings

When interim and end-of-year results are announced, we hold briefing sessions, with the president in attendance, for around 80 investors and analysts. In addition, we also hold over 100 separate meetings throughout the year, including welcoming visitors to the company or outside visits made by our staff. We also organize topic-centered business briefing sessions, are widening the content of our information disclosure, and working to expand our IR tools.

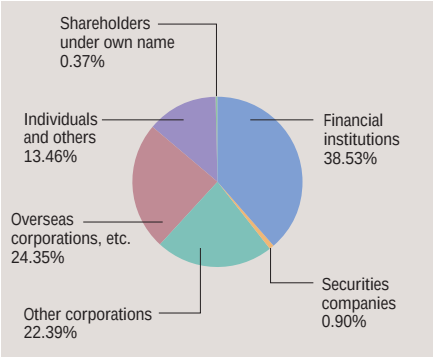
■ Recognized for "outstanding achievements in improving disclosure"

Our efforts were recognized by the Security Analysts Association of Japan (SAAJ), who selected Sumitomo Forestry in its 2004 selections of "companies with excellent disclosure". SAAJ recognized Sumitomo Forestry for its "outstanding achievements in improving disclosure" in the construction, housing, and real estate category.

Shareholder questionnaires

To improve communication with individual shareholders, we surveyed our shareholders through a questionnaire included with our 2005 Interim Business Report (for the year ending March 31, 2005) published in December 2004. We learned that our shareholders are long-term with (1) 62% holding our shares for more than ten years and (2) 80% intending to continue holding for the long term. We will continue distributing these questionnaires in the future in an attempt to build better relationships by listening to what our shareholders have to say.

Composition of shareholders



Socially responsible investment

Companies are noted not just for their economic results, but also for socially responsible operations, which includes environmental activities and social contributions. Our socially responsible corporate approach is highly evaluated; we are included in the Morningstar SRI investment stock index (the MS-SRI*) and listed among the stocks evaluated by the FTSE4 Good Global Index of FTSE, Inc. (United Kingdom).

*Included from June 1, 2005

MS-SRI

FTSE4Good

Working with Our Employees

To achieve our ideal of a company where each employee maintains his or her initiative and works with enthusiasm, we must build a personnel system that is fair and encourages challenges, and create a workplace environment that is easy to work in.

Basic personnel policy

Regarding our employees as valuable human resources, we seek to develop people who share the Sumitomo Forestry ethos and will perpetuate our corporate culture. To realize our corporate philosophy (Action Guidelines) of creating "an open and inclusive corporate culture that instills a strong sense of pride and motivation in employees" and build a firm position as an "excellent company" in the total housing and living related business, our personnel system and policy planning follow the following basic principles:

- Encourage cultural reform within the company and take a leadership role in corporate vitalization
- Strengthen personnel development and education, provide opportunities for enthusiastic and able employees, and encourage a spirit of challenge
- Reward results fairly
- Promote transparency and consensus.

Personnel development programs

In personnel development, "independence" and "support" are keywords, and we actively support independent employees who seek self-actualization while shaping their own career. This results in a "win-win" situation where employees gain the opportunity to shape their careers and realize themselves, while the company gains the people it needs to advance and performance that contributes to the company.

Expanded education and training program

To encourage independence and extend support for personnel development, we are expanding our education and training menu as follows (some programs are in the planning stage):

- Career design support training to encourage formation of a workforce of independent individuals
- "Cafeteria-style" training to support self-development and enable employees to obtain qualifications and business skills
- Overseas study (language and business schools) and overseas training assignments to strengthen personnel development in line with business strategy
- Management strategy training and enrollment in graduate programs to study basic applications of financial and business theory as a strategy for developing personnel with leadership qualities.

Teaching traditional wooden housing technologies to a new generation

Sumitomo Forestry homes are the modern repositories of traditional indigenous building techniques. To pass these traditional technologies on to future generations we established the Sumitomo Forestry School of Professional Building Techniques, where we aim to produce home-building specialists with the correct balance of body, mind, and technique.

A class at the Sumitomo Forestry School of Professional Building Techniques

■ Producing building specialists

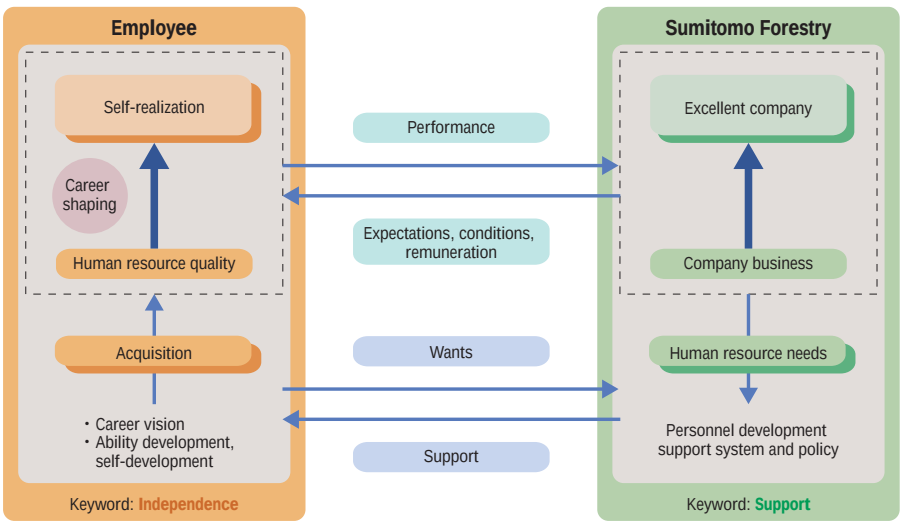
The Sumitomo Forestry School of Professional Building Techniques, which opened in 1988, was authorized by the governor of Chiba Prefecture under the Vocational Ability Development and Promotion Law as an in-house training institution. This school accepts new employees of Sumirin Construction Co., Ltd., training them over a period of one year in the skills required to obtain national vocational qualifications.

The road to becoming a building specialist starts from practical basic training, and includes practical assignments like building a model house, hands-on housing construction, producing model structures, and participation in the National Skills Competition. This Competition provides an opportunity for aspiring carpenters to test their skills, and recently all trainees participated in the Chiba Prefecture regional preliminaries. The cream of the crop can go on to compete at the national level. In 2004, five trainees made it through to the national finals, and of those, one gained a silver medal and two a fighting-spirit award.

■ Staff training center

The Sumitomo Forestry School of Professional Building Techniques functions as the staff training center for the Sumitomo Forestry Group. Offering practical manager development curriculum for such areas as technology, sales, and maintenance, the School trains staff in the knowledge and skills they need for their jobs.

Personnel training system



Topics: Housing Headquarters Education and Training System

Building a Training System Linked to On-site Realities

Remaining at the forefront of the housing business requires knowledge and skills. Accordingly, as a company-wide policy, the Human Resources Development Group of the Housing Personnel Division has built a training system linked to on-site needs. This training system consists of: (1) An early integration and training program for new company recruits; (2) Sumirin Business College (SBC); (3) A chain management program; (4) Product knowledge "expert" training; and (5) An on-the-job training support system.

■ Early integration and training program for new recruits

This is a training curriculum that recent graduates coming into the company must pursue. The goal is to achieve a level of "normal competency" in which necessary knowledge and skills must be thoroughly mastered within a certain period of entering the company (for housing seller positions: one year after entry, for housing engineers: two years). New recruits can only take up their position in the workplace when they have completed all study units and passed an examination.

Follow-up training for housing sellers

■ Sumirin Business College (SBC)

Conceived for self-development training, participation is optional. Trainees can select what they need when they need it from a menu of housing-related skills and knowledge courses.

■ Chain management program

Developing and bringing out the ability of those in the workplace leads to business gains. Accordingly, we bring together managers at each level from each branch, and offer management level training focused on the creation of specific strategies for each branch.

■ Product knowledge "expert" training

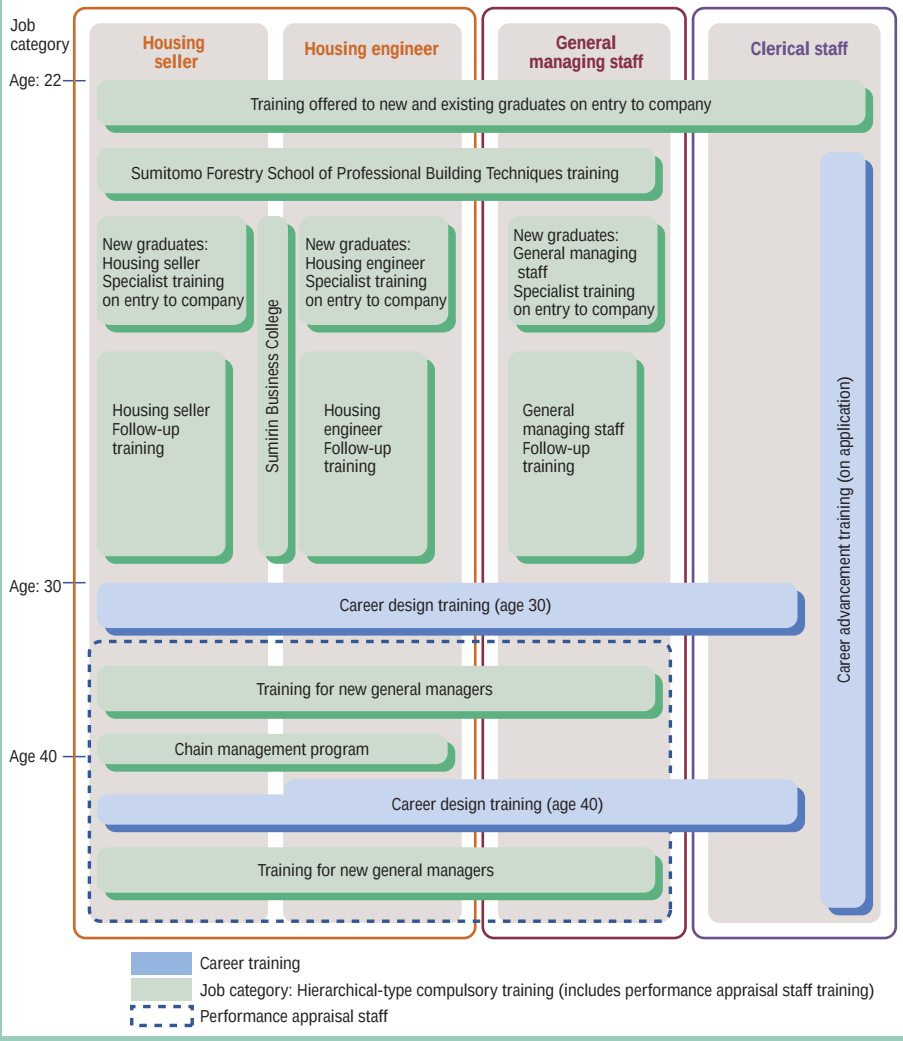
This program provides a detailed knowledge of the products handled by Housing Headquarters. This training is based on the idea that if each employee who deals with customers understands the products properly and performs his or her job with confidence and pride in the products' structure and functions, the whole company will be enhanced.

■ OJT support system

Targeting all Housing Headquarters staff, this is a computer-based system to support on-the-job training (OJT). It consists of three functions: a test site, a manual site, and an in-house questionnaire site. The system is based on standardized "expert" tests and attempts to consolidate the effects of training. Through Intranet video, in the future we hope to instruct trainees in the basics of such subjects as accounting, finance, and marketing before participating in collective OJT training. This support system is designed to make our on-the-job training more effective.

Housing Headquarters has also developed other programs to improve the level of the service offered to customers by our model house advisors. We provide systems and tools to promote OJT and self-development, such as the personnel training system chart at left that is posted on our in-house education and training website.

Personnel training system chart



Working with Our Employees

In-house recruiting and free agent (FA) systems

To provide opportunities to enthusiastic and able personnel and encourage a spirit of challenge, in April 2004 we introduced our in-house recruiting and free agent (FA) systems. After clearing in-house interviews, applicants are transferred to a desired area or position where they can use their abilities to the fullest. Both systems are highly effective not only in letting individuals fulfill their own desires, but also in giving the company access to more diverse and able human resources and in ensuring the right person is in the right job.

Applications under our in-house recruiting and free agent (FA) systems

Persons

Year	In-house recruiting system		FA system	
	Applied	Passed	Applied	Passed
2003	41	5	16	4
2004	19	3	16	6

Employee satisfaction (ES) survey

In FY2004, we conducted our second employee satisfaction (ES) survey (the first was in FY2002). Aimed at all staff, the survey sought to obtain employee feedback on company policies and measures. The comments we received allowed us to identify strengths, weaknesses, areas needing improvement, and directions for reform. The survey results will serve as active pointers for planning and proposing new personnel-related systems and policies.

Taking positive action

To create a company environment where female employees can play a more active role, in April 2003 we appointed a full-time leader to the Positive Action Team in our personnel division.

The results of our positive action policy to date include: (1) The regular publication of an in-house newsletter to raise awareness of gender issues; (2) The creation of a special page on our Intranet; (3) Career advancement training for clerical staff; (4) Interviews with those on child care leave with an eye to reviewing the child care system, and discussions on child care; (5) Revision of provisions for child care and nursing leave; (6) Introduction of support services to help those on child care leave, return to work; and (7) Discussion sessions with women in housing seller and general managing positions. In the future, we will continue efforts to make men in our workplaces more aware of women's issues and actively promote personnel rotation to expand the scope of opportunities for women in the workplace.

The company president attends an open discussion with staff on child care leave

VOICE

"I now view home building from a broader perspective thanks to the free agent (FA) system"

Yoichi Tamagami
Product Development Division, Housing Headquarters

Thanks to the FA system, the year before last I moved from a job on the housing seller side, where I had been since I first joined the company nearly 11 years ago, to product development.

Sumitomo Forestry homes have the quality of wooden homes that you can't find in mass-produced industrial products. It was my attraction to the appeal of wooden homes that led me to join the company in the first place, and later I wanted to participate in product development to create homes that offer even more of this appeal. So I applied to the FA system.

On my transfer to the product development side, I was struck by the difference from sales, and experienced a kind of culture shock. The fact that I had to study was a challenge, but also very satisfying. Because a lot of imagination is required for product development, I always try to maintain a broad perspective.

The FA system gives me opportunities to challenge myself. I am thankful to be assigned to a job I want to do, but what I make of that opportunity is now up to me. In the future, I aim to create the kind of homes that, over time, fit the people who live in them, something like a comfortable shirt.

The results of employee satisfaction surveys are used to create more staff-friendly planning and administration. This is just one way we try to create a work environment where enthusiastic employees can work to their full potential.

Child care and nursing support

We offer our employees child care and nursing systems, reduced working hours, and flexible starting and finishing times. In planning these systems, we draw heavily on the advice of employees with child care and nursing experience. For employees on child care leave, we also provide workplace return support tools via the Internet in an attempt to expand our support systems on both the system and the operational sides.

Action Plan based on "the Next Generation Law"

The home is where the next generation is nurtured. As a total housing and living related business, Sumitomo Forestry actively supports measures that will encourage people to have more children. Our Action Plan is based on "the Next Generation Law" (Law for Measures to Support the Next Generation), and includes paternity leave for fathers. The Plan aims at developing environments that are compatible with both work and family, and supporting diverse approaches to work.

Supporting human rights

We are also addressing human rights-related issues such as sexual harassment. We have established a sexual harassment counseling service, offer education to all employees on gender equality, and respond to employee reports of sexual harassment.

Health and safety management

Sumitomo Forestry is reinforcing our emphasis on safety management, aiming to prevent work-related accidents. We have established health and safety management regulations, make sure employees are thoroughly aware of their contents, and carry out health and safety education programs as needed.

■ Sumitomo Forestry Crest's health and safety management

Sumitomo Forestry Crest Co., Ltd., which manufactures and sells plywood and building materials for homes, promotes safety-first activities under the slogan: "no accidents." Aware that the main causes of workplace accidents are limbs caught in machinery and electric shocks, the company seeks to prevent accidents by equipping all machinery and facilities with safety devices. By establishing a Health and Safety Committee and installing accident prevention devices, the company is steadily implementing a proactive safety message.

■ Mental health counseling service

In today's competitive society, most of us are directly exposed to various forms of stress. Because stress can have an adverse effect on mental health before we notice it, proper support is vital. In the interest of the total well-being of its employees, Sumitomo Forestry has contracted with outside institutions to provide mental health counseling services.

