



Environmental and Social Report 2007

(Term ended March 2007)

The Power of Forests Empowers the Future

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Editorial Policy

The purpose of this report is to inform a wide range of people about Sumitomo Forestry Group policy and initiatives aimed at realizing a sustainable society.

A good environmental and social report should convey clearly to readers the issues the company considers important in striving to achieve a sustainable society. The report must offer sufficient explanation of those issues and disclose information in a trustworthy and balanced way.

We undertook a fresh review of important issues facing Sumitomo Forestry and came up with “forest preservation,” “global warming prevention” and “communication” as central themes for this report. These themes are also specifically covered in the special features. In preparing this report, we referred to the *Sustainability Reporting Guidelines 2002* of the Global Reporting Initiative (GRI) as well as the *Environmental Reporting Guidelines* (2003 edition) of the Ministry of the Environment and have tried to achieve a balance and reliability in the information disclosed. We also sought objective evaluations from outside experts and have included a third party evaluation.

Initiatives aimed at realizing a sustainable society cannot be accomplished without dialogue with stakeholders and this report has been created to facilitate that communication. We would like to hear your views, which you can share with us using the enclosed questionnaire.

Reporting Period

April 2006 to March 2007

(Includes some activities in or after April 2007 and future expectations.)

Organizations Covered

The content of this report generally refers to the activities of Sumitomo Forestry Co., Ltd., although information on Group companies with a major influence on sustainability has been included where necessary. Some activities of the following subsidiaries and affiliates are mentioned in this report.


Sumitomo Forestry Two-By-Four Homes Co., Ltd., Sumitomo Forestry Crest Co., Ltd., Sumitomo Forestry Home Engineering 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 Life Assist Co., Ltd., Sumirin Base Techno Co., Ltd., P.T. Kutai Timber Indonesia (KTI), Alpine MDF Industries Pty Ltd., Nelson Pine Industries Ltd. (NPIL), P.T. Rimba Partikel Indonesia (RPI), and P.T. AST Indonesia (ASTI)

Publication Date

September 2007

The next report is scheduled for publication in September 2008

About the Special Indication Marks Appearing in this Report

 indicates a response from Sumitomo Forestry to an issue raised in the Third Party Evaluation or Dialogue with Stakeholders, or from a reader of last year's report via a returned questionnaire.

For financial information, please refer to the *Annual Report*.

What Is Sustainability?

“Sustainability” is the idea of utilizing gifts bestowed upon us by the natural environment in a way that ensures future generations will also have access to those gifts. The concept encompasses the need to resolve the various social problems of the day so that people around the world can live in prosperity.

Sumitomo Forestry’s business centers on trees, a renewable natural resource, and their planting, cultivation, utilization as building materials for housing, and re-planting—a truly sustainable cycle. Sumitomo Forestry will continue to contribute to the creation of a sustainable society through pursuits pertaining to forests and people, from forestry through to housing.

About the paper used in this report:

Name: Kanbatsu* white

Uses a minimum of 70% domestic timber (10% of which is thinnings).

A portion of the domestic timber includes wood chips sold by our Wood Products Trading Division, Timber & Building Materials Business Headquarters.

* Kanbatsu: thinned wood



Corporate Profile

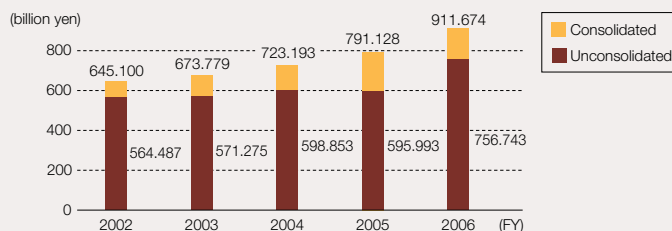
(as of March 31, 2007)

Company name	Sumitomo Forestry Co., Ltd.
President/ Director	Ryu Yano
Head Office	Marunouchi Trust Tower North, 1-8-1, Marunouchi, Chiyoda-ku, Tokyo, JAPAN 100-8270
Telephone	+81-3-6730-3500
Paid-in capital	¥27.672 billion
Incorporated	February 20, 1948
Founded	1691
Employees	4,553 (Consolidated: 12,259)
Net sales	¥756.743 billion (Consolidated: ¥911.674 billion)
Business scope	Forest management; purchase and sales 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 sales of custom-built housing; purchase and sales of developed housing and housing lots, purchase and sales of interior products; construction, purchase, sales, and rental of multi-unit residential and office buildings
Consolidated subsidiaries and affiliates	45 companies

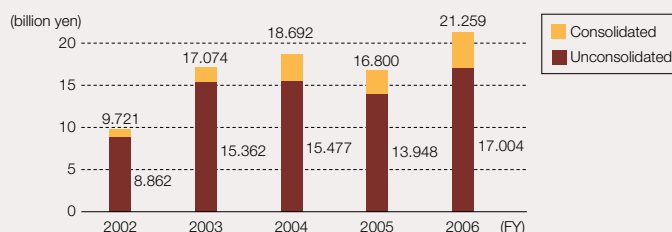
Economic Performance

Companies need to secure reasonable profits through business operations for the enterprise to continue to exist. At the same time, they are required to give something back to society, sharing their gains with stakeholders in an appropriate way. Sumitomo Forestry has launched an effort to formulate standards for calculating the amount of profit to be assigned to stakeholders so that it is distributed in a proper manner.

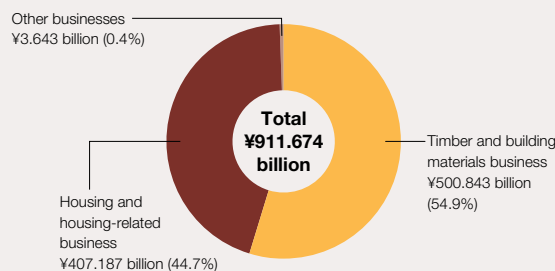
• Trend in net sales



• Trend in recurring income



• Breakdown of consolidated net sales by segment (FY2006)



Top Management Commitment

We Will Enhance the Quality of Our Company through Sustainable Management

Sumitomo Forestry's mission is to contribute to society through its involvement with trees, helping people to enrich their lives. We will improve the quality of all aspects of our company as we set out to meet the expectations of society.

Looking Ahead 10 Years—A Long-Term Management Plan to Achieve High Corporate Value

In May 2007, Sumitomo Forestry unveiled a Long-Term Management Plan—Project SPEED¹—covering the next 10 years. We restructured our organization and strengthened processes for selecting and focusing on relevant areas of business in line with a dual objective to heighten employee awareness and generate profitable new businesses. Our aim under the plan is to become a first-rate company on the world stage, becoming an indispensable asset to society and achieving harmony with the environment through employee understanding and implementation of four corporate goals. To achieve this aim, we are establishing a corporate climate that promotes awareness and unity among all employees, as well as a willingness to take on new challenges.

1. Project SPEED states that working on a detailed action plan with an extraordinary amount of passion will allow Sumitomo Forestry to grow into an "excellent company."
SPEED: Strong Passion Enables us to become an Excellent company by implementing Detailed strategy.

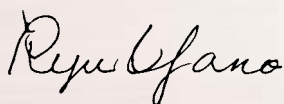
Project SPEED

4 Corporate Goals

1. We shall contribute to achieving a prosperous society through our housing and wood products businesses.
2. We shall contribute to the development of society through lawful and proper corporate activities in accordance with the Sumitomo Spirit.
3. We shall contribute to the betterment of society through dynamic corporate activities consistent with environmental conservation principles.
4. We shall contribute to the prosperity of shareholders, business partners, employees and local communities, while committing ourselves to putting customers first.

Promoting Sustainable Business through the Use of Trees—A Renewable Resource

During the 21st century, it appears that mankind may essentially exhaust all the oil and mineral resources that have amassed on Earth over the ages. Now we are dealing with



Ryu Ufano

President and Director
Sumitomo Forestry Co., Ltd.



the consequences—environmental problems such as global warming and pollution. The 21st century must therefore be dedicated to environmental regeneration, or one day mankind and all other living things will no longer be able to survive here on this planet. The Sumitomo Forestry Group employs a unique style of business, with trees being fully utilized as a renewable resource. This makes our role in society in relation to environmental issues all the more significant, and we pride ourselves in being able to help find solutions to these issues.

Some 100 years ago, company-owned forests around Besshi in Shikoku had become devastated by smoke pollution and other adverse effects of mining operations. Teigo Iba, the manager of the mine at the time, launched a large-scale reforestation plan to return the hills to their natural green state. When appointed Director General, Iba paid respect to the Sumitomo Spirit put forward by the ultimate founder of Sumitomo 400 years ago, Masatomo Sumitomo, stating as his business policy that Sumitomo's business activities must benefit society and the people of Japan. These ideas took hold and exist today within our Corporate Philosophy.