In-house magazine "*Jukai*" receives award

In 2004, our magazine "*Jukai*" (Ocean of Trees) was selected for the Visual Prize of the Japan Business Federation's Specially Recommended In-house Magazine Award. The award is based on a multifaceted assessment of in-house magazines published by a range of companies. Sumitomo Forestry's "*Jukai*" was awarded the prize because it was "well laid out and showed clear planning, composition of content, and development."

In-house magazine, "*Jukai*"

VOICE

"Promoting positive action made me realize the importance of changing people's consciousness"

Masako Habutsu
Personnel Division

It is now about two years since we established the Positive Action Team in an effort to create an environment within the company that encourages greater contributions from women. Initially, we began our activities from four broad perspectives: (1) Reviewing and reforming the personnel system; (2) Providing education and training for female employees; (3) Expanding the range of jobs available to female employees; and (4) Changing the consciousness of employees.

In actually promoting positive action, what I realized was most important was not just the tangible things but changing people's consciousness. Because in terms of work content and other aspects, we have a male social corporate culture, the biggest barrier is changing people's awareness. Our president takes the leadership himself in advocating the promotion of positive action, and is slowly changing the consciousness of our employees.

Initiatives to heighten motivation, including career advancement training for female employees, are popular, and I am really realizing the depth of latent needs. One step at a time, we are steadily working toward results.

Working with Society

We use our knowledge and experience as forestry professionals to carry out activities that contribute to society. Aiming to be a good corporate citizen, we participate in activities both in Japan and abroad.

Forester House

Renovations at Forester House

To develop new forms of forest management that reflect the entire ecosystem, including flora and fauna, air, water, soil and scenery, we are developing forests with an Ecosystems theme. Built in 1993, Forester House in Besshiyama, Ehime Prefecture, along with the open space around it, is open to the public. We use this facility to disseminate forest and forestry information.

■ Interior and exhibits renewed

Because Forester House has been open for more than 10 years, we redecorated and renewed exhibits in March 2005, transforming the facility into a visual learning experience. Among the new exhibits, Sumitomo's Forest Gallery introduces company-owned forests in Shikoku; Sustainable Forestry displays forestry technologies, information on forestry and forest management and items such as axes and saws; Sumitomo Forestry's Environment Preservation Activities introduces creation of forests and environmental activities; and Forester House Nature Viewing introduces the surrounding natural environment.

■ Hands-on learning

A study group visited Forester House under the sponsorship of the Ehime Prefecture Experiential Environmental Learning Center in November 2004. The group of around 30 people included environmental counselors, experts, and educators from Ehime Prefecture. On the day of the visit, the general manager of our Niihama Forestry Office explained Sumitomo Forestry's approach to sustainable forestry and the environment.

Planting and nurturing Mt. Fuji's natural forest

In September 1996, a typhoon swept across central Japan, devastating a swathe of 50- to 60-year-old Japanese cypress (*hinoki*) trees in a planted national forest on the southern slopes of Mt. Fuji. As part of our commitment to contribute to local communities, Sumitomo Forestry initiated the Mt. Fuji Manabi no Mori natural forest restoration project in 1997. To help govern the restoration activities, we set up a steering committee composed of representatives from local governments, environmental volunteer groups, universities, media representatives and others, and sought their input during the course of the project.

■ Mt. Fuji Manabi no Mori project

From April 1998, with the aid of volunteers, we have been planting seedlings and nurturing the young trees as part of the Mt. Fuji Manabi no Mori project. To make sure our afforestation efforts preserve the types of native trees growing on Mt. Fuji, we use species that seed themselves naturally on the slopes of the mountain. These include beech, oak, dogwood, zelkova, stewartia, maple, magnolia, cork tree, *hinoki*, and Fuji cherry. To date, a total of 4,513 volunteers have participated in the program, and a total of 33,295* trees have been planted.

Because large-scale afforestation activities have now ended and cutting brush and pruning branches are the main tasks, we are reducing the number of volunteers to meet the needs of safe forestry management.

*The number of trees planted by afforestation volunteers. In addition, 1,021 helpers have planted a

Items, models, and panels are used to illustrate sustainable forestry

Introducing the forestry business and environmental activities

Forester House, a source of information on forests and forestry, has undergone extensive renovations. As forestry professionals, we are working to restore lost forests through initiatives such as the Manabi no Mori project.

Pruning trees for the Manabi no Mori afforestation project

Volunteers working on the Manabi no Mori project

further 2,061 trees through "afforestation experience activities".

■ Vegetation monitoring program

As part of the Manabi no Mori project, we requested the Tokyo University of Agriculture and Technology to implement a vegetation-monitoring program. One objective was to monitor the growth of trees planted in groups and study changes in rates in which trees formed stands. We also wanted to survey the process of recovery by natural regeneration (recovery by the forces of nature without human intervention). The project is helping manage the swift natural recovery of the forest and is amassing data on how ecosystems recover.

■ Wildlife habitat survey

We requested the Wild Bird Society of Japan to monitor the fauna in the area by conducting ongoing surveys of bird species and populations, territories of individual species, and types of mammals.

■ Forest Ark

In October 1999, we established Forest Ark, a volunteer activities support center within Manabi no Mori based on the ideal of co-existence with nature. In building the center, we recycled demolition materials from old houses, established a bio-toilet (using microorganisms to break down excrement), a solar power generator, and a rainwater tank system.

We also created a biotope* in the vicinity, and use Forest Ark as an educational center to raise awareness of the importance of environmental conservation. As part of their induction training, new Sumitomo Forestry employees take part in afforestation and silviculture activities here and learn about the environment from the natural flora and fauna of Mt. Fuji.

*Biotope: A habitat in which all life forms in an area live in inter-relationship.

Helmets donated to Waseda University

With the main phase of the Manabi no Mori afforestation activities on Mt. Fuji ending, the issue was how best to use the materials left over from the project. In October 2004, we donated 70 of the helmets used in the project to the Hirayama Ikuo Volunteer Center of Waseda University.

The donated helmets were used in the Takao Forest Project sponsored by the Center in Hachioji City, Tokyo, and in Waseda University classes and exercises held in forest settings. The Center also used the helmets in its volunteer activities in the aftermath of the Chuetsu Earthquake in Niigata Prefecture last year.

"Millennium Forest" project

In April 2004, the Komatsujima Factory of Sumitomo Forestry Crest Co., Ltd. participated in the "Takamaruyama Millennium Forest" volunteer afforestation program organized by Tokushima Prefecture at Kamikatsucho in Shikoku.

The project brought together 29 organizations and companies to plant a five-hectare block with species such as beech and zelkova. A total of 16 volunteers from Sumitomo Forestry Crest, including two business partners from the Komatsujima Factory, planted a total of 560 seedlings.

Volunteer activities after the Chuetsu Earthquake and donation of helmets

The afforestation block assigned to the Komatsujima Factory

FY2004 advertisement: Hokkaido larch

We introduced our environmental protection initiatives with the corporate ad campaign: "This is Sustainability." This message used the example of the Housing Headquarters Sapporo branch, which uses larch from our Monbetsu Forest in Hokkaido as a structural material for housing.

Environmental advertisement published in January 2005

Working with the Community

Welcoming EU trainees

Nearly 1,000 European Union business people have successfully completed the EU Executive Training Program (ETP) in Japan, which fosters warm relations between business personnel in the EU and Japan. Sumitomo Forestry supports the program, and since 1998 has accepted EU trainees coming to Japan for training in the forestry and housing construction industries. This year we welcomed Export Manager Mikko Kylävainio from a Finnish timber and timber products processing company. He toured our forests, observed production sites (lumber mills and building materials manufacturers), distribution sites (logistics warehouses), and housing construction sites.

The hosting of our Finnish trainee was a rewarding experience for everyone involved.

Event fosters rapport with trees and forests

In September 2004, the Niihama Sales Office of Sumitomo Forestry's Housing Headquarters staged an "Autumn Customer Appreciation Festival," collaborating with the Niihama Forestry Office, Sumitomo Forestry Crest Co., Ltd., and Sumitomo Forestry Timberland Management Co., Ltd. At the event plaza, we sold Japanese cypress (*hinoki*) chopping boards, Japanese cedar (*sugi*) and *hinoki* log chairs, and other items at special prices. The log chairs were particularly popular, and extra chairs had to be produced to satisfy demand. At the same time, a special seminar: "An Expert Home Builder Course" was held to provide information to customers in accordance with the following three themes: (1) From planting forests to building houses; (2) The quality of wood in creating homes; and (3) Creating imaginative spaces starting from selecting the species of timber.

Special seminar: An Expert Home Builder Course

JICA forestry training

Sumitomo Forestry collaborated with international technical training to promote practical activities in sustainable forest management. The training was sponsored by the Japan International Cooperation Agency (JICA), an independent administrative institution. We delivered a lecture on Sumitomo Forestry forest management to 16 overseas trainees from Asia, Africa, and Central and South America.

JICA forestry training session

Volunteer housing activities in wake of Niigata earthquake

The Chuetsu Earthquake that occurred in Niigata Prefecture in October 2004 totally destroyed 2,842 houses and partially destroyed a further 10,568, while 88,524 sustained damage. At the peak, more than 100,000 local residents were forced to seek emergency shelter. After the earthquake, the Japan Federation of Housing Organizations was requested by the Ministry of Land, Infrastructure and Transport to establish a home repair support group counseling service. As a corporation involved with housing infrastructure, we participated in the support group. Its headquarters in Niigata City supplied advice on repairing homes to those whose houses were damaged in the earthquake and helped introduce them to people with the necessary building skills.

VOICE

"My trip to Shikoku, the birthplace of Sumitomo Forestry, made the biggest impression"

EU trainee
Mikko Kylävainio
Export Manager
Keitele Timber, Finland

I was impressed at the fact that Sumitomo Forestry invested such large amounts in safety- and environment-related surveys and development. And in housing construction, I was favorably impressed by the way it used timber — a material that is very good for the environment and for those living in the houses — as much as possible.

During my training, I was able to see Sumitomo Forestry's operations in various locations. Wherever I went, I met staff who were highly motivated and hard working. Even though they were very busy, they made time for me and explained their jobs, and I would now like to thank them all very much. As a result of their kindness, I was able to understand what each did, even though I don't speak Japanese.

In the course of my training, I went all over Japan and learned about modern and traditional building in Japan. But what made the biggest impression was my research trip to Shikoku, the birthplace of Sumitomo Forestry. I owe a lot to many people in Japan for this training, the highlight of my life so far, and would like to take this opportunity to say a warm thank you to everyone who helped me.

We welcome foreign students and trainees from overseas and introduce them to our operations. As a company that protects forests and is involved with housing infrastructure, we carry out social contribution and volunteer activities in Japan and abroad.

Helping the Indian Ocean earthquake and tsunami victims

■ Staff donations

We collected donations for the victims of the Indian Ocean earthquake and tsunami that occurred on December 26, 2004, with 1,770 staff contributing a total of ¥1,056,000, which was donated to UNICEF Japan.

■ Sumitomo Forestry's donations

As a company, we donated a total of ¥11 million as relief to the earthquake and tsunami victims.

A school supported by the KTI Educational Foundation

KTI contribution activities

■ KTI Educational Foundation

To mark its 30th anniversary in 2000, P.T. Kutai Timber Indonesia (KTI) established the KTI Educational Foundation. The foundation awards scholarships to elementary and middle school children in the Sebulu area of East Kalimantan and the Probolinggo area of East Java. In 2001, the foundation provided 11.5 million Rupiah to 40 elementary school children, but in 2004 substantially increased both numbers of children helped and the amounts contributed, with 46.2 million Rupiah going to 74 elementary and 29 middle school students. A fixed proportion of KTI's profits will be set aside for the educational foundation every year from now on.

■ Aid to local people

In addition to educational assistance, the KTI Educational Foundation also provides general relief to the people of the area where KTI factories are located, and donated funds to help those affected by the December 26, 2004 Indian Ocean earthquake and tsunami.

■ Sanitation carts donated to local organization

In 2004 KTI donated ten sanitation carts to the local authorities of Probolinggo in East Java.

RPI helps in greening of Solo

P.T. Rimba Partikel Indonesia (RPI) donated 3,000 seedlings of the fast-growing tree Acacia mangium to the Sanitation and Parks Departments of the old town of Solo in central Java, Indonesia. Most of the seedlings were planted on the town's streets.

Solo is undertaking a greening program to mark the 260th anniversary of its foundation as a town. RPI received a certificate of commendation from the mayor of Solo for its donation.

A local newspaper reports on RPI's support for Solo's greening program

VOICE

Working with JICA to teach overseas trainees about forestry management

Toshihiro Noguchi
Forest Management Division

I am the instructor for the overseas technical training that Sumitomo Forestry has been helping with since 2002 at the request of the Forestry Agency. The most recent training was conducted on November 10, 2004 at the Forestry Agency's Forest Training Institute in Hachioji City. In addition to the trainees and myself, an interpreter was present. The lecture focused on Sumitomo Forestry's forest management, and topics covered ranged from the history of the company's forests to specific operations. In particular, we covered block-based selective logging and the computerization of forestry management using Geographic Information Systems (GIS) and Global Positioning Systems (GPS). The interested trainees asked questions about the benefits of forest management, as well as such specific questions such as the number of management staff needed for our company-owned forests.

The trainees from all countries were very enthusiastic. Initially, I expected my role to be confined to explaining things, but I found this opportunity provided a valuable experience that expanded my own knowledge as well.

Environmental Report

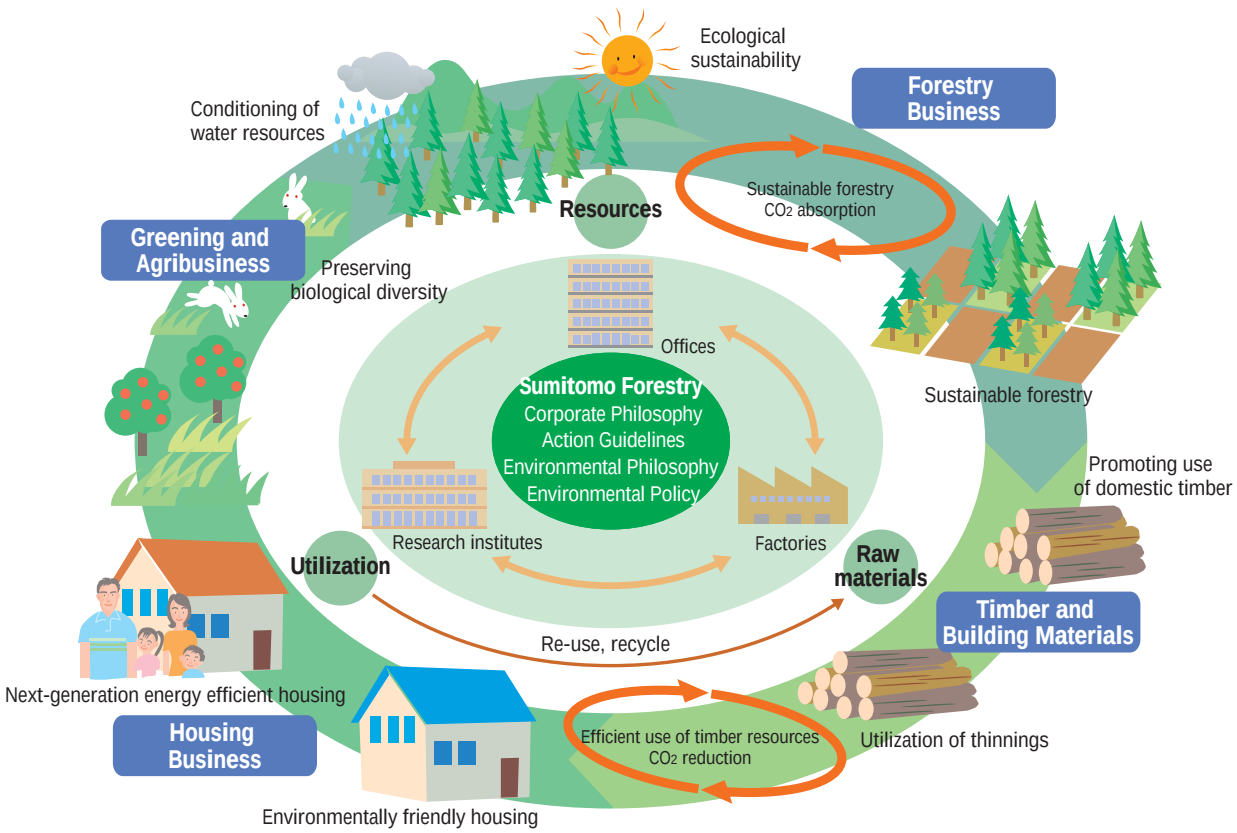
Hideo Kanai
Managing Executive Officer
(Responsible for the Environment)

Toward a resource-efficient, recycling-oriented society

In the year 2005, as the Kyoto Protocol came into effect, reduction of greenhouse gases was identified as the common goal of all mankind. Now, environmental initiatives will be the focus of increased scrutiny as corporations strive to meet the challenge of adapting to sustainable, resource-lean operations.