Domestic forests owned by Sumitomo Forestry represent about one thousandth of Japan's land area. While many Japanese forests are being laid waste through lack of maintenance, we have taken special care of ours. At the same time, we have been encouraging the use of domestic timber. Through sustainable use of such timber, the nation's forests will have an opportunity to recover. The recent escalation of oil prices has made it more expensive to import timber and rapidly rising demand for timber in China and India, too, has made Japanese timber slightly more price competitive. We would like to take advantage of the situation and further expand the use of domestic timber.

Japan also procures timber from overseas, where illegal logging in recent years in some countries has led to excessive deforestation. In June 2007, we announced a new Timber Procurement Philosophy and Policy, declaring not only that we would confirm the legality of the timber we procure, but also that we would increase the volume of procurement of timber from forests that were sustainably managed. Implementation of the policy will not be easy, but as timber professionals, it is our job to ensure the policy is carried out and adhered to without exception.

Lessening the Environmental Impact of Comfortable Living with the *Ryounbou* Concept

Sumitomo Forestry has attached importance to achieving harmony with the environment throughout its history. In recent years, we have directed a lot of energy into tackling global warming. For example, our *Ryounbou* natural heating and cooling approach to design makes the most of the forces of nature to cool houses in summer and keep them warm in winter. By making our houses adaptable to the seasons, the people who occupy them are able to live in comfort and in harmony with nature. If we consider the environmental impact of a house throughout its lifecycle, energy consumption is at its highest when the house is occupied, so as a corporation it is important that we seek



ways to reduce energy consumption. Not only will energy be saved, but other benefits should be seen, in terms of health and child education, for example. In addition, timber retains CO₂ even after harvesting, which is why wooden housing is likened to building forests in the city.

Employees Caring for Their Families—Happy Families Bring Joy to Society

I often tell employees that they should live life to the full with no regrets during their time at Sumitomo Forestry. We will have to introduce various personnel systems to help them achieve that, for example by creating new positions to be filled by professionals in specific fields. As requested by employees, we will also explore new ways of utilizing human assets and enhance training programs to elicit their full potential.

In fiscal 2006, 56 employees volunteered as members of "Team 2020," partaking in debate about Sumitomo Forestry's future and the most effective ways for employees to work. They discussed how the Corporate Philosophy and Active Guidelines should be incorporated into day-to-day activities. I believe this undertaking was very worthwhile. It is becoming increasingly important for employees to make their own decisions in addition to carrying out tasks assigned to them by the company. We also initiated affirmative action policies five years ago aimed at presenting female employees greater work opportunities within the company. Currently, 15% of newly hired graduates are women, but we want to boost that to 30-40% and put in place systems that help women strike a balance between their work and personal lives, allowing them to return to work after having children.

Personally, I am concerned about deteriorating relationships between parents and children in society at large. I always tell Sumitomo Forestry employees they must look after their families. Many employees get tremendously involved in their work, but it is the family that is most important. Interaction between parent and child, too, is particularly important. I would like employees to treat their children with the utmost affection. Quality time set aside for family conversations and a harmonious home lead to better work done during the day and ultimately help make society a better place.

Sumitomo Forestry has an extremely attractive, free and open-minded corporate culture. Together with all employees, I shall continue in the pursuit of creating an outstanding company, aiming for even higher levels of corporate achievement.

Comments from Executive Officers

Executive officers of each business area state the challenges they face and the goals they have set pertaining to future business and the role Sumitomo Forestry is expected to play in the creation of a sustainable society.

Forestry & Environment Headquarters



Hideki Nose

Director and
Managing Executive Officer
Executive Manager of Forestry &
Environment Headquarters

Our Company-Owned Forests Will Be a Model for Successful Forest Management

I have visited forests all over Japan, many I would prefer not to have seen, where trees had been planted but not cared for. On the other hand, the situation surrounding timber resources has improved considerably in the past year. The shifting makeup of worldwide timber supply and demand has provided a real boost to full-scale utilization of domestic timber. The Forestry & Environment Headquarters was established in fiscal 2007 with a mission to expand the area of forest managed in Japan and overseas in accordance with an environmentally-friendly and sustainable forest management model.

In Japan, Sustainable Green Ecosystem Council (SGEC)¹ forestry certification was acquired in fiscal 2006 for our company-owned forests. We intend to use this knowledge to build a new business model for sustainable forest management that will lead also to the development of a future generation of forestry workers, now in serious decline, and the imparting

of forestry techniques. In our activities, we will place importance on dialogue with government and NGOs so that our business becomes a catalyst for change within Japan's forestry industry. Forest management consulting services and Clean Development Mechanism (CDM) projects are other potential businesses.

Overseas, the Forestry & Environment Headquarters will forge ahead with its own environmental afforestation projects as a means to achieving coexistence with the environment. We will also provide environmental and technological support to the Overseas Business Headquarters for industrial afforestation projects they are heading aimed at producing timber as a renewable resource.

1. Japan's own forestry certification system through which forests are verified by a third party—the Sustainable Green Ecosystem Council (SGEC)—as being sustainably managed

Timber & Building Materials Business Headquarters



Shoichi Takahashi

Director, Vice President and
Executive Officer
Executive Manager of Timber &
Building Materials Business
Headquarters

We Will Attain 100% Conformance to the *Timber Procurement Standards* at an Early Stage

Sumitomo Forestry merged with Ataka Kenzai Co., Ltd. in 2006 to form Japan's largest company in the timber and building materials field. We are leading the industry with initiatives such as the utilization of laminated timber and the introduction of precut timber, and we expect this role to expand in the future. Conscious of the responsibilities we shoulder as a corporate leader, we will push ahead with the creation of standards for environmental management and corporate social responsibility (CSR).

In fiscal 2006, we progressed with checks at each link in the supply chain to confirm the conformance to our own *Timber Procurement Standards* of all the domestic and overseas timber we handle. Our goal is to complete

confirmation of legal compliance for all suppliers based on our own standards during fiscal 2007 so that by fiscal 2009 all timber and timber products we handle will be legally compliant (100% conformance to the *Timber Procurement Standards*).

In formulating our Timber Procurement Philosophy and Policy, we sought the opinions of NGOs engaged in forest protection and biodiversity-related activities. We look to continue dialogue with NGOs and all our other stakeholders into the future.

Overseas Business Headquarters



Mamoru Inoue

Director and
Managing Executive Officer
Executive Manager of
Overseas Business
Headquarters

We Will Supply Sustainable Raw Materials

The sustainable utilization of resources is already so essential to business that it cannot be omitted from any strategy for the future. To help preserve forests, our overseas manufacturing facilities are going to expand production of medium density fiberboard (MDF) and particle board employing plantation timber and scrap wood as raw material instead of natural timber. We are also putting effort into reducing the environmental impact of the production process. For example, we commenced use of wood biomass energy in fiscal 2006 in place of fossil fuels. Another priority is harmony with local communities. A related initiative involves handing out seedlings to local residents for them to plant and later sell back to us, a form of "social forestry" that supports the lives of people in the vicinity of our operations.

Founding a company within a local community is a means of contributing to that community and we are directing energy into the development of human resources through the establishment of educational foundations. Some of our former employees have gone on to become heads of local government and state legislators.

Demand for sustainable raw materials from plantations is increasing all the time and we are instructing overseas manufacturing bases to enforce green procurement in line with Sumitomo Forestry's *Timber Procurement Standards*.

The overseas housing business is still small, but we intend to make houses that are safe for people and have little impact on the environment around the world.

Housing Business Headquarters



Shigehiko Shiozaki

Director and
Managing Executive Officer
Executive Manager of
Housing Business Headquarters

We Will Impart Japanese Housing Wisdom through *Ryounbou*

We spend more time at home in a day than anywhere else, therefore we feel it's very important to meet customer needs so they will live comfortably in a house for a long period of time. This is achieved through quality management and after-sales support. These activities extend the lifespan of a house and help reduce the impact on the environment from rebuilding.

The *Ryounbou* concept has also been incorporated into our houses to lessen environmental impact during occupation. In fiscal 2006, we expanded application of *Ryounbou* through the easier-to-understand concepts of "*Taiyo no Sekkei*"¹ and "*Kaze no Sekkei*"². Besides stressing our ability to reduce environmental impact, we also place importance on putting forward suggestions for comfortable living, for example setting aside space where the entire family can spend time together.

Currently 51% of principal structural members are made of Japanese timber. Our goal is to raise that to 70% by fiscal 2008. Waste reduction activities are also progressing through determined efforts to attain zero emissions at all construction sites for new housing.

These initiatives are our way of providing environmentally-friendly, sustainable houses that will retain a high asset value.

1. Housing design that harnesses the sun's heat to warm the interior of the house during winter, reducing the need to rely on electrical, gas and other heating systems.

2. Housing design that harnesses natural breezes to cool the interior of the house during summer, reducing the need to rely on air-conditioning systems.

Real Estate Business Headquarters



Hitoshi Hayano

Director and
Managing Executive Officer
Executive Manager of
Real Estate Business
Headquarters

We Will Pursue Sumitomo Forestry-Style Town Development

Sumitomo Forestry originated from forest development projects 300 years ago, but now business has expanded to encompass home and house development, in the form of housing and multi-unit residential businesses. The Real Estate Business Headquarters, too, has been set up and will engage in property development to complement town development initiatives launched last year in the subdivision business. In addition to our current custom-home business, we will expand into the sale and rental markets, acquiring land where we can build our own houses.

Some projects are already underway. A plan is being advanced to build a nursing home with special care facilities, as well as a gym and condominiums for the elderly, on the site of the old Sumitomo Forestry Crest factory in Shizuoka. This will be our first step into the

elderly care business. Continuing on the "development" theme, we have pressed ahead with safe, secure and comfortable property development in the cities of Nagoya, Iruma, Hadano and Sakura, based on the notion that "an environment allowing children to grow up well is a pleasant place for anyone to live." Elderly care and property development businesses are still in the trial stages, but we plan to clarify our concepts and direction, seeking ways to bring out true Sumitomo Forestry style.

Administrative Departments



Hideyuki Kamiyama

Director and
Managing Executive Officer
Director of the Corporate
Planning, General Administrative,
Finance, Information Systems
and Internal Audit divisions

We Will Pursue a Corporate Atmosphere that Fosters Compliance Awareness

Special teams were set up within the General Administrative and Corporate Planning divisions in fiscal 2006 to pursue compliance with the Company Law, putting in place processes for performing related tasks. The question now is how to incorporate these processes into the day-to-day flow of business and raise the work efficiency of employees. The most important aspect of compliance is raising the awareness of each and every employee. We are attempting to raise awareness towards compliance at all levels of the corporate hierarchy, through special meetings for example. Employees will learn to be conscious of compliance at all times, an ethos we will then spread to other workplaces.

In July 2006, all headquarters and affiliated companies set about checking all laws and regulations

related to their business to identify areas of concern, such as failure to keep up with law revisions, and then proceed with improvements in order of urgency. This process is ongoing so that we will be able to adapt quickly to any new laws or law revisions. With regard to information disclosure, we held two presentations in fiscal 2006 for securities analysts in which we introduced the different businesses and offered tours of our facilities in order to secure trust through greater transparency and promote deeper understanding of our company. From a public and investor relations perspective, we will continue to be forthcoming in our disclosure of information.

Striving for Sustainability

Objectives of Sumitomo Forestry

The Sumitomo Spirit and the notion of *Kokudo Ho'on*¹, ideas handed down ever since the company's founding, are fundamental to the businesses of the Sumitomo Forestry Group. Our aim is to contribute to realizing a prosperous society through all types of housing-related services based ultimately on the use of trees.

1. *Kokudo Ho'on* refers to Sumitomo Forestry's expression of gratitude, in the form of fulfilling our responsibilities towards achieving sustainable development of the environment and society in general, for the use of nature's resources in the conduct of our business.

Corporate Philosophy

The Sumitomo Forestry Group utilizes timber as a renewable, healthy and environmentally-friendly natural resource, and contributes to a prosperous society through all types of housing-related services.

Active Guidelines

Sumitomo Spirit

We conduct business based on principles of integrity and sound management.

Respect for Humanity

We create an open and inclusive corporate culture that instills a strong sense of pride and motivation in employees.

Environmental Protection

We contribute to the protection of the environment and our fellow beings through responsible business practices.

Putting Customers First

We act with customer satisfaction first and foremost in mind.

“While benefiting Sumitomo itself, our business activities must at the same time promote the welfare of the country and of mankind in general.”

Teigo Iba, Second Director General of Sumitomo, January 1900
Source: *Yūō*

Sumitomo Forestry History and DNA

The history of Sumitomo Forestry dates back to 1691, more than 300 years ago. In 1690, members of the Sumitomo family founded the Besshi Copper Mine in Shikoku, and commenced copper mining, smelting and export operations there the following year. By the beginning of the Meiji era (1868-1912), however, the surrounding hills had become devastated by sulfur dioxide released during the copper smelting process, which was causing trees to die, and also due to large quantities of timber being felled for use as fuel and building materials. With the resolve to return the mountains of Besshi to their natural state, making them once again wild and vigorous, Teigo Iba, the manager of the mine at the time, decided on a large-scale reforestation

Sumitomo Forestry Ethical Charter (extract)

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.
2. We will act as good Sumitomo people.
3. We will act as good employees.
4. We will act as good executives.
5. Sumitomo Forestry will act as a good corporate citizen.

For the entire text of the Sumitomo Forestry Ethical Charter, please visit our website: <http://sfc.jp/english/>

Rules Governing the “House of Sumitomo” 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.

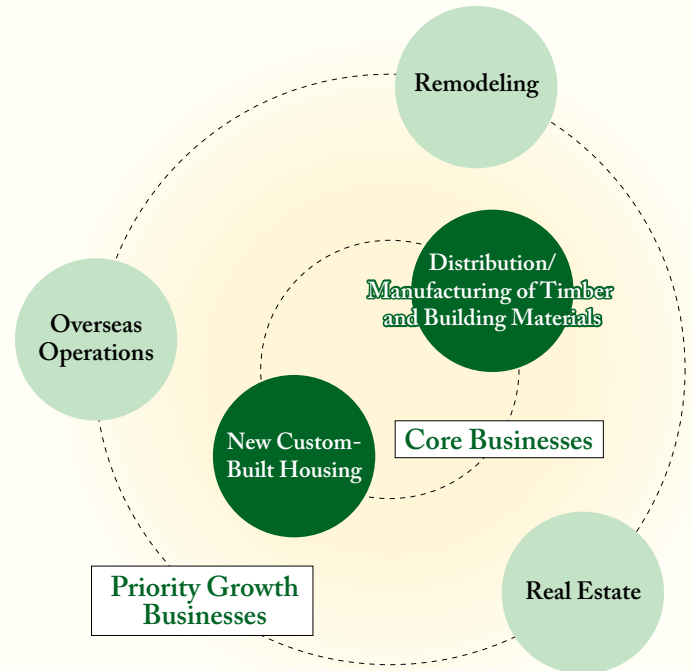
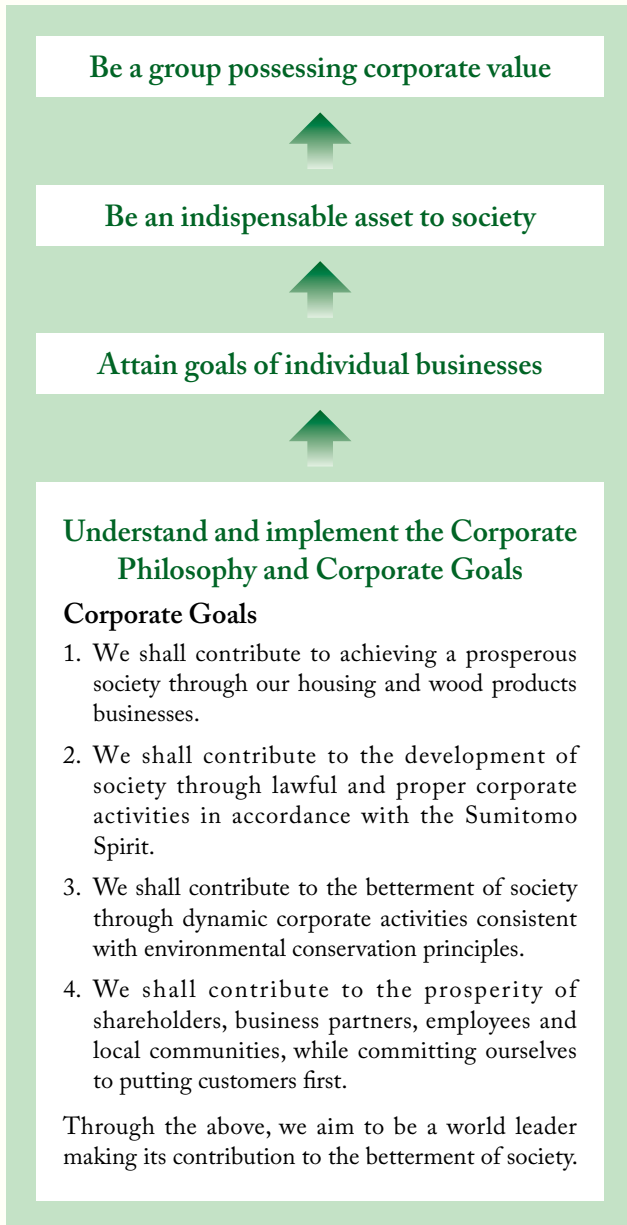
Sumitomo shall manage its activities with foresight and flexibility in order to cope effectively with the changing times. Under no circumstances, however, shall it pursue easy gains or act imprudently.

plan. To resolve the problem of smoke pollution from sulfur dioxide being emitted from the copper smelter, he relocated it to the uninhabited Shisaka Island. He also employed forestry experts and set out to plant more than one million Japanese cedar² and cypress³ trees each year.