For more than three centuries, trees have been the foundation of the Sumitomo Forestry Group. Trees are a renewable, reusable, and sustainable resource, produced by photosynthesis from CO_2 and water. With current technology, we are unable to efficiently absorb CO_2 once it is released into the atmosphere. The most effective means at our disposal is to plant trees. Replanting trees after cutting and using the cut timber efficiently is the very basis of our business. The Sumitomo Forestry Group is actively involved at every stage of the timber cycle, from planting forests and harvesting trees, to processing the timber, distributing the product, building houses, and recycling. However, it is not sufficient for the materials we use to be environmentally friendly. To achieve a true recycling-oriented society, we must place more emphasis on economic revitalization of Japan's regions, protecting the environment while developing forests, adopting resource- and energy-efficient production and processing systems, and building more efficient distribution networks. We must also enforce the "three R's" of reducing, re-using, and recycling, aiming to achieve zero emissions in our operations. To deal with these vital issues, we have adopted the PDCA (Plan, Do, Check, Action) cycle, in which we constantly review existing businesses and systems, prepare and execute plans, verify their effects, and propose improvements.

The coming era presents an excellent opportunity for us to apply the resulting environment-related know-how to the development of new businesses. Our business is built on the needs of our customers, and we will be grateful to hear any comments or proposals our readers or customers may have.



Environmental Vision

Planting and nurturing trees, economic use of timber for extended periods, recycling and re-use. This is how the Sumitomo Forestry Group is contributing to building a sustainable society.

Achieving a sustainable society

The Sumitomo Forestry Group's businesses, including forestry management, manufacturing and distribution of timber and building materials, construction and sales of wooden custom-built homes, and greening businesses, contribute to the infrastructure of Japanese society. In these businesses, we handle the only material in the natural ecosystem that can be regenerated — timber. Careful use of this resource in well-thought-out ways provides one route to the realization of a sustainable society. By maximizing the use of timber resources and their functions, we are helping create a sustainable society and an environment in which future generations can live in harmony with other living things.

Sustainable timber resources

We procure timber only from properly managed forests, whether in Japan or overseas. Planned extraction of timber contributes to the sustainable development of regional economies and environments. We are also serious about afforestation, replanting the trees we use ourselves and applying our know-how to ensure that the timber we remove from forests is used economically and effectively. Wood is a material with a usable life of more than 1,000 years. By adopting new construction approaches that value the materials, we are prolonging the life of our wooden houses. Such approaches are helping ensure the sustainability of timber resources.

Reducing and absorbing CO_2

Preventing global warming is the responsibility of corporations and individuals. As good corporate citizens, we must strive to meet the goals of the Kyoto Protocol. Our first duty is to curb consumption of power and fuel in our own businesses and reduce CO_2 emissions. We are also aiming to cut consumption of fossil fuels by encouraging the use of biomass energy such as wood chips. Regarding the housing we supply to customers as a vital element in creating a society with low CO_2 emissions, we are working to develop homes with high thermal insulation capacity and to supply energy-efficient houses that incorporate the latest technologies such as solar power and fuel cells. We are aiming to reduce CO_2 emissions through these and other interrelated activities.

Environmental Philosophy and Policy

Environmental Philosophy

With many years of practical experience in silviculture, Sumitomo Forestry has an appreciation of the wonderful renewable resource that forests represent and the benefits that nature provides. Environmental protection is imperative in the 21st century. As a company with a close affinity with nature, we are aware of potential impact of our activities on the environment, and we contribute to society through the vigorous pursuit of business operations that are in harmony with conservation principles.

Environmental Policy

Founded on our Corporate Philosophy and Environmental Philosophy, Sumitomo Forestry Co., Ltd. seeks to make a positive contribution through all its business operations to maintaining and improving the natural environment and the communities in which we live and work. To help create a sustainable society, we will conduct our operations with the following principles in mind:

1

Engage constructively in business activities that are beneficial to creating a sustainable society.

1) Promote forest cultivation at home and abroad, maintain and enhance the multifunctional roles that forests play in conserving forest resources and in preventing global warming, and pursue business activities consistent with environmental conservation.
2) Aim for product handling and procurement that takes account of the entire life-cycle, from resource utilization through manufacture, consumption and disposal.
3) Focus on recycling and reuse in the development, design and production of housing and products. Endeavor to use resources and materials that provide excellent conservation value, resource protection, and renewability, while employing resource utilization technologies with high energy efficiency and conservation value.

2

Accurately assess the direct and indirect effects of our housing, products, and business activities on the environment, and strive to prevent pollution and to minimize environmental impacts by implementing the necessary control measures.

1) Strive to minimize the environmental impacts of our housing, products, and business activities at all stages.
2) Strive to reduce waste, carry out appropriate waste treatment, and increase the ratio of product recycling and re-use.
3) Recognize that reducing environmental impacts and promoting environmental responsibility also translates into greater productivity and reduced production costs, which in turn enhance competitiveness.

3

Be thoroughly familiar with the laws and regulations applicable to our products and business activities, and strictly comply with requirements. Where necessary, draft voluntary standards and ensure compliance.

4

Establish objectives and targets to achieve continual improvement of environmental management systems, and review those targets at least once a year.

This policy is publicly disclosed and communicated to all employees.

CO_2 Balance Sheet

The amount of carbon dioxide (CO_2) absorbed by Sumitomo Forestry-owned forests is about 2.5 times the amount of carbon dioxide emitted by the Group's domestic business activities. We regularly measure and assess CO_2 emissions from operations Groupwide and work to reduce those emissions.

CO_2 absorption by company-owned forests

CO_2 absorbed by Sumitomo Forestry-owned forests	231,605 t-CO_2

The amount of carbon dioxide (CO_2) absorbed by the 40,497 hectares of Sumitomo Forestry Group-owned forests in Japan was 248,639 tons in FY2003 and 231,605 tons in FY2004. This is approximately 2.5 times the amount of carbon dioxide emitted by the entire Sumitomo Forestry Group in the course of its domestic business activities. In the future, the Sumitomo Forestry Group will continue efforts to prevent global warming by implementing sustainable forestry management.

CO_2 emissions from business activities

CO_2 emissions in Japan	90,751 t-CO_2
CO_2 emissions overseas	108,818 t-CO_2

With growing awareness of the environment and the execution of the Kyoto Protocol, the reduction of emissions of CO_2, a major factor in global warming, has become an issue of the highest priority based on our stance as responsible corporate citizens.

■ Direct emissions

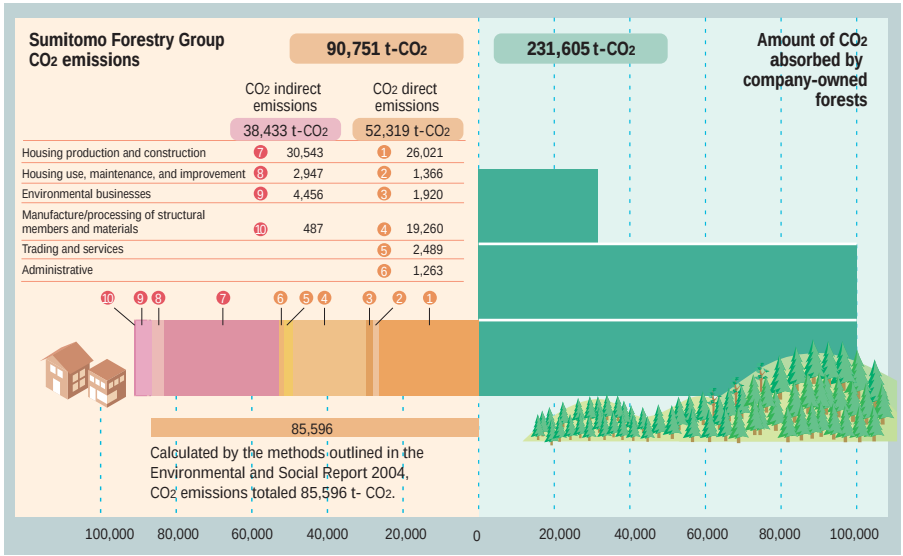
Based on Ministry of Environment guidelines for measuring the volume of greenhouse gases emitted by businesses, in 2004 we created a system for measuring the consumption of power, gasoline, diesel oil, heating oil, and gas at more than 800 Groupwide locations (including 360 model houses and 23 overseas plants). This enabled us to ascertain, with a high degree of accuracy, the amount of CO_2 emitted by all Group office activities, vehicles, and manufacturing activities.

Our measurements revealed that in FY2004, domestic emissions of CO_2 by the entire Group totaled 52,319 tons. Calculated in the same way, overseas emissions from all business establishments totaled 108,818 tons CO_2. To reduce direct emissions, which can be accurately measured, all divisions are working to cut their emissions. In FY2005 we will be working to critically check our measuring methods and improve the accuracy of our calculations while aiming to cut Groupwide emissions 1% vs. FY2004 by specific unit of sales.

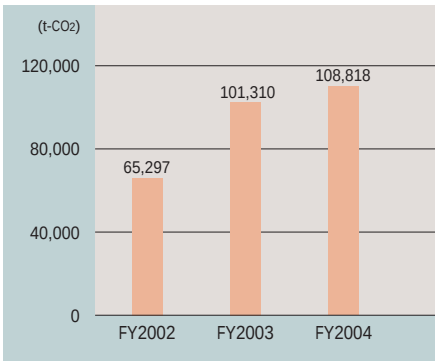
■ Indirect emissions

As shown in the chart below, in FY2004 we expanded the scope of our estimates to all Group affiliated companies carrying out site operations. These estimates show that in FY2004, indirect emissions of CO_2 totaled 38,433 tons (33,277 tons CO_2 in FY2003 according to the same measurements). While there is no generally recognized method for calculating emissions from site operations, we established our own conditions by referring to methods published by government and industry bodies.

CO_2 uptake by company-owned forests in Japan and CO_2 emissions by domestic company businesses



CO_2 emissions from overseas Group offices



*The addition of Alpine MDF Industries increased emissions from FY2003.

Reducing direct CO_2 emissions from business activities

■ Office activities

In offices throughout the Group, we are saving energy by switching off unnecessary lighting, reviewing heating and cooling conditions, and turning off unused office equipment.

Scope of calculations of indirect CO_2 emissions in the Sumitomo Forestry Group

Scope of calculation prior to FY2003	Scope of calculation for FY2004
Housing construction relating to Housing Headquarters, Collective Housing Headquarters (2x4 apartments), Sumitomo Forestry Two-By-Four Homes, and Sumitomo Forestry Component House	Housing construction and processing and transportation of principal structural members relating to Housing Headquarters, Collective Housing Headquarters (2x4 apartments, reinforced concrete structures), Sumitomo Forestry Two-By-Four Homes, and Sumitomo Forestry Component House (In addition to construction site operations, we added the processing and transportation of principal structural members (framing, posts).
Sumitomo Forestry Landscaping's exterior services	Sumitomo Forestry Landscaping's housing exterior and environment greening work and green area maintenance services
	Harvesting of forests (materials production)
	Maintenance and renovation work of Sumitomo Forestry Home Tech, Sumirin Maintenance, and Sumitomo Forestry Home Service
	Siding and tiling services of Sumirin Sash Center, Sumikyo, Sumikyo Wintec, Northern Tech, and Sun Step
	Kanto, Kansai, and Tokai Sumirin Base Techno foundation services

We are working on measures to reduce both direct and indirect CO_2 emissions from our business activities. We also monitor the CO_2 emitted over the entire housing life-cycle.

■ Our vehicles

In January 2005, we designated vehicles surpassing fuel economy standards for 2010 by 5% and achieving exhaust emissions 50% or 75% less than FY2005 standards as "eco-cars," and are promoting a switch to these models at vehicle replacement time. In FY2004, 88.8% of our vehicles were eco-cars.

■ Reducing energy used at factories

In addition to diligent efforts to make staff aware of power-saving and other energy reduction needs, we are reducing CO_2 emissions at our factories by changing to electric forklifts, installing energy-saving equipment, introducing low-fuel consumption vehicles, and improving production efficiency and reducing defects.

■ Efforts at overseas plants

Five overseas operations account for nearly all our offshore emissions. These are NPIL (New Zealand), KTI (Indonesia), RPI (Indonesia), Alpine MDF (Australia), and ASTI (Indonesia). We are reducing CO_2 emissions at these plants by encouraging the use of waste wood as fuel and reducing consumption of fossil fuels, stepping up maintenance, and improving production efficiency.

Reducing indirect CO_2 emissions on the construction site

■ Promoting precutting

To reduce CO_2 emissions from building operations, we are making an effort to streamline site work by precutting structural members. And by using waste materials and improving yield rates, we are also making more effective use of resources and reducing CO_2 emissions. Previously, we have used precutting for framing, posts, trusses, and underfloor linings, and we are currently promoting precutting of eaves and gable boards.

■ Improving distribution

In housing construction, a wide variety of resources and materials are used. In the past, these were delivered in separate batches to the building site. Now, through cooperation with suppliers, materials are consolidated first at distribution centers. There each resource is stored according to the timing for its use on the site, with the resources for several houses stored together. These innovations improve loading ratios and reduce the number of deliveries to each building site.

Reducing CO_2 emissions in housing construction

We are promoting construction rationalization in many ways, including precutting. To determine how these efforts affect CO_2 emissions from processing and transport of principal structural members and from site operations, we have estimated CO_2 emissions from housing construction from 1990 to the present. Based on standard processes for constructing a typical model (a 147-m^2 plan), we estimated the total number of working days and the duration of construction machinery and tool usage, and calculated the volume of CO_2 emissions from vehicle fuel and emission coefficients.

The average 1990 emission of around 2.77 tons of CO_2 per house has been decreasing annually, currently totaling approximately 2.48 tons. About 1 ton of CO_2 is generated during processing and transport of the principal structural members, while about 1.5 tons CO_2 is emitted by work on the building site.

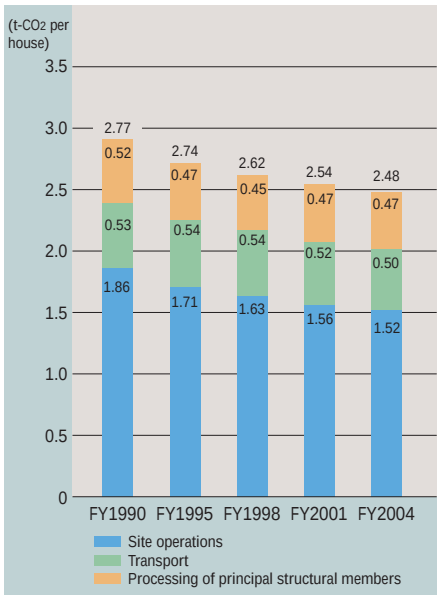
Reducing CO_2 emissions at the residential stage

■ Housing LCA

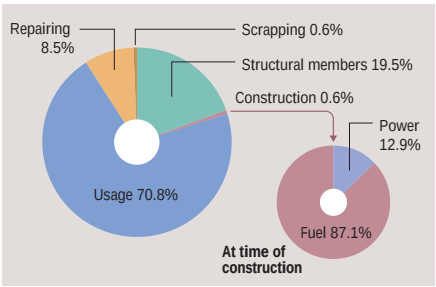
To measure housing-related CO_2 emissions, we have been conducting life-cycle assessments (LCA) on our houses. Using our main "Godai One's Story II" model, our LCA has revealed that use of the house by a standard household accounted for most of the volume of CO_2 emitted over a period of 30 years (70.8%), as against 0.6% in its construction*.

*Estimate based on application of a Sumitomo Forestry-specification house to the Construction Life-Cycle Energy Calculation Program (Building Research Institute, Ministry of Construction, 1997)

CO_2 emissions in housing construction



LCA of typical model (Godai One's Story)



GODAI One's Story II

■ Measures to reduce CO_2 emissions at the residential stage

CO_2 emitted at the residential stage accounts for 70% of the total emissions produced by an average house. As a means of reducing these emissions, in FY2005 we established next-generation energy efficiency standards as part of our specifications. In addition, we use air conditioning that meets energy efficiency guidelines, encourage the use of solar power, energy-efficient hot water heaters, and other energy-saving equipment, and incorporate green technologies such as fuel cells.