This tradition continues today through the “sustainable forestry” pursued by the Sumitomo Forestry Group. Business has since expanded to encompass the distribution and manufacturing of timber and building materials, overseas forestation projects, and a custom-built detached housing business, but the philosophy of “sustainability,” and its origins in sustainable forestry, have been assimilated into every aspect of our business as Sumitomo Forestry DNA.

2. Japanese cedar (*Cryptomeria japonica*); *sugi*

3. Japanese cypress (*Chamaecyparis obtusa*); *hinoki*



Becoming a Group with Corporate Value Befitting a World Leader

In May 2007, we announced our long-term business plan entitled Project SPEED, which sets out Sumitomo Forestry Group goals for the next 10 years and a road map for achieving them. The Group will have to implement major reforms if we are to achieve additional growth despite the expected impact of future population declines and a decreasing number of households in the market for owner-occupied housing, as well as changing social conditions such as an anticipated rise in demand for timber resources.

Through Project SPEED we aim to cultivate existing business domains and maximize synergistic effects. We have revised the way we group our businesses, and have reorganized the Group into one management division and four separate business divisions.

Our basic strategy will be to further reinforce strengths

in two core businesses—new custom-built housing and distribution and manufacturing of timber and building materials. Profit, human resources and other managerial resources generated through core businesses will be channeled into three priority areas likely to become pillars of the Group in the future—overseas operations, real estate and remodeling. The aim is to enhance the integrated strengths of the entire Group.

We will not falter in our mission. Sumitomo Forestry will continue to contribute to the betterment of society by enriching people’s lives through trees, as set out in the Corporate Philosophy. Through the understanding and implementation of the Corporate Philosophy and four Corporate Goals by all employees, as well as the attainment of individual business goals, Sumitomo Forestry aims to be an indispensable asset to society. Ultimately, we will continue to improve the quality of all aspects of our company to become a world leader possessing high corporate value.

Striving for Sustainability

Achieving Sustainable Business Activities

The global environment has deteriorated and a whole host of societal problems have surfaced in recent years, which means society is going to have to drastically alter its course.

Corporations, too, are being expected to fulfill a more substantial role in resolving these issues.

In order to meet society's needs, Sumitomo Forestry will pursue its business activities while communicating closely with customers, employees, business partners, people from local communities, and all other stakeholders.



A Sustainable Society

Creation of comfortable,
safe and healthy housing
and living

- Tree-related research (p. 41)
- Procurement of environmentally-friendly materials (pp. 13-14, 29)
- "Sick house" syndrome countermeasures (timber products) (p. 27)
- Expansion of carbon stocks (p. 38)
- Inheritance of skills and technology (p. 24)

- Zero emissions of construction waste (p. 45)
- Reduction of environmental impact during construction (p. 45)
- Eco-friendly homes (environmentally-symbiotic homes) (pp. 15-18, 44)
- Comfortable homes (pp. 27, 44)
- Healthy homes (pp. 27, 44)
- Safe homes (p. 27)
- Homes that make the most of the qualities of wood (pp. 15-18, 42)
- Long-lasting homes (p. 27)
- Homes with high social value (p. 27)
- Lifestyle recommendations
- Safe and secure community development (pp. 27-28)

- Greenery in town development (p. 28)
- Vitalization of communities (p. 28)
- Recommendations for maximizing land value
- Public space design (p. 28)

- Relationship of collaboration and trust with stakeholders (pp. 19-21)
- Total compliance (p. 26)
- Fostering and utilization of human assets (pp. 19-21, 31-32)
- Culture of diverse working styles (pp. 31-32)
- Employee health and motivation (pp. 31-32)

Creation of vibrant
communities to
nurture local culture

Creation of future
human resources

Customers

Local
communities

Shareholders/
Investors

Employees

Society at a Glance

Climate change and the depletion of forest resources have deep implications for Sumitomo Forestry. As we go about our business, we will take note of such changes to natural and social environments and play our role in building a sustainable society.

Depletion of the world's forests

Area of forest depletion:

36.58 million ha

An area of forest equivalent to the size of Japan disappeared in the five years from 2000 to 2005.¹

Species in decline

Approximate pace of extinction:²

Age of the dinosaurs	1 species every 1,000 years
1600-1900	1 species every 4 years
Early 1900s	1 species every year
1975	1 species every 9 hours

1975-2000

**1 species
every 13 minutes**

Decrease in number of forestry workers in Japan

No. of people employed in forestry (as of 2000):

70,000

The number of forestry workers is about one sixth its size 40 years ago, and it is aging.³

Global average temperature

Rise in average air temperature:

6.4°C

A future scenario allowing for maximum CO₂ emissions has the Earth's average air temperature rising 6.4°C by 2100 (compared to 1980-1999 levels).⁴

Personal safety in Japan

"Public safety has deteriorated compared to 10 years ago":

84.3% agree

Reasons include "the weakening of local community bonds" and "inadequate education of young people."⁵

Sources:

1. *Global Forest Resources Assessment 2005*; Food and Agriculture Organization of the United Nations (FAO)
2. *Shizumiyuku Hakobune (The Sinking Ark)*; Norman Myers, 1981
3. Information on forestry workers from the Forestry Agency website
4. Intergovernmental Panel on Climate Change (IPCC) *Fourth Assessment Report, 2007*
5. *Opinion Poll on Public Safety* conducted by the Cabinet Office, Government of Japan, December 2006

The Power of Forests Empowers the Future

Sustainability is an expansive topic. On which of the many social and environmental issues should Sumitomo Forestry be focusing its energies?

In creating this report, several departments joined together to form a working group that would examine a wide range of potential initiatives aimed at achieving sustainability. The group identified four major areas that were of particular concern to society and in which Sumitomo Forestry's presence is significant. This special feature reports on achievements during fiscal 2006 associated with those four priority issues.

Special Feature 1

Preserving Japan's Abundant Forests for the Next Generation

Abundant with life, Japan and its forests are an internationally recognized hotspot of biodiversity. As a leader in the forestry industry and owner of vast tracts of company-owned forests in Japan—some 40,000 hectares—Sumitomo Forestry has an obligation to ensure the country's abundant forests remain in good shape for future generations.



Forestry's Decline Has Devastated Japan's Forests

"I have walked through many of Japan's hills and there are plenty of places I would prefer not to have seen," explains a somber Kazushige Yahagi, General Manager of the Forest Management Division. Even though hills across the nation were planted with Japanese cedar and cypress trees during intense reforestation efforts after World War II, timber prices have since been undermined by an influx of low-priced imported timber. Forestry is not as profitable and many plantations, which make up 40% of all Japan's forests, are left uncared for.

In order for Japan's forests to remain a source of timber well into the future, we need to formulate a sound model for forest management that society will embrace. However, several issues need to be overcome.

Sumitomo Forestry manages 40,000 hectares of company-owned forests but has been unable to turn a profit in its forestry business in the last 15 years due to a slump in prices for domestic timber. However, "The situation has turned significantly over the last year or two," Yahagi notes. China's insatiable demand for timber and the euro's appreciation have elevated the price of imported timber, making domestic timber more competitive. We

have also altered the way we harvest trees, adopting the highly efficient method of small-area clearcutting from fiscal 2006. In one year we recorded an approximate 30% increase in the volume of shipments from company-owned forests. Yahagi is enthusiastic. He hopes the current momentum will lead to “turning a profit in the forestry business during fiscal 2007. And by extending our management approach to forests other than our own, we can help revive the forestry industry.”

Striking a Balance between Forest Management and Biodiversity Preservation

As Sumitomo Forestry strives to raise the profitability of the forestry business, we are also directing effort into achieving harmony with the natural environment. In September 2006, we acquired Sustainable Green Ecosystem Council (SGEC)¹ forestry certification. “We wanted the world to know we manage forests in an environmentally-friendly way,” reveals Hiroki Ito of the Forest Management Division.

Sumitomo Forestry had full confidence in its approach to the environment, having conducted business in accordance with an ISO 14001-certified environmental management system for many years. The SGEC examination body, too, acknowledged the appropriate manner in which Sumitomo Forestry has been managing its diverse forests. Meanwhile, the company has been launching new initiatives, one being the preservation of biological diversity. To help protect rare wildlife, we created our own *Red Data Book*² for distribution to workers in the field. We provided education on biodiversity and even established procedures for reporting sightings of rare species.

However, we also identified some areas of concern. As Hiroki Ito points out, “If we take biodiversity preservation too far, forestry will no longer be viable. We have to work out how to strike a balance.” SGEC certification, for example, insists upon policies for managing forests adjacent to rivers and lakes. Forests that border bodies of water are high in biodiversity, but if an area of such forest is too vast, forestry efficiency will deteriorate. We are going to have to adopt separate strategies for each case.

Promoting Sustainability from Forest Management to Timber Utilization

Timber originating in sustainable forests has to be endorsed by society and distribution systems need to be in place if sustainable forest management is to spread. Sumitomo Forestry, which undertakes both timber distribution and housing construction, intends to use more timber from forests with special forestry certification. Housing Business Headquarters is also pursuing plans to acquire CoC (Chain-of-Custody) certification³ so it can offer houses that employ certified timber.

“Customers like to know where their timber comes from, so we will be actively using certified timber from our own forests as building material in Sumitomo Forestry houses,” says Tadashi Ban, General Manager of the Building Materials Procurement & Logistics Division. All principal structural members in *MyForest* homes constructed specially for the Hokkaido market are manufactured using local timber, and Japanese larch grown in the company’s Mombetsu forest is used for standard studs.

“We would like to use certified timber from forests other than our own, too, but there isn’t enough out there,” Ban explains. For that reason, Sumitomo Forestry will try to get across to companies managing neighboring forests that forestry certification is worth acquiring and support them in their certification efforts, and in that way increase the volume of timber available to us. “We believe Sumitomo Forestry is the only company capable of establishing a business model for sustainable forest management and then tying it to housing.” Yahagi and Ban are approaching their business with extraordinary resolve.

1. Japan’s own forestry certification system through which management of forests is verified as sustainable by third parties. Certification is based on seven standards that include the preservation of biodiversity and the conservation and maintenance of soil and water resources.

2. A book providing information on endangered wildlife created by The World Conservation Union (IUCN) and the Ministry of the Environment. Local governments and organizations create their own versions based on this book.

3. A system for certifying appropriate management during processing and distribution of timber from forests accredited by the Forest Stewardship Council (FSC), SGEC and other organizations. In order to be able to sell certified timber products, all organizations involved in their distribution need to acquire CoC certification.



Kazushige Yahagi
General Manager
Forest Management Division
Forestry & Environment Headquarters

“Nurturing foresters who really understand forest management is one of Sumitomo Forestry’s most important roles to ensure sustainable forestry in the future”



Hiroki Ito
Forest Management Division
Forestry & Environment Headquarters

“Our job is to seek a good balance between preserving biodiversity and achieving profitable forestry”



Tadashi Ban
General Manager
Building Materials Procurement & Logistics Division
Housing Business Headquarters

“Not only will we use domestic timber, we will also promote the use of certified domestic timber”

Protecting the World's Forests from Illegal Logging

We are surrounded by products made of wood. But have you ever wondered whether the timber from which those products were made might have been felled illegally? Japan is one of the largest importers of timber in the world and therefore a would-be destination for illegally logged timber. Illegal logging must be stopped—Urgent measures are required to help protect the world's forests.



Thorough Inspections Keep Out Illegally Logged Timber

Potentially more than 50% of timber harvested in Indonesia and over 20% of Russian timber is said to have been illegally logged. Akira Sekimoto of the Wood Products Trading Division has been involved in timber distribution for many years. He observes that “almost all illegal logging occurs in developing nations. Valuable forest resources are vital for economic development in those nations and indiscriminate logging is the result of associated special interests.”

This state of affairs has heightened the awareness within the company that Sumitomo Forestry must never handle any timber that has been illegally logged. In October 2005, we established our own timber procurement standards, incorporating into the procurement framework a process for confirming the legality of timber.

Sumitomo Forestry's *Timber Procurement Standards* require suppliers to submit documentation proving legal compliance of their timber. However, this task is fraught with difficulties. “In many cases, especially for Chinese suppliers, the supply chain spans several countries, making it difficult for them to arrange collection of all logging

permits for timber harvested in foreign forests. Discussions between local representatives and suppliers that began more than five years ago are gradually shaping into a framework for cooperation,” explains Masayuki Abematsu, formerly of the Environmental Management Division, who used to undertake compliance inspections.

Confirmation of legal compliance goes beyond the screening of documentation, with an important facet being the inspection of logging sites by local representatives. These patient efforts are paying off. So far, legal compliance has been confirmed for roughly 50% of the 400 or so log and timber suppliers. Remaining inspections are progressing steadily.

Incorporating NGO Ideas into a Unique Timber Procurement Policy

Progress has been made with confirmation of legal compliance, but now we need to push ahead with the next step—confirming sustainability. This is even more complicated because sustainability of forests encompasses such concepts as “biodiversity” and “high conservation value,” for which there are still no clear, unified standards. However, Sumitomo Forestry has made an attempt to understand and incorporate these ideas into its own timber procurement policy.

Deliberation on policy commenced in the cross-departmental Timber Procurement Subcommittee, in which 13 departments participated. Central to the discussions were the questions, “What is biodiversity?” and “What does it mean for a forest to have high conservation value?” Policy could not be formulated without knowing the answers to these questions. It was suggested that we turn to NGOs for clues, and so in December 2006 we invited four NGOs to participate in round-table discussions.

The four NGOs offered a variety of views: “Forest Stewardship Council (FSC)-certified timber, or timber



Akira Sekimoto
General Manager
Wood Products Trading Division
Timber & Building Materials
Business Headquarters



Masayuki Abematsu
General Manager
Niihama Plant
Sumitomo Forestry Crest
(Formerly Group Manager of the
Environmental Management Division)

from forests managed according to FSC or similar standards, should be used as a way to protect biodiversity”; “It is the ‘value’ of forests that needs to be protected—we’re not saying you can’t cut down any trees”; “The issues differ from region to region so it is important that you confer with local NGOs in each region.” Abematsu, who hosted the meeting, discovered the potential for future partnerships. “I was expecting to be told we mustn’t harvest any high conservation value forests, but instead we received advice that was compatible with business objectives. It struck me that NGOs exist not to confront corporations, but to cooperate in the pursuit of a common goal—the sustainable use of forest resources.”

Helping to Protect the World’s Forests as a Leader in Timber Distribution

After the round-table meeting and extensive working group discussions, the Timber Procurement Policy was finalized in June 2007. But Sekimoto has much more in mind. “Laying down policy is just the beginning. We still have lots to do. If we get too idealistic, we won’t get anything done. We should keep pace with world trends, always looking to make continual improvements. I believe the implementation of this policy by Sumitomo Forestry will ripple through to business partners and customers, slowly bringing about change in the timber distribution business. Our relationship with NGOs has solidified through this opportunity, and we will be seeking further dialogue as we pursue our various initiatives.”

Sumitomo Forestry Group Timber Procurement Philosophy & Policy

1. Timber Procurement Philosophy

Timber is a renewable natural resource. Sumitomo Forestry views forest ecosystems and natural resources of the forest as precious and irreplaceable assets belonging to all mankind. Together with our suppliers, we will incorporate environmental and social considerations into our procurement of timber as we strive to realize a sustainable society that is able to develop in harmony with our forests.

2. Timber Procurement Policy

Ensure timber procurement is legal and sustainable:

- Comply with relevant laws and regulations and enhance systems for confirming the legality of timber;
- Increase procurement of timber produced through sustainable forest management;
- Increase the use of plantation timber while promoting planting efforts as a way to help maintain forest resources.

Establish a traceable supply chain:

- Together with suppliers, strive to improve the reliability of traceability management;
- Together with suppliers, ascertain whether forests of high conservation value are being properly managed;
- Carry out proper information disclosure to ensure transparency in procurement;
- Maintain ongoing dialogue with suppliers to help prevent corruption and to advocate human rights and basic workers’ rights.

Reduce environmental impact throughout the entire lifecycle of products and utilize timber resources effectively:

- Actively use domestic timber to help conserve national land and revitalize the forestry industry;
- Promote the utilization of such materials as thinnings and wood waste, the reuse and recycling of timber, and related technological development;
- Strive to reduce the environmental impact of procurement such as through improvements to distribution efficiency.

Together with stakeholders:

- Together with stakeholders, make continual improvements;
- Place value on biological diversity and the cultures, traditions and economies of communities coexisting with forests;
- Convey to stakeholders the importance of incorporating environmental and social considerations into timber procurement.