Mark displayed on items meeting energy efficiency standards

Sustainable Forestry Management

Based on the ideal of sustainable forestry developed over the years, we nurture and maintain our company-owned forests at home and promote afforestation plans overseas.

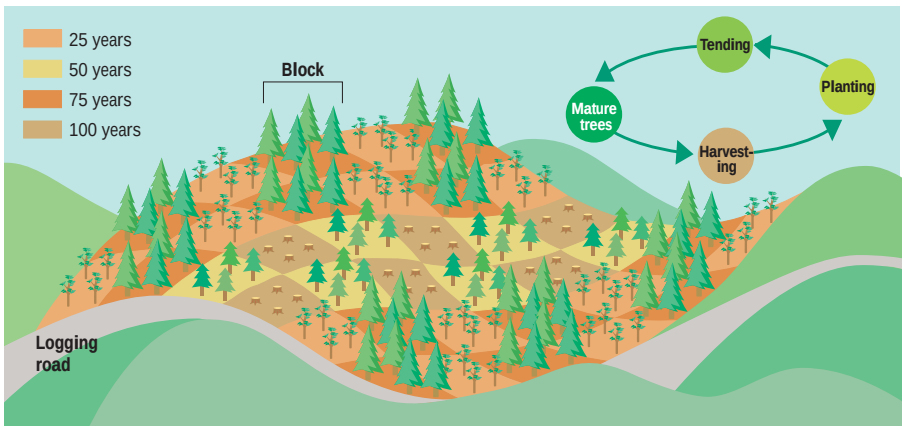
Sumitomo Forestry-owned forests

Sumitomo Forestry-owned forests are located in Hokkaido, Shikoku, Kyushu, and Wakayama. They cover 40,497 hectares in total, representing about one thousandth of Japan's land area. Our timberlands comprise 49% plantations and 42% natural forest.

We allow no clear felling in any company-owned forests. Instead, we practice block-based selective harvesting, taking only the volume needed within the forest's replacement growth capability. Our forestry management activities reflect the need to conserve the environment and prevent flooding and erosion.

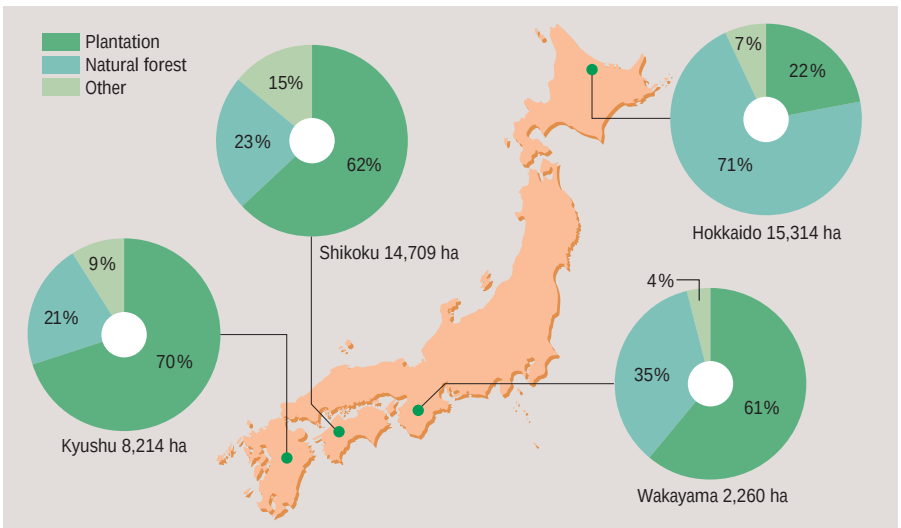
Company-owned forest in Monbetsu, Hokkaido

Conceptual diagram of sustainable forestry (block-based selective logging)



Instead of cutting all the trees on a mountain at one time, the forest is divided into small areas (blocks) of 0.05 - 0.1 hectares each, and planting, tending, and felling operations are based on these discrete areas. We use the extracted timber effectively and replant the cleared areas with seedlings to create the next-generation of forest.

Distribution of Sumitomo Forestry timberlands



The public benefits of our forests

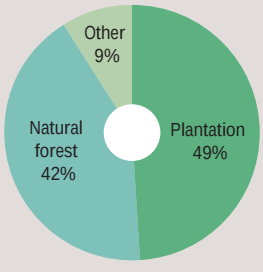
Forests are not just sources of timber, but provide vital functions that benefit us all. These include:

- Sequestering of CO_2
- Prevention of soil erosion
- Conditioning of water resources (mitigating floods, purifying water)
- Preservation of habitat
- Provision of recreational spaces

If these public functions were assigned a monetary value, the figure would be around ¥110 billion*. In addition, the total amount of CO_2 absorbed by our forests was estimated at around 230,000 tons. In this way, our forests make a significant contribution to environmental protection. (See page 36.)

*Calculated from data in the Forestry Agency's FY2001 White Paper on Forests and Forestry

Percentages of plantations and natural forests



Total area: 40,497 ha

In Japan, new methods such as ISO-based forestry management and computerization augment our approach to sustainable forestry and help us to practice forest stewardship that prevents flooding and erosion, protects the environment, and preserves forest ecosystems.

Forestry management based on ISO standards

We constructed an ISO 14001-based EMS for the environmental management of our forests and were the first in the forestry industry in Japan to obtain ISO 14001 environmental certification. Every year, we evaluate the impact of our forests on the environment, produce goals for the reduction of environmental impacts, and implement these as we continuously manage our forests in an environmentally sensitive way.

For example, when building forest roads, which have a significant impact on surrounding ecosystems, we evaluate the potential environment impacts from the planning stage and carry out regular site checks during construction to minimize the effect of each road on the water system and environment.

When harvesting timber, we check for legal restrictions concerning, for example, conservation forests, and make any necessary submissions to ensure our activities are in compliance.

IT in forestry management

To streamline the management of our forests in different parts of the country, we have established an IT-based management system using Geographic Information Systems (GIS) and Global Positioning Systems (GPS).

GIS supports sophisticated analysis and speedy decision-making by comprehensively managing and processing data reflecting information related to position and space (spatial data), and visually displaying the result. Using spatial analysis based on topographic maps and forestry survey records, GIS can be a useful tool for preparing forestry management plans.

Analysis of an area using GIS

Measurements using GPS

By building a database using GPS data added to the GIS data, we can now manage such information as location, area, tree species, and density of standing trees, and control our huge area of company-owned woodlands in units of subcompartments.

Using larch as a building material

Although larch timber is strong, it was seldom used as a housing material because of a tendency to twist when young. Using improvements in our drying technology, we succeeded in making creating a viable larch construction laminate with no quality problems. As a result, we can now make full use of the larch timber in our Monbetsu Forest in Hokkaido, which is approaching harvest age.

Larch in our Monbetsu Forest

Using thinnings effectively

Timber is one of the few renewable resources. Based on the ideal of sustainable forestry, we ensure that felling and planting remain in balance. We also use the thinnings that are an unavoidable part of forestry management as construction materials, such as lattice wall panels and Super Cypress engineered wood. We make every effort to use valuable timber resources carefully and practice environmentally friendly forest management.

■ Thinnings paper used for report

Printing stock has been developed as part of efforts to promote the use of thinnings. This “thinnings paper,” a mixture of 10% thinnings pulp and 90% pulp made from recycled paper, has received both the Eco-mark certification and the Thinnings mark. We began using this thinnings paper for our environmental reports in 2004 as an extension of our efforts to maintain and sustain domestic forest environments.

How do you calculate the amount of CO_2 absorbed by forests?

The CO_2 absorbed by forests is calculated from the volume of trunk, branches, roots, and leaves produced by forests (trees) from sunlight, CO_2, and water.

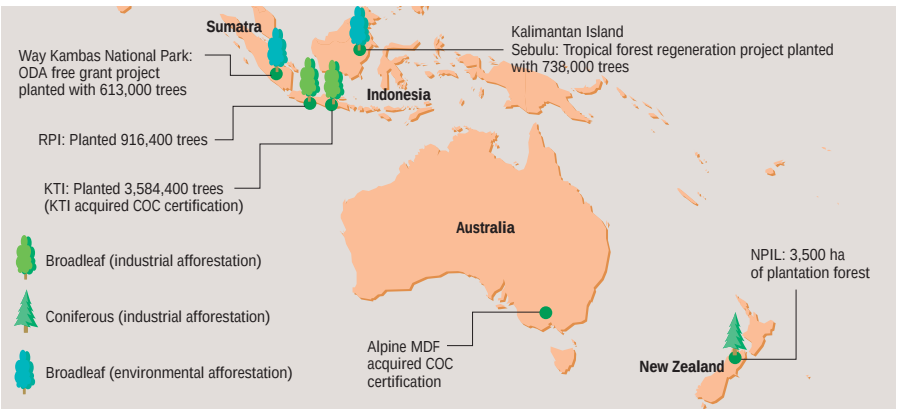
After a specified number of years (set by us) have elapsed from planting, we calculate the volume of the trunks of the planted trees. Specifically, we measure the diameter at breast height (dbh) and height of the trunks and the number of trees, then apply a specified formula to calculate the total trunk volume (= volume of standing trees).

First we carry out a survey, then apply a growth algorithm to the volume of standing trees calculated from the results of the survey to work out the volume of growth in a year. The growth algorithm varies according to such factors as the tree species, the number of years of growth, the region, and whether the forest is natural or a plantation.

The published volume of CO_2 absorbed in a year is derived by multiplying a coefficient by the volume of trunk growth in a year to seek the amount of growth of the forest (trees), including trunks, branches, roots, and leaves. The amount of CO_2 absorbed is calculated from this volume of growth.

Sustainable Forestry Management

Sumitomo Forestry Group's plantation forestry operations overseas



Seedlings at RPI

Overseas afforestation projects

Indonesia

■ KTI afforestation project

Total number of trees planted by KTI	3,584,000

P.T. Kutai Timber Indonesia (KTI), which is headquartered in Jakarta, manufactures and sells plywood, post-processed panels, and processed timber products. Recognizing the vital, multiple benefits of forests, KTI takes the following steps to make the best use of afforestation and plantation timber:

• Develops housing materials based on species considered to have little value in the past.

• Expands the scale of joint afforestation projects with local people, corporations, universities, and administrative bodies.

• Conducts afforestation experiments into new fast-growing species and selects quality trees.

By FY2004, KTI has planted around 3,584,000 trees. This includes an additional 1,030,000 trees added since FY2003. KTI also conducts conservation experiments with long-lived species in an effort to protect the environment by planting in such places as the banks of rivers, mountain ridges, and steep slopes, which were previously rejected as unsuitable for tree planting.

■ KTI achieves COC certification

In January 2005, KTI received Chain of Custody (COC) certification, which recognizes the proper management and use of certified timber cut from forests that have received Forest Stewardship Council (FSC) certification.

■ RPI afforestation project

Total number of trees planted by RPI:	916,000

P.T. Rimba Partikel Indonesia (RPI), which produces and sells particle board, began a joint afforestation project with local farmers in 2002 in an effort to further the economic development of the region and secure a stable supply of materials. RPI supplies free seedlings of fast-growing species and guarantees to buy back the grown trees when they are ready to harvest. The aggregate number of trees planted through FY2004 was around 920,000, covering 231 hectares; RPI plans to eventually expand the planted area to 1,000 hectares.

KTI's planting activities

Year	Number of trees
To 2000	253,000
2001	833,000
2002	535,000
2003	931,000
2004	1,032,300
Total	**3,584,300**

RPI's planting activities

Year	Number of trees
2002	188,300
2003	241,100
2004	487,000
Total	**916,400**

New Zealand

NPIL sustainable forestry

Total area planted by NPIL:	3,500 ha (approx.)

Nelson Pine Industries Ltd. (NPIL) produces medium density fiberboard (MDF) and laminated veneer lumber (LVL) in New Zealand. NPIL maintains around 3,500 hectares of its own forest within a radius of 60 kms from the mill. By systematically planting the same area of forest as it fells, NPIL achieves sustainable forestry.

For the forest products it manufactures, NPIL uses only radiata pine from planned plantation forests. NPIL uses the lumber effectively in accordance with its characteristics. From harvested logs, NPIL selects comparatively large diameter, straight sections for LVL, while the bent, smaller diameter, shorter parts are used for medium density fiberboard (MDF). NPIL seeks to effectively use and protect all its timber resources; instead of throwing away bark and defective items arising from the production processes, it uses them as fuel.

Australia

■ Alpine MDF acquires COC certification

Located in Wangaratta in Australia's southeast, Alpine MDF manufactures and sells medium density fiberboard (MDF). With the Forest Stewardship Council (FSC) certification of Alpine MDF's supplier HVP, in September 2004 Alpine MDF obtained Chain-of-Custody (COC) certification, valid for five years. When that term is up, Alpine MDF intends to renew its certification.

In addition to pursuing afforestation projects in Indonesia and New Zealand, we also aim for effective use of timber resources from the production phase. Our research focuses on forestry operations that benefit local economies and lifestyles.

CDM survey

Over the six years since 1999, we have been carrying out Clean Development Mechanism (CDM) feasibility surveys on behalf of the Japanese Ministry of the Environment. In FY2004, we conducted a "Comparative Study on Joint CDM Afforestation with Local People, and Small-Scale CDM Afforestation" in east Java, Indonesia.

In addition to securing timber and acquiring or trading emission credits, a major element of CDM activities is the opportunity to contribute to the local economy and living standards by increasing incomes and promoting employment. For these reasons, Sumitomo Forestry is investigating the commercial viability of joint CDM afforestation projects with local people.

Planting trees in experimental planting area

Overseas afforestation consultancy agreements

Sumitomo Forestry has been asked by Mitsui Sumitomo Insurance Company Limited to provide environmental afforestation consulting services for Indonesia, from planning to planting, for six years from April 2005.

These services will apply to an area of 300 hectares (equivalent to around 60 Tokyo Dome stadiums) within the Paliyan wildlife sanctuary in Yogyakarta Special Territory on Java. In this region, which has been devastated by illegal logging, we are addressing the problem of the depletion of tropical forests by:

• Restoring the forest's basic functions, including preventing natural disasters in the vicinity of the Paliyan wildlife sanctuary, protecting water resources, and preserving wildlife

• Regenerating local forests that can flourish together with the local people instead of being targeted for logging.

ODA reforestation project

Three hundred and sixty hectares were devastated by forest fires in Way Kambas National Park in Lampung Province, Sumatra. In May 2001, Sumitomo Forestry began a reforestation project to restore the lost forest as part of an Overseas Development Aid (ODA) free grant project — Japan's first for afforestation. For this, Sumitomo Forestry drew on seedling nurturing skills acquired during tropical forest regeneration in Sebulu, East Kalimantan, Indonesia, which began in 1991. The Way Kambas project reached completion in March 2004 with plantings of 613,000 indigenous trees. A survey carried out one year after project completion revealed that while some new trees had been nibbled by deer and others were covered by weeds, the trees were generally growing well and very few had died.

Young trees in December 2003

Young trees by March 2005

Could you please explain some of the special terms used in forest management and for timber products?

CDM (Clean Development Mechanism)

This is a system to allow industrialized countries to use their resources and technologies to carry out greenhouse gas emission reduction (uptake) projects in developing countries and for the industrialized countries to receive credits for all or part of the reductions (uptakes) achieved.

COC (Chain-of-Custody)

This is a system to document timber management so that non-certified timber is not mixed at the manufacturing, processing, and distribution stages with products using timber certified as coming from properly managed forests.

FSC (Forest Stewardship Council)

This is a system for certifying that forests are properly managed based on the ten principles of Forestry Stewardship advocated by the Forest Stewardship Council, a non-profit, non-governmental, international organization. Japan also has a different forestry certification system administered by the Sustainable Green Ecosystem Council (SGEC).

LVL (Laminated veneer lumber)

This is a building material produced by bonding layers of veneers in a direction parallel with the grain. While offering the advantages of natural timber, it offers: (1) dependable strength (2) and is not subject to splitting or warping. LVL is mainly used as strong structural members.

MDF (Medium density fiberboard)

The timber is broken down into a fibrous material, then glue is applied and the material is heat-molded under pressure. MDF offers excellent processability, strength, and stability. Normally when timber is produced from raw lumber, 65 to 70% of the lumber is not suitable for making into timber product. But with MDF, saplings and bent parts not fit for timber can also be used so that virtually 100% of the raw material can be made into product.

Particle board

This is a wood material produced by breaking down the timber into small chips and compressing them with an adhesive. The pruned branches of trees, scrap wood from timber mills, and other wood wastes can be used. When plantation timber is used, waste is avoided as the age of the timber when cut does not matter and bark and branches can be used.