Established June 2007



“We want you to disclose your stance on procurement of timber from high conservation value forests. We are ready to provide any relevant information you need.”
(World Wild Fund for Nature (WWF) Japan)

“It is important that you demonstrate the transparency of your process for establishing the Timber Procurement Policy.” (Global Environmental Forum)

“As a company engaged in both upstream and downstream activities, we expect you to contribute significantly to the conservation of forests both in Japan and overseas.”
(Friends of the Earth Japan)

“Bird species inhabiting a region can be used as a base index for identifying high conservation value forests.” (BirdLife International, Asia Division)

Core members of the Timber Procurement Subcommittee and the above-mentioned four organizations joined together in enthusiastic dialogue

Special Feature 3

Learning from Our Forerunners— Living in Harmony with Nature through *Ryouonbou* Design

A pleasant breeze blows through in summer. In winter, the sun's warmth pours in. Traditional Japanese houses used to be stores of wisdom, utilizing nature to ensure comfortable living throughout the four seasons. The homes we have designed using the *Ryouonbou* concept draw upon both this wisdom and modern technology to allow year-round comfort without over-reliance on air-conditioning and heating.



From right: Mr. and Mrs. Taki and Risaburou Tsurui, Yuichi Ochiai and Masahiro Sakamaki of the Shizuoka Branch, who oversaw the building of the Taki residence (pictured)

A Spacious *Doma* and *Tatami* Mats— Nostalgia from Traditional Japanese Houses

We paid a visit to the Taki residence on the outskirts of the city of Shizuoka. “I was born to a rural home...a typical Japanese-style house with a spacious *doma* earthen-floor area. I always envisaged building a house like that for myself one day,” Mr. Taki explains. The couple came across Sumitomo Forestry during a visit to a model home.

“We wanted a house with a *doma*...a house like the old Japanese style through which the wind could flow, that would be cool in summer and warm in winter. But it was hard to get that idea across. And then Sumitomo Forestry came up with a proposal exceeding our expectations. They possessed the know-how for turning our dream into reality.”

Ryouonbou in Summer



Learning the Importance of Airflow— Doors Are Switched to Reed Screens in Summer to Let through Air

The Shizuoka Branch presented the proposal to the Takis. The branch's Risaburou Tsurui says, “We sought to enhance airflow by installing *ranma* transom panels between the two adjoining Japanese-style rooms and sliding sash *ranma* panels above the floor to ceiling windows. Naturally, we fitted sliding sash panels above the large south-facing windows in the living and dining rooms, too, and we also inserted ventilation windows with sliding panels into the walls just below the ceiling on either side of the hallway between the dining room and utility room. In this way, we created channels for the airflow.” The house makes excellent use of Sumitomo Forestry's natural heating and cooling *Ryouonbou* approach to design, exploiting the wind and sunlight to allow comfortable living.

“After living in the house, we have really noticed how important the airflow is,” says Mrs. Taki. Her husband adds, “When summer comes around, we're going to swap all our internal doors with reed screens. I wonder if we'll need air-conditioning at all, even in midsummer.”

Mr. Taki had put a lot of thought into the approach to the house and the entrance. He says how nice it feels to water his garden, which is planted with maple and flowering dogwood trees and lined with *suiban* flower bowls and stones, and then retire to the bench under the eaves of the house or to the *doma* for a rest. “I'll sit here

Ranma transom panels, small windows and lattice doors are arranged in an effective way to create channels through the house for the airflow, providing relief from the summer heat

in summer eating watermelon, spitting out the seeds... and I'd like to pound rice into rice-cakes too," he declares. Mrs. Taki adds, "In autumn, I want to sit here with the whole family where we can view the harvest moon. I want to teach our children about Japan's seasonal traditions." In their house, you can feel the wind and smell the rain, as well as appreciate the sun and the warmth of wood. Here you come in contact with that which is unique to Japan—a certain harmony.



Wide eaves give the appearance of an authentic Japanese house. Surrounded by hills and rivers, bird calls can be heard nearby.

The Warmth of Natural Materials Improves with Time

In addition to the Japanese-style rooms on the first floor, the living and dining rooms and hallways are also matted. "Tatami mats are warm all over...soft to the touch and never cold," Mr. Taki explains. The sliding doors were constructed from Japanese cedar and the shelves and walls of the shoe closet, too, used solid pieces of Japanese cedar. "Japanese cedar absorbs odors and moisture," Tsurui points out. Mr. Taki says, "I look forward to observing color changes in the matting and the cedar. Faded matting provides atmosphere, and when you replace it you feel refreshed. Japanese cedar, too, takes on a luster when you polish it. Nowadays, people want things to be solid and last a long time, simple and durable. In fact, the reverse is better for both your health and the environment, which I believe provides for comfortable living and leads to emotional attachment to your house."



Mr. and Mrs. Taki

Freer Use of Space Fosters Communication A House with Space for Receiving Guests

The two adjoining Japanese-style rooms, the *doma* and the small three-mat *tatami* room between the earthen-floor entrance and the living room form an area that fosters

communication. Visitors can be brought through into a Japanese-style room. Neighbors who stop by need only perch at the edge of the three-mat room.

"It may seem too spacious for a family of five, but houses are places for welcoming people, and so I think it appropriate to have rooms for guests. For example, I might invite friends around for drinks. Neighbors can come around for a chat. The children, when they see this, will naturally learn how to interact with people, and I think that is extremely important," says Mr. Taki.

Over the ages, the people of Japan have accumulated a wealth of knowledge from living in wooden houses suited to the four seasons. This wisdom not only leads to energy conservation, but is a vital asset that creates joy from being close to nature and promotes positive interaction among people in the community. Sumitomo Forestry expounds this wisdom through its *Ryounbou* approach to design.



1

2

3

4

1. On the other side of the sliding door, a single interconnected space stretches from the earthen-floor *doma*, through a three-mat *tatami* room, to the living and dining rooms. In summer, airflow is enhanced by replacing internal doors with reed screens.

2. In the hallway between dining and utility rooms, double sliding *ranma* transom panels are inserted into identical positions on either side for greater ventilation.

3. A low table is placed on the *tatami* in the dining room. The calming effect of *tatami* matting may be one explanation for longer meal times and buoyant family conversation.

4. Air traverses the Japanese-style rooms through *ranma* transom panels fitted between the two adjoining rooms and sliding sash *ranma* panels above the large windows.

Imparting Ideas for Sustainable Homes to Society

Sumitomo Forestry has developed a blueprint for sustainable living—*Ryouonbou*. Seven employees belonging to the Housing Business Headquarters gathered at the Sumitomo Forestry model home in Musashino, Tokyo to discuss the value and potential of propagating the *Ryouonbou* concept in society.



Living in Harmony with Nature...? What Is *Ryouonbou*?

Shishido: I have been involved in the development of the *Ryouonbou* concept. Put simply, *Ryouonbou* is an approach to housing design that employs ingenuity in making use of natural energy to create a cool environment in summer and warmth in winter, thereby removing over-reliance on air-conditioning and heating systems. This area of development was prompted by environmental issues; CO₂ emissions need to be reduced to help prevent global warming but conventional homes consume a lot of energy for air-conditioning and heating. We can do our bit by helping to reduce energy consumption. Houses have become highly functional and we can now live comfortably regardless of the outside temperature just by switching on the air-conditioning. But air-conditioning systems consume energy, although a bigger problem might be that we end up living oblivious to the external environment. In Japan, we have been incorporating nature into our living styles for quite some time; we used to possess knowledge on how to utilize nature effectively in our houses to

enable comfortable living. I believe today's houses could be more friendly to both the environment and people if this knowledge was rekindled. And I also believe it is Sumitomo Forestry that must take the lead in offering up such proposals given its aim to realize sustainable homes.

Tanabe: I agree. Some of the new housing we see nowadays seeks to totally shut out the external environment, for example through central air-conditioning systems and external thermal insulation. Although ventilation can be performed by machines, you can't beat the feeling of a natural breeze. I tell customers Sumitomo Forestry is aiming to build houses that make effective use of and coexist with nature.

Ohnaka: For health and bodily maintenance, I think it's better to be able to "feel" the seasons, to know when it's hot and when it's cold, and to sweat sometimes, than to be stuck in a constant climate all year round.

Experience the Difference of *Ryouonbou*

Ohami: I am an advisor for this Musashino model home. The home was rebuilt a year ago to incorporate the *Ryouonbou* concept, which has had an amazing effect. We don't have the air-conditioning running at peak capacity in summer anymore as we used to. Instead, we open the windows to let the wind through. And even when we do use air-conditioning, a high temperature setting is sufficient. Power consumption has dropped around 30%. And in contrast to model homes of other manufacturers, many of whom use central air-conditioning systems and close all the windows, we open ours so that visitors can actually feel the natural airflow.

Deguchi: I have been told on occasion that Sumitomo Forestry model homes are pleasant to visit because of the cool breeze blowing through the windows. And customers who said they had visited model homes and come out with a headache noted that Sumitomo Forestry model homes didn't have the same chemical smell.

Toyoda: It's best to be able to experience a home with all five senses.

Tanabe: However, *Ryouonbou* is still not well known and is sometimes a difficult concept for customers to grasp. That's when we tell them it is the housing version of "Cool Biz" and "Warm Biz"*, because, with clothing, you can't buy an outfit that can be worn in both summer and winter. Customers tend to catch on when we explain that housing, too, should "change dress" with the seasons to block out the sun in summer and let it in during winter.