Using Timber Resources Effectively

We promote the use of locally produced timber by developing and supplying products utilizing thinnings and domestic cedar. We have been involved in wood chip distribution since the second half of the 1950's.

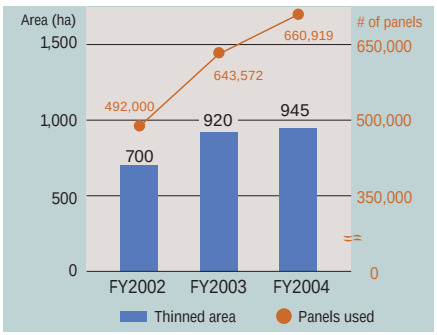
Lattice panels as wall linings

Sumitomo Forestry has developed lattice panels, made primarily from domestic cedar, for use as wall linings. Derived from milling offcuts, thinned lumber, and other small wood not previously utilized to any significant extent, these lattice panels are helping to boost rates of domestic timber usage.

■ FY2004 results

Number of lattice panels fitted	660,919
Thinned area	945 ha (approx.)

Thinned area corresponding to lattice panels, number of panels used



In FY2004, we used 660,919 lattice panels. Calculating the total area thinned, based on the amount of cedar used in the lattice panels and past results from company-owned forests yields an area of approximately 945 hectares, roughly equivalent to 201 Tokyo Dome stadiums.

Super Cypress laminate (engineered wood)

The 1,300-year-old Horyuji temple was built from *hinoki* (Japanese cypress), traditionally considered a top-quality structural material with superior durability, strength, and resistance to decay and termites. Super Cypress, an engineered wood, capitalizes on *hinoki*'s excellent qualities by using it as the base laminate material, while using lamination technology to achieve greater strength and dimensional accuracy than solid *hinoki*. Super Cypress makes effective use of material that could not be used before, such as relatively narrow or short logs.

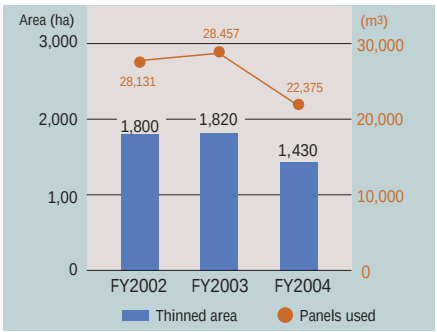
Super Cypress

■ FY2004 results

Amount of Super Cypress used	22,375 m³
Thinned area	1,430 ha (approx.)

Since FY2002, we have been using Super Cypress as a standard material in our GODAI One's Story and GODAI One's Story II mainstay house models. In FY2004, we used 22,375 cubic meters of Super Cypress, equivalent to approximately 676,000 105-mm, 3-meter square posts. Estimating the area thinned, based on the cypress used in the Super Cypress engineered wood and past results from company-owned forests yields an area of approximately 1,430 hectares, roughly equivalent to 310 Tokyo Dome stadiums.

Super Cypress use



MIZDAS drying system for structural timbers

Japanese cedar and cypress heartwood frequently cracks during the drying process, resulting in around 20% of framing timbers failing to meet quality standards. Cedar, in particular, takes considerable energy to dry because of its higher moisture content. Sumitomo Forestry's Tsukuba Research Institute used its original technology to develop a proprietary timber drying system MIZDAS, which reduces the incidence of cracking even with shorter drying times.

■ MIZDAS efficiencies

Drying time	Reduced by 75%
Energy required for drying	Reduced by 50%

This efficient new system has excellent productivity and energy-saving characteristics: approximately one quarter the drying time and one half the energy requirements of conventional kilns; no discoloration or internal cracking; and lower moisture content (15% or less) after drying. Tests indicate that the rate of non-standard square timber can be reduced from 20%, down to 5%.

Why is using domestic timber good for the environment?

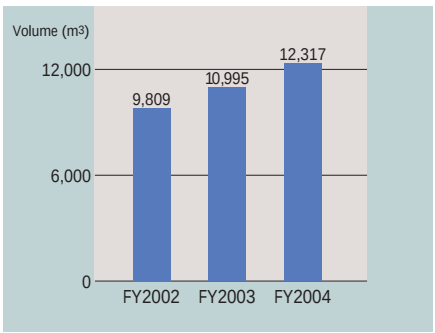
From around 1955, government policies to promote afforestation in Japan resulted in man-made forests expanding to around half of Japan's total forested area. Subsequently, however, deregulation of imports of low-cost foreign timber drove the value of domestic timber down and forests were neglected. With little thinning and pruning carried out, sunlight could not reach the forest floor, undergrowth could not flourish, trunks were slender, and the trees were susceptible to disease and pests. Root systems were weak and not vigorous enough to hold the soil or water. In addition to forested mountain areas, the surrounding environment was also affected.

Mountain forests perform important functions, including accumulating water, holding soil in place, and providing a habitat for wild creatures. Encouraging the use of domestic timber from Japan's planted mountain forests ensures those forests will be properly looked after and will increase the value of the land. Careful management of the forests will revitalize the trees and encourage uptake of CO_2, a cause of global warming.

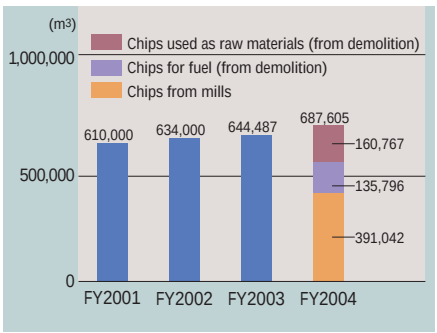
From ancient times, Japanese have used timber and have always lived in harmony with forests. Using substantial amounts of domestic timber will ensure Japan's valuable timber-based culture is maintained.

By using lattice panels and Super Cypress as standard components of our houses, we encourage utilization of domestic timber and provide customers with earthquake-resistant, durable housing products.

MIZDAS shipment volume



Volume of wood chips handled



■ FY2004 results

Volume shipped	12,317 m³

Calculated in terms of 3-meter, 105-mm square posts, in FY2004 we shipped 12,317 cubic meters of MIZDAS-dried wood, equivalent to 372,000 posts.

Using domestic timbers in laminates

The Komatsujima Office is promoting a shift away from tropical timbers, to coniferous trees as a lumber for laminates. Because conventional kilns were not able to adequately dry coniferous timber, which has a higher moisture content than tropical woods, the latest German-made drying kilns were installed. As a result, we have been able to increase the use of Japanese cedar, which had been deemed difficult to dry, by 1.8 times, contributing to more effective use of domestic timbers.

Wood chip business

In milling timber, the milling process results in offcuts that represent 20 to 25% of the raw timber. The demolition of wooden houses also produces large volumes of waste timber. Converting this waste into chips allows it be efficiently used in paper-making, fiberboard production, or to be put to use as a fuel.

■ Recycling scrap wood

Sumitomo Forestry wood chips	297,000 m³ (approx.)

Sumitomo Forestry uses the network it has created in its timber distribution business to help promote scrap wood recycling. With the enactment of the Construction Materials Recycling Law, in recent years, volumes of waste wood chips from construction-related waste timber have been increasing, and the importance of waste wood chip distribution is growing. Through our chip distribution business, we contribute to the efficient use of timber resources.

■ FY2004 results

Chips used as raw materials (from demolition)	161,000 m³ (approx.)
Chips for fuel (from demolition)	136,000 m³ (approx.)
Chips from mills	391,000 m³ (approx.)

In FY2004, we handled 161,000 m³ of demolition chips for use as raw materials and 136,000 m³ as fuel. If the heat produced from this volume of fuel chips was to be generated by gasoline, around 73,000 kiloliters* would be required. In addition, around 391,000 m³ of wood chips were produced from mill wastes.

*Figure based on data from the Biomass Handbook of the Japan Energy Association

Nelson Pine Industries' MDF and LVL

■ Eco-friendly MDF

MDF production in FY2004	320,000 m³ (approx.)

Nelson Pine Industries Limited (NPIL) of New Zealand produces medium-density fiberboard (MDF) with low formaldehyde and other volatile organic compound (VOC) emissions. As a means of preventing "sick house" syndrome, MDF contributes to post-construction indoor environmental safety.

Because of its attributes, NPIL's medium-density fiberboard was awarded Japan's Eco-mark certification and qualifies as a green purchasing special procurement item.

■ LVL used in GODAI One's Story II

We have begun using NPIL-made laminated veneer lumber (LVL) for the rafters (square timbers supporting roof lining panels) of our mainstay housing model GODAI One's Story II, which was launched in February 2004. Currently, we are using LVL in the square roof framing of all our housing products.

Alpine's MDF

Alpine's MDF production in FY2004	130,000 m³ (approx.)

Alpine MDF Industries of Australia produced around 130,000 m³ of MDF in FY2004.

How much better are lattice panels than laminates?

Airy, load-bearing lattice panels are made from 55-mm wide strips of cedar glued diagonally at a 45° angle in a latticework pattern. Offering exceptional strength, they have been shown to be 1.3 times more rigid than 9-mm plywood in load-bearing wall tests. They are also highly earthquake-resistant; in still pressure tests and dynamic tests that closely resemble seismic motion, they recorded a wall vibration of 4.6, 30% higher than plywood (according to findings by the Tsukuba Research Institute). Our lattice panels are also strong enough to withstand a magnitude 7 seismic event equivalent to the motion of the Kobe Earthquake of 1995. In addition, they offer several advantages over plywood, including the ability to withstand humidity, good airflow and less condensation within the wall. They do not quickly break down even if partly damaged, and are light-weight, easy to work with and install, and very manageable.

Building Eco-friendly Housing

Sumitomo Forestry provides environmentally friendly homes that meet the needs of society and the lifestyles of our customers. We also supply energy-efficient equipment and environmentally friendly services.

Developing long-life housing with "Big-frame" configuration

Compared to comparable countries overseas, Japan's housing has a short life-cycle. As one solution to this issue, Sumitomo Forestry has developed the "Big-frame" (wooden beam Rahmen structure) configuration, which does away with the need for continuous columns. Sumitomo Forestry was the first domestic manufacturer to obtain approval from the Ministry of Land, Infrastructure and Transport for this technique.

The Rahmen structure is a framework method that strongly links beams and posts, and is often used for steel frame and reinforced concrete structures. Using the structural merits of this system, we are seeking to provide homes with a larger component of design freedom that can be lived in over the long term.

■ Big-frame configuration

Normal frame construction methods support vertical weights (including the building's own weight) with poles and beams, and horizontal weight (horizontal swaying caused by earthquakes, etc.) by load-bearing walls. In contrast, the Big-frame (wooden beam Rahmen structure) method supports both vertical and horizontal weight by poles and beams. Compared with conventional homes, this approach not only permits fewer load-bearing walls and enhances freedom of layout, but also opens the way for major future changes in the layout of the home.

■ Proudio: BF

We offer a three-story home — the Proudio: BF — based on the Big-frame configuration. These homes, designed to support generation-to-generation living, are conceived to be quality assets for their owners.

Big-frame configuration

Proudio:BF showcases the Big-frame configuration

Providing safe housing environments

To assure the safety of the customers who buy our homes, we make every effort to use materials and resources with lower environmental impact.

■ Preventing "sick house" syndrome

To prevent "sick house" syndrome, caused by formaldehyde emissions, we always use F☆☆☆☆ construction materials and wall-paper glues, which ensure the lowest emissions of formaldehyde.

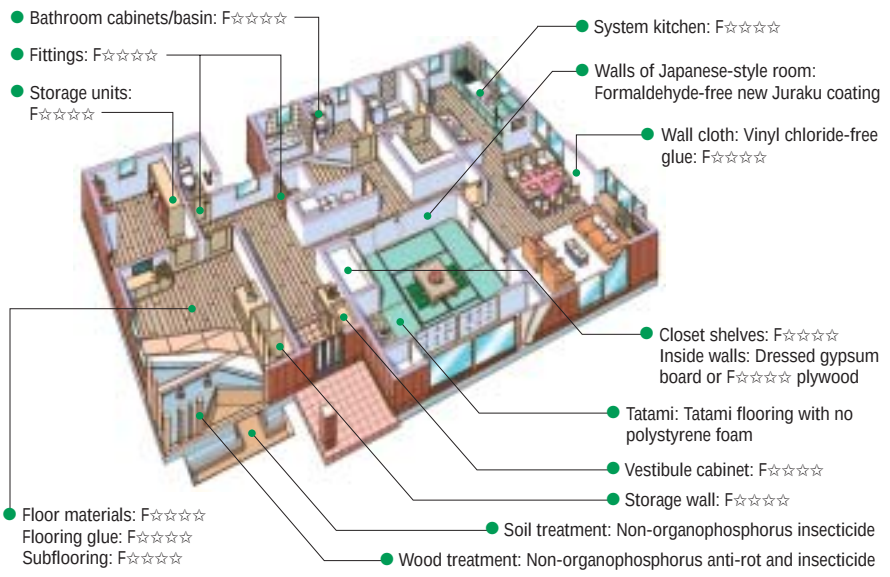
■ Vinyl chloride

We have substantially reduced the use of vinyl chloride in interior decoration materials such as wallpaper and panels used to dress fittings because it can release harmful dioxins when incinerated.

■ Asbestos

We have also replaced all light-weight (slate) roofing materials with products that do not include carcinogenic asbestos. All our homes are now asbestos free.

A "healthy house" down to the last detail



F☆☆☆☆: A class stipulated under Japanese Industrial Standards (JIS) and Japanese Agricultural Standards (JAS) to indicate the level of formaldehyde emissions from plywood and fiberboard. Classes range from F☆ to F☆☆☆☆, with F☆☆☆☆ indicating the lowest emissions of formaldehyde.

We ensure our homes conform with next-generation energy conservation standards, and use materials and resources with a low environmental impact, so that our customers can live comfortably and securely.

Energy-efficient housing

■ Adopting next-generation energy conservation standards

To live comfortably in Japan, where the seasons bring marked differences in temperature, the entire house must be insulated to keep the heat out during the summer, and warmth in during the winter. Sumitomo Forestry houses have raised levels of insulation and airtightness, and all meet next-generation energy conservation standards. These standards help reduce emissions of CO_2 because the home consumes less energy, and make a substantial contribution to the prevention of global warming.

■ Solar power systems

As an option, we offer solar power roofing systems and encourage their use. These are good-looking systems designed to look like roofing tiles.

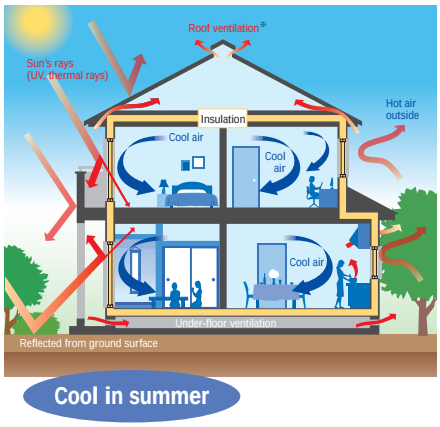
■ EcoCute

Hot water systems consume about one third of all household energy. To achieve efficiency in this area, we recommend use of the EcoCute system, which accesses power in the small hours of the morning.

■ Home fuel cells

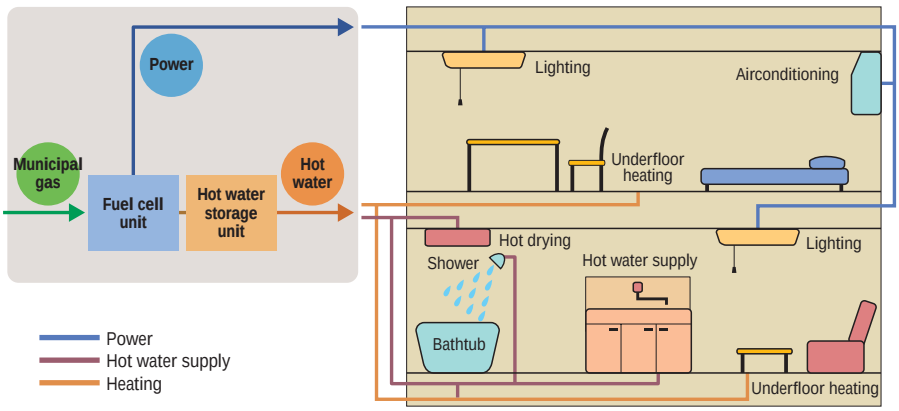
With home fuel cells available in Japan from February 2005, we began leasing home fuel cell co-generation systems to customers in the Tokyo, Kanagawa, Chiba, and Saitama areas.

Summer heat shielding effect



Winter thermal insulation effect

Home fuel cell co-generation system



Environmentally symbiotic homes

Sumitomo Forestry's houses have been classified as "Resource Efficient" and "Healthy, Comfortable, Reliable, and Safe" under the Environmentally Symbiotic Housing certification system administered by the Institute for Building Environment and Energy Conservation (IBEC). Our homes have also been certified as "Environmentally Symbiotic Housing."

■ Development concepts

We develop highly original environmentally symbiotic homes based on the following concepts:

- Energy efficiency (next-generation energy conservation standards)
- Durability performance (meeting the Government Housing Loan Corporation's basic durability performance standards)
- Subterranean permeation of rainwater; greenery, and town and landscape enhancement
- Restrictions on quality of materials to ensure good indoor air quality
- After-sales services relating to housing performance and maintenance
- Effective use of timber resources by precutting and componentization

Environmentally symbiotic experiment house

■ Experimental house constructed

As part of our research into environmentally symbiotic homes, we have constructed an experimental house on the grounds of our Tsukuba Research Institute. The environmentally symbiotic experiment house enables us to conduct research into comfortable homes that incorporate natural heating and cooling systems.

Promoting environmental preservation in our businesses

We are working to reduce, re-use, and recycle the construction wastes generated on our building sites, and we are also carefully monitoring and verifying the treatment of industrial wastes.

Appropriate treatment of construction wastes

As a means of preventing waste, we are committed to reducing, re-using, and recycling construction wastes.

• Reducing: To reduce wastes, we have adopted the practice of factory precutting to avoid bringing potential waste onto building sites.

• Re-using: We are reviewing the types of materials that can be recovered and re-used.

• Recycling: We formed a Construction By-Products Recycling Project and put in place a timber waste recycling system.

As a result of these efforts, we achieved a wood scrap recycling rate of 84% for construction scrap in FY2004 and 89% for demolition scrap.

In FY2005 we will establish a recycling route for our construction- and demolition-related wastes, and plan to achieve a recycling rate of 95% five years earlier than the 2010 time frame set by the government.

Building a wood-waste recycling system

Wood waste is a designated material under the Construction Materials Recycling Law, but as the law applies only to new construction projects with a floor area of at least 500m^2, the majority of Sumitomo Forestry building projects are not subject to recycling requirements. Though we may not have a legal obligation, we have voluntarily established recycling routes because we recognize the importance of wood waste recycling.

Monitoring of industrial waste treatment

Sumitomo Forestry has adopted a comprehensive manifest (sign-off voucher) system to ensure appropriate management of its industrial wastes. However, a waste producer may lose control over treatment after it consigns waste to a contractor for disposal. Because we want to remain in control of how our waste is treated, we implement frequent site surveys of third-party premises where our wastes are treated. Our waste is handled by around 450 companies, and we monitor the premises of every one at least twice a year. These checks are carried out by local Sumitomo Forestry offices, and where necessary, local inspectors are accompanied by a representative of the Environmental Safety Division of Housing Headquarters. The Environmental Safety Division also conducts two surveys a year of our sales offices nationwide to ensure that our industrial wastes are handled appropriately.

■ Recycling route for construction waste

Construction waste recycling rate	84%

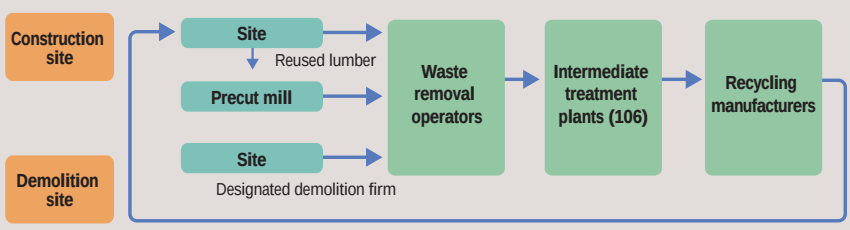
For new construction projects, we have established a highly transparent recycling route to ensure that offcuts are recycled appropriately. A waste removal contractor collects the wood waste and transports it to an intermediate treatment plant to be chip-milled. We also recycle offcuts from precut mills in the same manner. In FY2004, we recycled 84% of our construction waste through a designated recycling route.

■ Recycling route for demolition waste

Demolition waste recycling rate	89%

For waste from demolition sites, the demolition contractor transports the scrap lumber to a Sumitomo Forestry-designated intermediate treatment plant. Here, the waste is chipped, then delivered to the proper recycling manufacturer. By taking an active part in the flow of waste materials, we are able to control how they are handled and maintain transparency. In FY2004, we recycled 89% of our demolition waste through designated recycling routes.

Wood waste recycling flow



Promoting use of recycled products: Green procurement

Reducing wastes on building sites

■ Construction sites

Rate of factory precutting	Virtually 100%

To reduce wastes at building sites, we have introduced factory precutting of a variety of timbers. Framing, posts, trusses, and interior wall trims are now virtually 100% precut. We are also working toward the precutting of eave soffits.

■ Demolition sites

Even before the enactment of the Construction Materials Recycling Law, we were promoting dismantling and recycling to effectively re-use resources and reduce waste generated on demolition sites. We have generally finished putting in place methods of recycling materials such as concrete rubble, scrap timber, and scrap metal. However, no effective method has yet been developed to recycle tiles, glass, ceramics, and pottery, gypsum board, and other mixed waste. We regard the recycling of these types of materials as an important future challenge in reducing the amount of waste going to landfills.

We sort and recover wastes from our construction and demolition sites, dispose of these through various recycling routes, and commit them to either material or thermal recycling.

Reducing use of chemicals

■ Volatile organic compounds (VOC's)

Adhesives and paints are used in the manufacture and processing of sheathing materials. In the past, Sumitomo Forestry Crest's Fuji Office (currently Nichiha Fujitec) used around ten tons of paint containing toluene and xylene every month, but use was discontinued from September 2004. Apart from a small amount of low-pollution isocyanate, the company has now switched entirely to water-based paints.

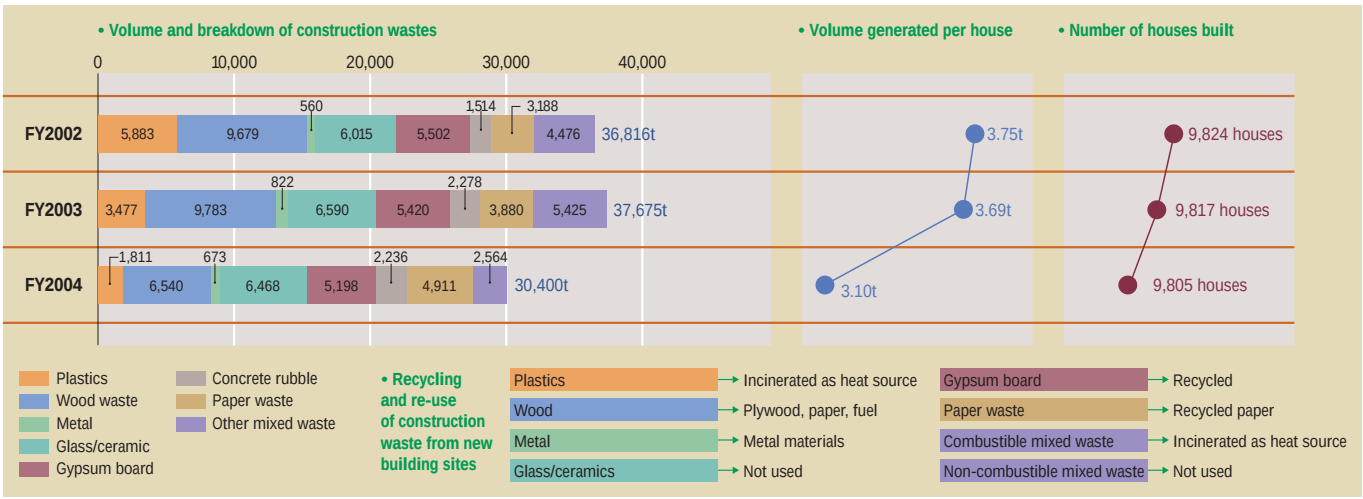
Advantages of this change include discontinuance of health checks required for those working with organic solvents; abolition of second coating; and a downgrading from a premises handling "general dangerous goods" to one handling "small-quantity dangerous goods." We also raised the viscosity of our paints to prevent them freezing in winter.

■ Use of hexavalent chromium reduced

Because of the danger, under some conditions, of leaching of hexavalent chromium in concentrations that exceed environmental standards from soil treated with cement or cement-type stabilizers, standards were set for quantities of hexavalent chromium in cement treated soil. These standards were set out in a Ministry of Construction ruling from the Councilor for Technics, Minister's Secretariat regarding the use of cements and cement-type stabilizers for ground improvement and the re-use of cement treated soil (Engineering Affairs Management Division Directive No. 48 of March 24, 2000). While these standards apply to public works, we choose to use compliant cement stabilizers in our own construction operations for environmental reasons.

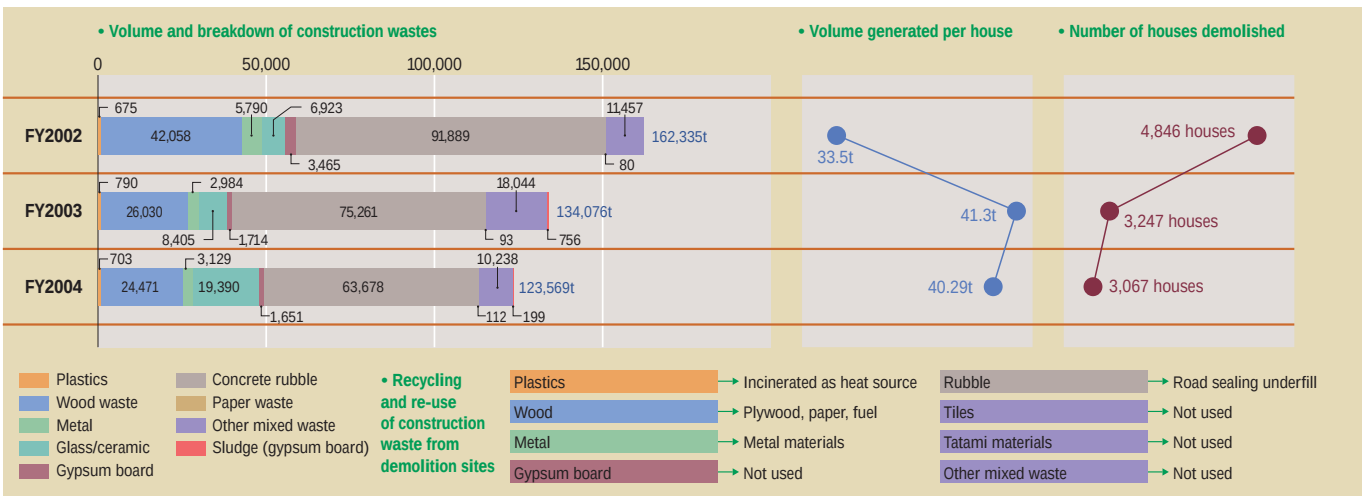
Although the cement we normally use also contains hexavalent chromium, if levels comply with those established for the cement-type stabilizers used for treated soil, the quantity of hexavalent chromium leached from the cement treated soil is reduced and the standards can be met.

Volume of construction waste generated at new building sites



Note: Recycling and re-use of construction wastes is based on a Jan. 2001 Sumitomo Forestry survey

Volume of construction waste generated at demolition sites



Note: Recycling and re-use of demolition wastes is based on a Jan. 2001 Sumitomo Forestry survey.

Developing Environmental Technologies, Greening Businesses

Based on our technologies and our experience as "tree experts," we are conducting R&D into environmental technologies and promoting greening businesses everywhere.

Bringing back Kyoto's famous *Togyu no Sakura*

Daigoji Temple in Kyoto, home to the famed *Togyu no Sakura* weeping cherry tree, was favored by feudal warlord Hideyoshi Toyotomi for cherry blossom viewing. Sumitomo Forestry's Tsukuba Research Institute and Sumitomo Forestry Landscaping worked together to propagate the venerable *Togyu no Sakura*, so named because the tree is featured in the paintings of renowned Japanese artist Togyu Okumura.

The weeping cherry of Daigoji Temple (*Prunus pendula Maxim f.ascendens* (Makino) Ohw) is a particularly long-lived type, with many examples more than one hundred years old. These grand old trees have the same cultural significance as historic buildings, and their preservation is highly desirable. However, the older a tree becomes, the more difficult it is to propagate by conventional techniques. This is why we took up the challenge of developing a propagation method using biotechnology.

■ Cloning technology developed in regenerating tropical forests

Tsukuba Research Institute applied seedling nursery technology developed through our tropical rain forest regeneration project in Indonesia to directly propagate shoots and produce cloned seedlings from the original Togyu cherry. Because the parent genes are passed on directly, in cloned seedlings the characteristics of the more than 150-year-old Togyu parent were preserved intact. The development of this weeping cherry propagation technology by tissue culturing was a world first.

In the spring of 2005, cloned "Togyu cherries" flowered in the grounds of Daigoji Temple in Kyoto.

■ Blossoms appear in spring 2005 at Daigoji Temple, Kyoto

Today, more than 1,000 clones of the Togyu cherry have been propagated, with the largest a vigorous five meters high. The first blossomed in the spring of 2004 at the Tsukuba Research Institute. In the spring of 2005, the young trees at Daigoji Temple in Kyoto flowered for the first time. All the blossoms of the clones matched the original Togyu cherry in color and shape.

VOICE

Return to life: A new chapter in the history of Daigoji Temple

Junna Nakada
Daigoji
Director-General

Thanks to the efforts of the Tsukuba Research Institute, in March last year the Togyu cherry was regenerated. When I saw the blossoms I was moved to tears. The specimens transferred to the temple here blossomed magnificently this year. Those flowers were breathtakingly beautiful, tender and full of the innocence of new life. People who came to the temple to worship quietly took a blossom in hand and reverently touched it to their foreheads. Some visitors touched the blossoms joyfully to receive the tree's powerful vitality.

Flanking the entrance to the Sanpoin Temple are two trees; the one on the right is a new clone, while on the left the parent spreads its branches as if to shield its offspring. This clone represents a real passing on of life and seems to offer a wordless sermon to all who come to visit the temple.

When some people ask: 'what is a clone doing at a temple'? I tell them that temples were once the repositories of the latest knowledge and were used to propagate that knowledge, and that now we are simply resuming our role as vessels for new technology.

Sumitomo Forestry and Sumitomo Forestry Landscaping have achieved the extremely important task of propagating a tree that is a cultural treasure. In ten or 15 years, the whole mountainside will be covered in cherry trees. I expect that when we look down from the Daigoji Temple, the pagoda and the temple gateway will look as though they are standing in a field of cherry blossom snow!

The weeping cherry trees at Kyoto's Daigoji Temple were cloned with technology developed for our tropical rain forest regeneration project in Indonesia. Environmental technology that contributes to overseas afforestation also plays a role in preserving our cultural heritage in Japan.

"Eco-Asset" project wins Rooftop Greenery Prize

Sumitomo Forestry Landscaping Co., Ltd., InterRisk Research Institute & Consulting Inc., Kajima Corporation, and Kokusai Kogyo Co., Ltd. have jointly established the "Eco-Asset" consulting service. "Eco-Asset" will review companies' green spaces and forests as assets, and help them plan how to use these as part of their corporate social responsibility (CSR) and environmental management programs.

The Eco-Asset team planned the greening of the rooftop of the Mitsui Sumitomo Insurance Surugadai Building (Chiyoda-ku, Tokyo) as a test run for their consulting services. Since the building was completed in 1984, work has continued on greening its rooftop, but the trees had grown large and the company was contemplating renovations. In July 2003, part of the roof's green space was restored as an urban green area, and opened to the public as a rooftop garden.

The conservation plan, which was created under the leadership of Sumitomo Forestry Landscaping, won the Rooftop Greenery Prize of the Minister of the Environment in the third Rooftop, Wall and Specific Greenery Technology Contest sponsored by the Organization for Landscape and Urban Greenery Technology Development. In the same competition, a plan for the greening of Harumi Triton Square in which Sumitomo Forestry Landscaping was involved won a *Nihon Keizai Shimbun* (Japan Economic Journal) award.

The Rooftop Greenery Prize-winning rooftop

Triton Square garden features a new species of *Cornus florida* developed by Sumitomo Forestry Landscape

Greening wastelands

With the aim of establishing technology for greening wastelands, Sumitomo Forestry, the Tsukuba Research Institute, and Sumitomo Forestry Landscaping jointly conducted a greening experiment targeted on the area around Mt. Fugendake, which was covered in debris when the volcano erupted in 1991. The object of the experiment was to find a way of restoring a highly diverse forest ecology through fast-growing indigenous trees. Using native species, original erosion prevention techniques, and ways of supplying organic components, we established 300 seedlings of 15 species.