Shishido: This "changing of dress" with the seasons is an important element of the *Ryouonbou* concept. Of course, it doesn't happen by itself. Windows are opened or closed; bamboo blinds are put up in summer and taken down in winter. In other words, the occupants have to take the initiative in embracing nature and acquainting themselves with the sun and the wind. This is the kind of living style we want to promote.

Toyoda: Bringing out the characteristics of wood and lavishly applying them is one of Sumitomo Forestry's strengths. Wood is a renewable resource and feels good to the touch. And as timber professionals, we offer all kinds of textures.

Kondou: From a design perspective, coolness and warmth are conveyed in different ways depending on the color and material you use. Even just the sound of leaves rustling in a tree outside the window lets you sense the wind and is an effective way to incorporate coolness. In other words, our proposals include intangible features that stimulate the five senses.

Imparting Ideas for Sustainable Homes to Society

Ohnaka: A house is usually a once-in-a-lifetime purchase and we want customers to be totally satisfied they're buying the right one, which is why we start out by discussing with them the various issues—the environment, dietary education, health—so we can work out what sort of house would suit them best. Sumitomo Forestry's greatest strength is that our daily activities are compatibly linked to issues such as the environment.

Deguchi: I participated in tree-planting activities at the foot of Mt. Fuji as part of training when I first joined the company. Society is sure to have a high regard for a company, and user of timber, that is actively engaged in forest preservation and other environmental initiatives. I think communicating our stance to the broader public would serve to raise the popularity of Sumitomo Forestry houses.

Shishido: In our *Ryouonbou* development, we plan to expand on the idea of "changing dress" with the seasons. We will focus not only on the tangible, but also the intangible, to create living environments our customers can adapt to match the seasons—houses they will enjoy. Customers will become attached to their houses, meaning they will live longer in them, and that is our aim. A lot of waste is generated when a house is rebuilt, therefore a longer term of occupancy is better for the environment.

* "No jacket, no tie" and warm clothing campaigns advocated by Japan's Ministry of the Environment, the objective being to lessen the need for air-conditioning and heating in offices and hence save energy.

Participants



Toshiyuki Shishido
Supervisor
Development Group
Technology Division



Miyoko Kondou
Senior Staff
Planning & Design Group
Yokohama Branch



Hiromi Ohnaka
Senior Staff
Sales Group
Tokyo Nishi Branch



Shun Deguchi
Sales Group
Narita Branch



Sachiko Ohami
Home Advisor
Tokyo Nishi Branch



Kazuo Toyoda
Manager
Planning & Design Group
Utsunomiya Branch



Takuma Tanabe
Manager
Sales Group
Tokyo Minami Branch

Special Feature 4

Employees Shape the Future— Sumitomo Forestry in 2020

To continue to be a company that contributes to the betterment of society and able to respond to changes in the external environment, it is essential to envisage where we are heading and have all employees embrace that common goal. Sumitomo Forestry employees are pursuing their ideas for a future society and their vision of Sumitomo Forestry to help achieve that society.



Employees Act to “Shape a Future of Our Choice”

“Team 2020 participants were focused and had a strong understanding of the relevant issues, motivating me to deal positively with realities I had forgotten during the business rush or shied away from...”

“It was nice to have the chance to meet people with the same desire to make Sumitomo Forestry better...”

As their project drew to a conclusion after a little over a year, the 56 employees who participated in “Team 2020” felt a tremendous sense of fulfillment, their faces glowing with anticipation for the future.

Team 2020 was launched in March 2006. It began as a “bottom-up” effort to establish a common vision (Employee Future Vision) and a set of important values. The aim was to transform Sumitomo Forestry so that each individual employee would have confidence and pride in their work while giving thought to the future of both society and the company.

The CSR Promotion Office, as secretariat for the project, believed that “a vision for the company’s future would not gather momentum if conceived only by a small number of people. Everyone had to be involved.” All employees, even those at subsidiaries and affiliates, were eligible to participate and more than 80 employees responded to the call for volunteers wanting “to help shape a future of our choice.” Many who put their names forward had a strong attachment to their company and possessed a keen desire to make it even better. Reasons for wanting to participate included: “The falling birthrate is hurting demand for new houses, making the business environment all the more tighter. Employees need to get serious about the direction the company is heading...” and, “I want to consider what we can do to make Sumitomo Forestry more attractive as a company.”

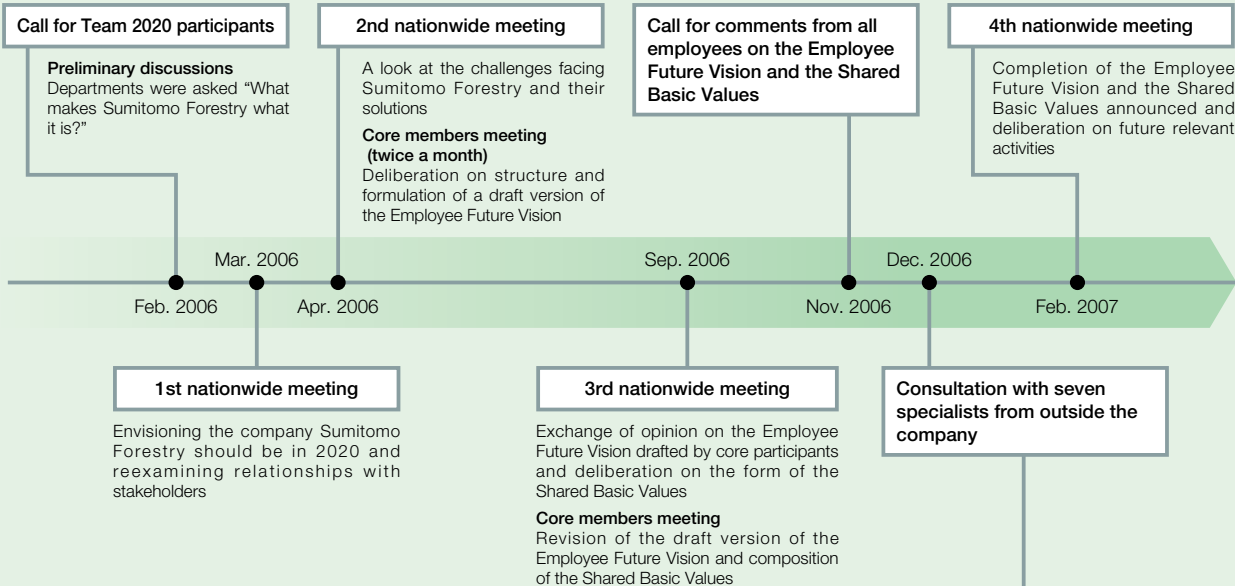
Fifty-six applicants were selected as members of Team 2020, the first cross-departmental exercise to consider Sumitomo Forestry’s future.

After Passionate Discussions, Team 2020 Integrated Their Ideas

The first task Team 2020 undertook was to determine what value Sumitomo Forestry should be contributing to society in 2020. What will society be like in 2020 and in what pursuits will Sumitomo Forestry be demonstrating its capabilities? In what way will employees be working in carrying out those efforts? Project participants from around the country gathered to discuss these questions. Lecturers were invited to provide insight into the demands companies are likely to face. Interaction among employees from different departments and regions, who would otherwise have no involvement with one another, generated some new perspectives and exposed some of the challenges.

After three nationwide team meetings, the “Employee Future Vision” was starting to materialize. But a vision for the future first has to be approved by people in society. Sumitomo Forestry approached several specialists from different fields and asked for their opinions on the proposal. They praised the activity itself for being employee-centered, but offered a range of advice, which suggests that society has high expectations for companies like Sumitomo Forestry. Team 2020 absorbed these opinions and pushed ahead with formulation of the Employee Future Vision and the “Shared Basic Values” through nationwide meetings and 13 meetings of core participants.

“Employee Future Vision” Formulation Process



Expectations of Sumitomo Forestry’s “Employee Future Vision”



Bringing people together will be important. How do you form that connection between the company and outside in a way that will nurture sustainability? You should reach out to society with a message of cooperation and coexistence.

Yumiko Oyano
 Advisory Specialist for Consumer’s Affairs
 Nippon Association of Consumer Specialists



Sumitomo Forestry uses wood in housing in unique ways. In addition to “nurturing trees and using those trees to build houses,” you should use that timber and put into practice the knowledge and ingenuity of our forebears in creating living environments for today.

Mitsuo Ogawa
 President
 Craig Consulting



All the people in this organization should reconsider what the Sumitomo Forestry name really means to customers and work out “Who are we? What makes us different from the rest?” on a deeper level, then demonstrate the identity message of this sort to customers and other stakeholders.