While the seedlings had thrived, a typhoon that hit Japan in September 2004 inflicted considerable damage on some species (*Castanopsis cuspidate* and *Mallotus japonicus*). Sturdier species capable of withstanding high winds, such as *Elaeagnus umbellate* and *Elaeagnus pungens*, have continued to flourish.

Through recent experience we have been able to establish a technical base for environmental greening projects that seek to restore forest environments damaged by natural disasters.

Inspecting planted trees

Toyota Forest wins MLIT award

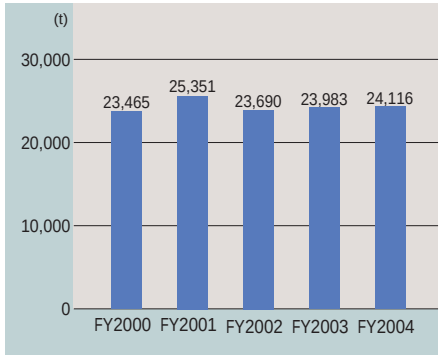
The Toyota Forest: Forest Hills Model Forest, located on the edge of Toyota City and sponsored by the Urban Green Space Development Foundation, received the Minister of Land, Infrastructure and Transport Award in the 24th Green City Awards. Sumitomo Forestry and Sumitomo Forestry Landscaping were associated with the planning, design, implementation, and management of the model forest project.

The Toyota Forest

Tsuchi Taro potting mix

Sumirin Agro-Products Co., Ltd. produces bark compost from sawmilling bark waste produced when processing timber. This bark compost is mixed with sediment from drinking and industrial water purification plants to create a mature, high-quality potting mix known as "Tsuchi Taro," which is used as gardening soil for vegetable gardens, house plants, and lawns. Developed jointly with Chiba and Aichi Prefecture and other local authorities, this venture plays a significant role in recycling the sediment generated at water purifying plants.

Production of Tsuchi Taro potting mix



Environmental Management

We have succeeded in developing an environmental management system (EMS), designed to ISO 14001 standards covering the entire Sumitomo Forestry Group, and seek to integrate environmental management with everyday business management.

Sumitomo Forestry's EMS

Because the environment is crucial to our business, from FY1995 we began developing an EMS based on ISO 14001 standards. In FY1997, we became one of the first in the housing industry to obtain ISO 14001 certification. Subsequently, we steadily expanded certification to our forestry and timber and building materials divisions. In August 2002, divisional certifications were upgraded to a general certification for the entire company.

■ An environmentally oriented budget

In FY2003, we devised a method for bringing environment management under our budget control systems and this new approach began operating from fiscal 2004. Managing the environment and economic issues (results) from both a short- and medium-to-long-term perspective gives us a chance to reconcile issues affecting both the environment and economics. In FY2005, we announced more specific numerical goals.

Group environmental management

In FY2002, ISO 14001 certification was extended to Sumitomo Forestry Landscaping Co., Ltd., Sumitomo Forestry Home Service Co., Ltd., and Sumitomo Forestry Component House Co., Ltd. In September 2003, Sumitomo Forestry Crest Co., Ltd. and Sumitomo Forestry Two-by-Four Homes Co., Ltd. were recognized as ISO 14001 compliant.

Overseas, P.T. Kutai Timber Indonesia (KTI), Nelson Pine Industries Ltd. (NPIL) of New Zealand, and Alpine MDF of Australia have also received ISO 14001 certification.

■ Sumitomo Forestry Crest Co., Ltd.

Four business premises of Sumitomo Forestry Crest (Niihama, Komatsujima, Shizuoka, and Kashima) have reduced wastes and are switching to paints that are free of toluene and xylene. From FY2004, we began using domestic cedar timber and now use more than 1,500 m^3 of Japanese cedar in plywood production every month. We will continue to expand use of domestic timber in the future.

■ Sumitomo Forestry Two-By-Four Homes Co., Ltd.

Sumitomo Forestry Two-By-Four Homes uses an external thermal insulation, which enhances heating and cooling effect. This construction method helps lower environmental impact at the residential stage; Sumitomo Forestry Two-By-Four homes use less energy and emit less CO_2. We also sort and recover wastes from construction and demolition sites, proactively promote recycling and re-use, and in FY2004, recycled around 86% of demolition materials.

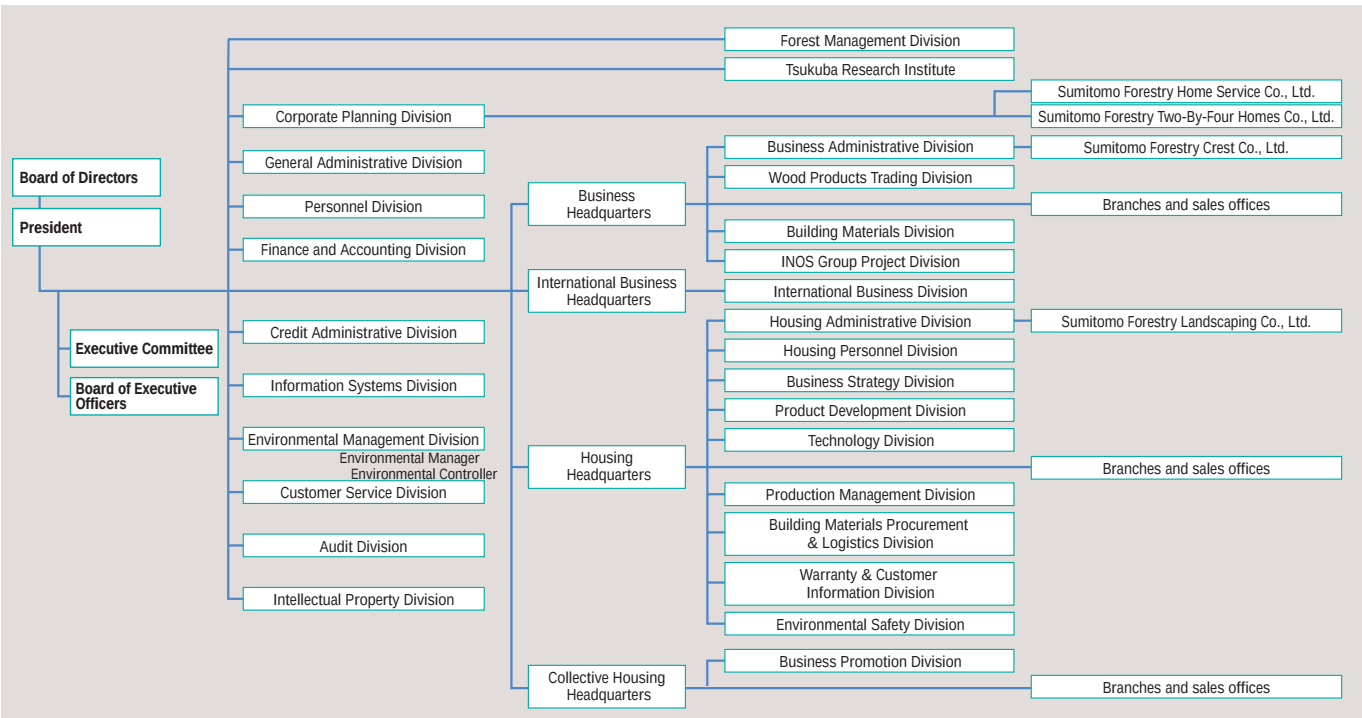
■ P.T. Kutai Timber Indonesia (KTI)

In recent years, demand in Japan and other industrialized countries for products using environmentally freindly lumber has risen rapidly. To meet this demand, KTI has identified *Albasia falcata* as its main timber species, and is developing products using this timber. In July 2001 KTI obtained ISO 14001 certification and is working to create products with a low environmental impact.

■ Nelson Pine Industries Ltd. (NPIL)

NPIL uses only plantation timber in the manufacture of its products. It has an MDF and a LVL production line, both of which combust wood scrap and bark for their energy needs. The water needed for the production process is also recirculated. NPIL's ISO 14001 certification will spur a still stronger ongoing commitment to green activities.

Environmental management system



We created an ISO 14001-based environment management system and carry out environmental activities. While our numerical management of environmental targets has been an issue in the past, we hope to improve this from FY2005.

Environmental audits

The administration of our environmental conservation activities is verified by a combination of internal environmental audits and audits by an externally certified body.

Internal environmental audits

To ensure our environmental activities are implemented efficiently and reliably, Sumitomo Forestry conducts internal environmental audits. These internal checks, in which different parts of the company audit each other, focus on application of our EMS and progress toward achieving environmental aims and objectives. These audits are conducted by internal environmental auditors.

■ Collection of audit findings

The Environmental Management Division, which controls our environmental conservation activities, collects and reports all internal audit results to management. On the basis of the findings, management determines if improvements are required, and when necessary, issues instructions to the section concerned. Information is shared with other sections wherever possible.

■ Training of internal auditors

Internal environmental auditor training courses are held twice a year. Employees who have completed the course are appointed as internal environmental auditors. As of the end of March 2005, a total 611 staff had qualified.

Audits by external certification bodies

In addition to the internal environmental audits, annual ISO 14001 interim audits (surveillance visits) and three-yearly re-assessment audits are conducted by external certification bodies. In FY2004, we received an external audit in July. Thirty posts were audited, and the results were: "No major (A) indications, one minor (B) indication, and 16 improvements (C indications). The minor (B) indication was for "inadequate factory waste water monitoring and measurement procedures." We immediately took remedial measures to address the indication and reported them to the auditing body.

Environmental education

To ensure that each employee is aware of environmental procedures and implements them in their daily work, all employees must clearly understand their roles and be able to act responsibly. To this end, we conduct education programs aimed at all employees.

Types of environmental education

■ General environmental education

To fully convey the company's environmental policy, we display posters and issue policy cards to employees. All offices nationwide prepare an annual timetable, with training provided through environmental seminars. The aim is to raise environmental awareness among all company members.

■ Education system for new employees

All new recruits attend induction training at Forester House, located at Besshiyama in Niihama City, Ehime Prefecture, Shikoku. The new recruits study the plantation's history and learn forestry skills and conservation concepts through practical work. They also take part in the Manabi no Mori tree-planting and forest restoration program on Mt. Fuji.

■ Environmental lectures

To deepen understanding of environmental issues and the efforts being made by Sumitomo Forestry, in FY2004 we held 34 environmental lectures, attended by a total of 1,328 employees. Of these, 839 were Sumitomo Forestry employees, and 489 were from seven Group companies.

Efforts to raise awareness

To reinforce environmental consciousness among all employees, we circulate an email magazine on environmental issues through our intranet. In addition to showing our own efforts to support the environment, this covers popular environment-related topics and introduce what other companies are doing in language that is clear and easily accessible.

Environmental education over the intranet

Preparedness and training for emergency situations

The types of emergencies anticipated at Sumitomo Forestry include fire and major disasters. To prevent accidents and disasters, staff participate in regular training sessions to prepare them to respond to emergency situations.

■ Fire training

We devise measures to prevent fires and reduce damage if fire does break out. Regular drills are held on fire prevention and damage control procedures.

■ Major disaster (earthquake) training

We established an in-house system to protect the safety of employees and their families in the event of a major earthquake. To support our customers, we also prepared an "Earthquake Manual" and distributed it to all company members.

A meeting following an ISO audit

Sumitomo Forestry and Group staff attending an environmental lecture

Green Office Management

Identifying areas of priority, Sumitomo Forestry promotes resource reduction, energy-saving, and green purchasing at all offices. In FY2004 we changed our company notebooks and the stickers on our company cars to show our commitment to environmental conservation.

Environmental conservation in the office

To reduce environmental impacts caused by office activity, we identified and addressed the following priorities:

- Reduce paper usage
- Promote green purchasing
- Reduce electricity usage

Reducing paper usage

■ Electronic ordering system

Because we deal with numerous construction firms in the course of our home building business, there is a huge amount of communications to be processed, generating a vast amount of paper. To streamline this, we created an electronic system for orders-related documentation, invoicing, and other information. This has reduced costs and saved resources.

■ Internal communications go online

The Building Materials Procurement & Logistics Division of Housing Headquarters switched to an online system for communicating with its branches and affiliated construction offices. These online communications are mainly essential messages relating to such matters as the lumber to be used in Housing Headquarters products, changes in specifications, and price revisions. Putting these communications online has sped up the transmission of information, made information easier to disseminate, and considerably reduced amounts of paper used.

■ In-house information goes online

To reduce the volume of printed material, we set up an in-house intranet website called "Inforest." This promotes the sharing of information within the company, speeds up the communication of information, and reduces the use of paper resources.

Our intranet website "Inforest"

Green purchasing

■ Green purchasing of stationery

Ratio of green stationery	71.97%

In purchasing office equipment and supplies, Sumitomo Forestry practices "green purchasing," prioritizing items that are less environmentally harmful. For copy paper, from FY2002 our domestic offices throughout Japan began purchasing only products that meet our green purchasing criteria. We also started using recycled paper for our company envelopes. For other office supplies, too, we give priority to items that meet the green purchasing criteria, producing a green purchasing rate of 71.97% in FY2004. In the future, we will continue to promote green purchasing at all Group companies.

■ Environmentally friendly notebooks

From 2005, we improved the environmental friendliness of the notebooks produced by Sumitomo Forestry. For the cover, we used Ecoonia, a material that looks natural and has a low environmental impact. An increase in the overall rate of recycled paper earned the notebook the Eco-mark.

Company notebooks

■ Switching to environmentally friendly carry bags

Because we give visitors to our model houses quantities of materials to take away with them, they need a bag to carry it in. We now use corn-based biodegradable plastic for this bag. When the bags are disposed of, microorganisms break down their biodegradable plastic into water and CO_2. Because this bag uses no petrochemicals, it also contributes to the preservation of global resources and reduction of wastes.

Carry bags made from corn

■ New environmentally benign sticker

While our company cars previously were identified by stickers of vinyl-chloride film, from January 2005 we changed to safe olefin film. When combusted, olefin film gives off only water and CO_2 instead of harmful dioxins.

New environmentally benign sticker on company car

Reuse and recycling of personal computers

PC re-use	16.1%
PC materials recycling	83.9%

Sumitomo Forestry leases PCs from Sumirin Enterprises, Ltd., and every year 800 to 1,000 of these are returned when their leases expire. Many of these machines, however, are re-usable if serviced. Instead of simply scrapping these returned machines, Sumirin Enterprises seeks to effectively utilize them. In FY2004, it managed to give 16.1% of its returned computers a new lease of life as second-hand machines. As used PCs also contain useful metals, PC's that cannot be re-used can still be recycled for their materials. In FY2004, Sumirin Enterprises recycled 83.9% of the computers returned to it for their materials, contributing to our record in the safe treatment of wastes.

Environmental Accounting

In the interests of promoting environmentally sound management, we calculate and publish the costs and effects of environmental conservation.

Sumitomo Forestry's environmental accounting

Environmental costs were first published in our 2001 Environmental Report. We recognized that to further promote environmental protection activities within our management framework, it was necessary to quantitatively assess the costs incurred and benefits derived from environmental protection, and to disclose this information to the numerous people involved with our company.

Assessing environmental costs

We assessed our environmental protection costs according to the following conceptual framework:

■ Business area costs (cost of environmental protection)

Expenditure on environmental management of company-owned forests for sustainable forestry development, expenditure in Japan and overseas relating to the Indonesian reforestation project.

■ Business area costs (cost of resource recycling)

Expenditure on the operation of our waste wood recycling distribution business, and sorting, recycling, appropriate treatment, transportation, and management of construction wastes.

■ Management activity costs

Office expenses and auditing costs relating to ISO 14001 certification and ongoing compliance; expenditure on publishing environmental information, including advertising and reporting.

■ Research and development costs

Expenditure on environmental-related research conducted at Tsukuba Research Institute.

■ Social contribution costs

Our social contribution expenditure was spread over the following three areas:

- Expenditure on running the Mt. Fuji Manabi no Mori natural forest regeneration project
- Expenditure on maintaining and managing Forester House
- Grant to Keidanren Nature Conservation Fund and other contributions

FY2004 environmental accounting

Environmental costs (Unit: Yen millions)

Category		Main activities	Costs
(1) Business area costs	(i) Costs of environmental protection	Sustainable forestry	522
		Overseas afforestation	30
	(ii) Costs of resource recycling	Construction waste reduction and recycling	3,668
		Waste wood chip recycling distribution operations	119
		Manufacture and sale of products made from waste wood	39
(2) Management activity costs		ISO 14001 compliance and operation	32
		Disclosure and administration of environmental information	119
		Green purchasing	255
(3) Research and development costs		R&D related to environmental protection	232
(4) Social contribution costs		Mt. Fuji Manabi no Mori administration	27
		Forester House administration	39
		Grants to the Keidanren Nature Conservation Fund, etc.	4
Total			5,085

Environmental benefits

Category	Description	Benefit
(1) Business area benefits	CO_2 sequestered by company-owned forests	231,605 t-CO_2/yr.
	CDM feasibility study completed FY2004	—
	Recycling of waste wood from housing construction	26,650 t
	Volume of waste wood recycled by distribution business (chip conversion)	687,605 m^3
(2) Management activity benefits	Re-use and recycling of used PCs	100%
(3) Research and development benefits	Commercialization of "big frame" construction method	—
	Completion of Daigoji Temple "Togyu cherry" propagation technology	—
(4) Social contribution benefits	Mt. Fuji (Manabi no Mori) volunteer activities	160 persons (7 times)
	Number of visitors to Forester House	4,632 (3 study courses)

Activities Planned for FY2004/2005 and Results

In FY2004 we focused on prevention of global warming, waste reduction, reduction of harmful substances, and green purchasing. We plan to continue this focus in FY2005.

Sumitomo Forestry initiatives

Priority	Main initiatives in FY2004	Activities	Main initiatives in FY2005
Prevention of global warming	• Promote sustainable management of forests	• Conduct careful field surveys into which forest areas need thinning or selective cutting and implement the 7th Forestry Plan	• Nurture healthy forest resources by steadily implementing annual cutting plans based on 7th Forestry Plan
	• Increase handling of fuel wood chips as biomass energy source	• Start shipments to new users and increase shipments to existing clients	• Develop new users and increase shipments to existing clients; aim to increase volume of fuel chips handled
	• Reduce CO_2 emissions in houses at the residential stage by developing next-generation energy efficiency specifications	• Realize and publicize cost savings resulting from next-generation energy specifications	• Set next-generation energy efficiency specifications as standard and increase ratio of energy-efficient houses
	• Reduce number of vehicles used to transport materials	• Try to reduce numbers of deliveries from distribution centers	• Examine utilization of distribution bases
Waste reduction	• Increase volume of demolition wood chips handled (for paper making and fiberboard) as a way to recycle wood wastes	• Expand numbers of suppliers and reinforce existing ones	• Aim to increase volume of demolition wood chips handled by expanding number of suppliers
	• Improve ratio of construction wood scrap recycling	• Conduct thorough-going education and monitor rates of wood waste delivered to certified designated factories	• Aim to deliver 95% of housing demolition wood waste to certified designated factories by FY2005
	• Focus on reducing waste in construction of collective housing	• Reinforced concrete (RC) structures: Promote appropriate ordering and use of materials	• Reduce volume of waste per floor area for both RC and wooden structures
		• Wooden structures: Aggressively implement re-use of materials	
Reduction of harmful substances	• Promote low formaldehyde • Increase volume of F☆☆☆☆ products with low formaldehyde emissions in MDF	• Conduct proactive education activities and promote use of F☆☆☆☆ products to industry overall and end users	• Increase use of low formaldehyde (F☆☆☆☆) MDF
	• Promote ant control	• For wood treatment and ant control, initiate sales of baiting techniques that require no soil treatment	• Devise ant control methods using natural materials like charcoal rather than relying on chemicals • For protecting wood and controlling ants, promote use of baiting techniques that require no soil treatment
Green purchasing	• Increase handling of products and raw lumber that use sustainable forestry resources	• Develop new broadleaf plantation timber suppliers and increase use of conifer plantation and New Zealand timber	• Increase handling of conifer plantation timber from NZ and Australia; develop new sources of broadleaf plantation timber
		• Increase handling of NPIL products, which feature the Eco-mark	• Increase volume of NPIL products, which feature the Eco-mark • Actively promote change to F☆☆☆☆ products
		• Promote use of plantation timber for floor veneers and base plywood, and increase volume of plantation plywood handled	• Increase volume of plantation timber plywood (including B/B and composite products)
	• Promote green purchasing	• Choose materials in accordance with guidelines, check products and companies, and expand green procurement	• When purchasing housing materials, ensure new makers comply 100% with green purchasing corporate evaluation requirements • Review green purchasing guidelines

Sumitomo Forestry Group initiatives

Priority	Main initiatives in FY2004	Results	Main initiatives in FY2005
Enhance communication	• Promote Group-wide and external environmental information activities • Promote social contribution activities, such as volunteer tree planting	• Published Environmental and Social Report 2004 in June 2004	• Promote tree planting and volunteer forest development activities (Mt. Fuji Manabi no Mori project, Tokyo water catchment area forest, etc.) • Disseminate environmental information through "Sumirin Club" network of client companies
		• Implemented Manabi no Mori natural forest restoration activities on Mt. Fuji 7 times, with a total of 160 participants • Forester House renovated	
Reduction of environmental impact caused by office activities	• Reduce lighting and heating costs • Promote green purchasing	• Conducted energy-efficiency education activities • Ensured PC's and printers to be purchased complied 100% with green purchasing method requirements	• Reduce CO_2 emissions throughout Sumitomo Forestry Group
Education activities	• Raise awareness of environment issues	• Held 34 environmental lectures (for new recruits, existing employees, and clients' staff), attended by a total of 1,328 employees	• Use environmental education to change attitudes of Group employees • Actively train ISO 14001 internal environmental auditors

Results of FY2004 Reader Survey

We received 53 replies to our reader survey on last year's Environmental and Social Report 2004. Here are some of the comments and suggestions expressed by readers who kindly made the effort to reply.

"I would have liked to have seen more coverage and detail in areas like regeneration of natural forests and overseas activities."

- Male, 66, retired

"What level of reader is the report aimed at? How about making it so it can be understood by high school students?"

- Male, 63

"Instead of forestry conservation management and various activities utilizing timber, shouldn't you be making more of an effort to improve waste treatment and recycling levels?"

- Male, 74, NPO employee

"What about saying the same sort of thing using pictures and cartoons so the report can be distributed to children and used in their education?"

- Male, 39, local entity employee

"I can see you are passionate about tree planting and I respect the effort you put into it. If you are planning any future planting programs, please let me know if ordinary volunteers can join in."

- Male, 66, self-employed

"The importance of conserving and regenerating forests has been emphasized recently. I think I understand in general terms, but know practically nothing about specific problems and remedies. Couldn't you provide more detailed information as you continue to enlighten us on this subject?"

- Male, 65

"I can see that you are contributing to the environment in many ways. I understand the direction you are going in, but what you want to achieve in five or ten years is still unclear. You need to provide numeric goals."

- Male, 54, company employee

"From the viewpoint of a homemaker, the home is important, and the environment is also very important. When thinking of relocating or renovating, an ordinary person can do little more than choose methods that do not harm the environment. We expect that those actually involved in forestry or timber will take steps to protect the environment."

- Female, 44, homemaker

"I am very impressed at the way you conduct your activities based on the idea of protecting the environment and sustainable management. I would also like to know a little more about your technical capabilities."

- Male, 21, student

"I wish the photos were a little bigger. Other than that, the content is extremely good. I think this report would be a good resource for teaching high school students about the environment."

- Male, 44, librarian

Please take a few moments to fill out the 2005 reader survey.

- The 2005 reader survey is on the other side of this page.
- After filling in the questionnaire, please fax it to Sumitomo Forestry Co., Ltd.

Thank you for supporting our reader survey. Your feedback and comments will be useful for improving our reports in the future.

This year, we received 53 replies to our reader survey. Many thanks to all who made the effort to respond. Those comments and suggestions that can be practically realized will be very useful for improving our environmental activities and reports. In response to those of you who asked for more detail, we have increased the size of this year's report. To those who asked about the level of reader the reports are aimed at, we can only reply that they are for business use. Accordingly, from the autumn of 2005 we intend to publish a booklet featuring a wealth of environmental information clearly written for general readers. Please visit our website for details of available publications. Some of your suggestions will take some time to address, and we are taking them into careful consideration. We hope to receive more of your comments and suggestions in the future.

(Environmental Management Division)

Please Take Time to Complete Our Reader Survey

Thank you for your interest in the Sumitomo Forestry Environmental and Social Report 2005. To enable us to bring you an even better report next year, we would like to hear your comments and feedback on this report. Please fill out the reader survey below, and fax it back to us at your convenience.

Please fax the completed survey to:

Sumitomo Forestry Environmental Management Division FAX +81-3-6730-3521

Q1 What best describes your perspective as a reader of the Environmental and Social Report 2005?

01: Customer
02: Business client
03: Shareholder/investor
04: Government/administration-related
05: Company environmental staff
06: Environmental specialist
07: NGO/NPO
08: Media-related
09: Student
10: Other

Q2 Which part(s) did you find particularly interesting? (multiple selections permissible)

01 Management Dialogue
02 Sustainable Forestry is the Way of the Future
03 Social Report: Message from Senior Executive Officer Responsible for CSR
04 Our Social Responsibility
05 Working with Our Customers
06 Working with Our Business Partners
07 Working with Our Shareholders
08 Working with Our Employees
09 Working with Society
10 Message from Managing Executive Officer Responsible for the Environment
11 Environmental Vision
12 CO_2 Balance Sheet
13 Sustainable Forestry Management
14 Using Timber Resources Effectively
15 Building Eco-Friendly Housing
16 Promoting Environmental Preservation in our Businesses
17 Developing Environmental Technologies, Greening Businesses
18 Environmental Management
19 Green Office Management
20 Environmental Accounting
21 Activities Planned for 2004/05 and Results
22 Highlights of our Environmental and Social Activities
23 Corporate Data

Q3 How easy did you find this Report to understand?

01 Easy to understand
02 Average
03 Not easy

Q4 Was the content sufficient?

01 Sufficient
02 Average
Not sufficient

Q5 Please write any feedback or suggestions you may have on our environmental or social activities.

Name **Age**

Occupation

Address

Telephone

E-mail

❑ Please send a copy of next year's report to the address above.

Handling of personal information relating to reader survey

This reader survey is used to obtain feedback to be incorporated into the next Report. Any personal information in the survey will be protected in accordance with Japan's Personal Information Protection Law and other laws and regulations, and will be managed appropriately.

For details on our personal information protection policy, please see page 19 of this Report.

Highlights of our Environmental and Social Activities

Nurturing our business in the process of nurturing trees, Sumitomo Forestry is actively engaged in environmental and social initiatives both in Japan and overseas.

Year	Japan	Overseas
1991	Green Environmental R&D Division established (Jan.)	Tropical rain forest regeneration project began in East Kalimantan, Indonesia (Dec.)
1992		MDF from Nelson Pine Industries Ltd. (NPIL) qualified for the "Eco-mark" (Jan.)
1993	Sumitomo Forest Ecosystems' Memorial Square and Forester House opened to commemorate the centennial of a large-scale forestation plan in Shikoku (Oct.)	
1994	Sumitomo Forestry's Environmental Philosophy formulated (Dec.)	
1995	Environmental Management Committee established (Jan.), Sumitomo Forestry's Environmental Guidelines instituted (Jan.), Sumitomo Forestry EMS implemented at all Headquarters divisions (April)	
1996	Sumitomo Forestry EMS implemented companywide (April)	
1997	ISO 14001 certification obtained for five Housing Headquarters divisions and for the Northern Kanto Regional Division (Aug.), Mt. Fuji Manabi no Mori natural forest restoration initiative began to restore state-owned forest destroyed by a typhoon (Sept.)	
1998	Environmental Business Division established (June), ISO 14001 certification obtained for the Housing Headquarters' Eastern Japan Housing Division (Oct.)	
1999	ISO 14001 certification obtained for the Forest Management Division (July), All Sumitomo Forestry houses certified as environmentally sound (Aug.), "Forest Ark" volunteers' activity center completed at the Mt. Fuji Manabi no Mori project (Oct.)	CDM feasibility study began in East Kalimantan, Indonesia (commissioned by the Japanese Ministry of the Environment) (Aug.)
2000	Companywide Environmental Policy instituted (Oct.), EMS implemented at all divisions (Oct.)	Reforestation project started in Way Kambas National Park, Indonesia (Nov.)
2001	ISO 14001 certification completed for all divisions of Sumitomo Forestry Co., Ltd. (excluding overseas affiliates) (Aug.)	ISO 14001 certification obtained for P.T. Kutai Timber Indonesia (KTI) (July), Joint afforestation project initiated by KTI with city of Probolinggo, Indonesia (Aug.)
2002	ISO 14001 companywide certification obtained (excluding overseas affiliates) (Aug.), ISO 14001 certification obtained for Sumitomo Forestry Landscaping Co., Ltd. and Sumitomo Forestry Home Service Co., Ltd. (Nov.)	
2003	ISO 14001 certification obtained for Sumitomo Forestry Crest Co., Ltd. and Sumitomo Forestry Two-By-Four Homes Co., Ltd. (Sept.)	ISO 14001 certification obtained for Nelson Pine Industries Ltd. (NPIL) in New Zealand (July)
2004	Environmental Management Division established (April)	Tropical forest regeneration project completed (Sebulu, Indonesia)/Way Kambas National Park project (Indonesia) reached completion (March), Alpine MDF obtained FSC and COC certification (Sept.)
2005	Renovated Forester House opened (March), CSR Promotion Office established (April)	P.T. Kutai Timber Indonesia (KTI) obtained FSC and COC certification (Jan.)

Corporate Data

Sumitomo Forestry Co., Ltd.

Head Office
Marunouchi Trust Tower N, 1-8-1, Marunouchi, Chiyoda-ku, Tokyo 100-8270

Paid-in capital: 27,672 million yen

Incorporated: February 20, 1948

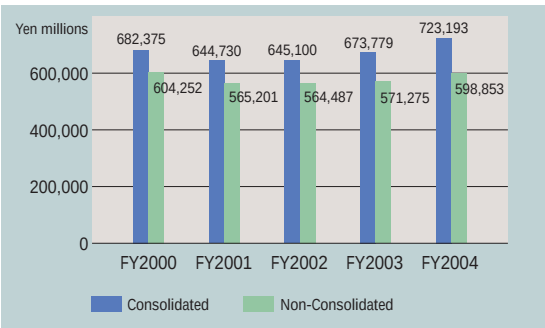
Founded: 1691

Employees: 4,194 (Consolidated: 10,477) (as of March 31, 2005)

Sales: ¥598,853 million (Consolidated: ¥723,193 million)

Operations: Forest management; purchase and sale of products including logs, timber, wood chips, plywood for general use, post-processed plywood, fiberboard, metal building materials, housing systems and fixtures, and concrete and ceramic building materials; construction and sale of custom-built housing; purchase and sale of developed housing and housing lots; purchase and sale of interior products; construction, purchase, sale, and rental of multi-unit residential and office buildings

Net sales



Principal Sumitomo Forestry Group Companies

- Sumitomo Forestry Crest Co., Ltd. — Manufacture and sale of all types of plywood and timbers for housing
- Sumitomo Forestry Two-By-Four Homes Co., Ltd. — Design, construction, and sale of two-by-four homes
- Sumitomo Forestry Home Tech Co., Ltd. — Renovation of detached houses and condominiums
- Sumitomo Forestry Home Service Co., Ltd. — House and land sales, purchasing brokerage
- Sumitomo Forestry Landscaping Co., Ltd. — Urban greening, private home exteriors, landscaping services
- Sumitomo Forestry Timberlanad Management Co., Ltd. — Sale of domestic timber, subcontracting of forestry services
- Sumirin Agro-Products Co., Ltd. — Production and sale of potting mixes, soil conditioners, and fertilizers
- Sumirin Enterprises, Ltd. — Insurance agency and other general services
- Nelson Pine Industries Ltd. (NPIL) — Manufacture and sale of MDF, etc. (New Zealand)
- Alpine MDF Industries Pty Ltd. — Manufacture and sale of MDF, etc. (Australia)
- P.T. Kutai Timber Indonesia (KTI) — Manufacture and sale of plywood, etc.
- P.T. Rimba Partikel Indonesia (RPI) — Manufacture and sale of particle board
- P.T. AST Indonesia (ASTI) — Manufacture of wooden speaker cabinets

SUMITOMO FORESTRY CO.,LTD.

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Planning and editing: • Environmental Management Division
• Corporate Communications Group, General Administrative Division
• CSR Promotion Office, General Administrative Division

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