Toshihiro Kanai, Ph. D.
 Professor of Organizational Behavior
 The Graduate School of Business Administration
 Kobe University



It strikes me that Sumitomo Forestry would be able to deliver houses offering enjoyable lifestyles if employees enjoy their lifestyles too. You should emphasize this in your vision.

Mariko Kawaguchi
 Senior Analyst
 Management Strategy Research Department
 Daiwa Institute of Research Ltd.



If current trends continue, what issues are going to arise in the future? You should bring attention to issues relating to the global environment and the housing industry and get across your desire to work together with society in dealing with those issues.

Kazunori Kobayashi
 Manager
 Japan for Sustainability



Associated with the housing industry are some critical social issues. Perhaps you should go as far as to say: “We will implement a nationwide shift to houses with world-class thermal efficiency in order to halve CO₂ emissions from houses by 2050.”

Takejiro Sueyoshi
 Special Advisor to the United Nations
 Environment Programme Finance Initiative



What does a real house offering genuine comfortable living look like? You should include the answer to that question in your vision. It is a stimulating notion, and it’s what consumers want.

Nobuko Hiwasa
 Outside Director
 Snow Brand Milk Products Co., Ltd.

Team 2020 Proposals

Employee Future Vision

A Global Corporate Group Able to Create “Cycles of Happiness”

By utilizing Sumitomo Forestry’s unique timber and housing expertise to create “cycles of happiness” that will lead to the individual development of employees, customers, local communities and the earth’s environment, and provide joy for everyone, bringing them together, we aim to be a global corporate group that will guide the way in a future sustainable society.

Joy in Utilizing Sustainable Resources

1. Utilize Timber

Make available an appropriate and stable supply of sustainable forest resources while placing importance on biodiversity and pursue the full potential of timber in order to generate new value that will benefit society.

2. Utilize the Forests

As a business leader instigating growth in the forestry industry, establish a sound model for both preserving and utilizing our forests.

3. Utilize Traditions

Learn from Japanese culture and traditional wisdom and hand down methods for living in harmony with nature to future generations.

Joy in Development

1. Nurture Families

Encourage lifestyles that above all foster happiness for the families of customers, families of employees—all families.

2. Develop Homes

Pursue development of houses that offer comfortable living and high asset value and which will be enjoyed for generations to come. Contribute also to the happy lifestyles of people at various stages in their lives.

3. Foster Communities

Foster local communities, taking the lead in the development of towns of which residents will grow fond and proud.

Joy in Bringing People Together

1. Bring Employees Together

Pool together the ideas and ambitions of employees to build a dynamic corporate culture that thrives with diverse personalities, and foster human assets that will contribute to the betterment of society.

2. Bring Society Together

Carry out spirited communication with people in society and willingly assimilate their ideas to be able to offer society what it really needs.

3. Bring the World Together

Build up our own recycling-oriented business, which will bring joy to people and the earth, and take a leading role in the formation of a sustainable society.

Shared Basic Values

What We Want to Focus On

1. Inspiring Enthusiasm

Enjoying one’s work yields unexpected ideas...
And the coming together of diverse personalities yields new strengths.
In the same way trees stand beside one another in an abundant forest, we shall stand together and combine our individual strengths and endeavor to inspire enthusiasm through our work.

1.1 Customer Satisfaction

Offer products and services that will inspire enthusiasm, always assuming the customer’s perspective

1.2 Prosperous Coexistence

Work together with our many business partners to facilitate the development of society

1.3 Independence & Support

Be independent professionals who enjoy pursuing higher goals

1.4 Openness

Allow free and frank exchange of opinions before tackling issues with a united purpose

1.5 Self-Examination & Learning

Know the importance of learning from mistakes and apply that knowledge to our jobs

2. Paving the Future

We take pride in our long-standing traditions—
It is a wonderful job to be able to create joy for future generations.
As we pave a new path to the future, remember that pride.
Our actions will determine what society and the earth will be like 100 years from now.

2.1 Sustainable Growth

Put effort into achieving solid growth within the Sumitomo Forestry Group, with a view to the long term

2.2 Respect for Families

Build a bright future, taking good care of one’s self and one’s family

2.3 Knowledge & Creation

Utilize our proprietary technology and know-how in creations that will be revered by future generations

2.4 Community Ties

As a member of the community, contribute strongly to local development

2.5 Environmental Symbiosis

Do what we can to protect the earth’s environment and pursue sustainability

3. Acting Openly and Fairly

Are we able to hold our heads high as we tell our families about our day at work?
Are we fulfilling our responsibilities as members of society?
Earning the trust of society is fundamental to business.
We shall act openly and fairly and not be tempted by easy gains.

3.1 Continuation of Core Ethos

As a member of the Sumitomo family, respect the Sumitomo Spirit, which places high value on trust

3.2 Compliance with Relevant Laws and Regulations

Abide by the rules and laws of society, competing in an open and fair manner

3.3 Information Management

Ensure the safety of confidential information and intellectual property, and do not falter in necessary disclosure

3.4 Respect for Human Rights and Diversity

Respect people’s diversity and do not tolerate any discrimination whatsoever

3.5 Autonomous Action

Draw a clear line between business and personal lives and always act with pride and awareness of being a representative of the group

Each of us is responsible for shaping the Sumitomo Forestry Group, and as such shall be confident in embarking on new endeavors.

Creating Happiness through the Work of Individuals

The Employee Future Vision and the Shared Basic Values conceived by employees were completed in March 2007. Now the CSR Promotion Office will take up the proposal and embark on a fresh round of initiatives. The office will clarify our business and corporate social responsibility (CSR), specifying actions individual employees need to take to contribute to the realization of a prosperous society, and step up CSR efforts aimed at creating “cycles of happiness.” The present Ethical Charter and Ethics and

Action Guidelines will also be revised to make them more specific and easier to follow.

All the people who participated in the project understood the significance of having people from different departments and backgrounds engage in communication, and they recognized the need for such a forum and the need for concrete action to achieve reform. Team 2020 may have completed its assigned tasks, but activity targeting the realization of the Employee Future Vision in 2020 has only just begun. The ideas and ambitions of each of the participating employees will spur Sumitomo Forestry in the direction of the Employee Future Vision and stay with us far beyond.



Our Achievements

Towards the Creation of a Sustainable Society

In addition to the issues covered in the Special Features, Sumitomo Forestry is promoting numerous other initiatives towards the creation of a sustainable society.

In this section, we report on our achievements in environmental and social activities during fiscal 2006, and on our policy for the future.

Highlights of Fiscal 2006 Activities

This section introduces the major initiatives undertaken by Sumitomo Forestry during fiscal 2006 for the realization of a sustainable society.



MyForest—Waraku Miyabi

New MyForest—Waraku Miyabi Home Uses Domestic Timber for All Principal Structural Members

In November 2006, Sumitomo Forestry launched MyForest—Waraku, a home that combines traditional ways of living with modern lifestyles. Long-standing Japanese traditions passed down over the ages were emphasized in design, which also sought adaptability with respect to diversifying modern lifestyles. The Waraku Miyabi home uses domestic timber for all of its principal structural members, including Japanese cypress for the foundations and posts and Japanese larch for beams. This truly dignified Japanese house employs the natural heating and cooling *Ryounbou* design concept, making effective use of wind and light, with *shoji* sliding doors, latticework and wide eaves, to incorporate the advantages of traditional living styles which have evolved for coping with Japan's climate.

“Ecology School” for Children—Learning About the Role of Trees and Environmental Issues

Sumitomo Forestry values being able to partake in direct dialogue with the rest of society as it is an opportunity for us to communicate our Corporate Philosophy and business stance to a wide range of people.

In fiscal 2006, we wanted to teach children about trees and the environment as it is they who will lead society in the future. In July, we hosted the Ecology School at the National Children's Castle “Kodomo no Shiro” in Aoyama, Tokyo. Sumitomo Forestry employees became “forest professors,” explaining to children about global warming and the beauty and roles of trees, after which the children had a go at building their own “eco-cities.”

A mobile version of the Ecology School was later held, in October and November, at three elementary schools. Students learned about the environment and had a go designing environmentally-friendly houses and towns. The following are a couple of comments received from the children: “I want to help reduce carbon dioxide”; and “I learned that it is a bigger problem to let trees grow out of control and not cut them down.”



Children at the Ecology School



Children listen to a WENS guide

Environmental Education Program Launched at Mt. Fuji Manabi no Mori

In May 2006, Sumitomo Forestry linked up with the Fujinomiya City Board of Education (Shizuoka Prefecture) and the NGO, Whole Earth Nature School (WENS), in launching the Mt. Fuji Manabi no Mori Environmental Education Program to support the environmental education of elementary and junior high school students living in Fujinomiya. Around 550 children had participated as of March 2007. In October 2006, 186 fifth-graders from Ohfujii Elementary School explored the Manabi no Mori natural forest restoration project site, learning about the environment through observations of wild animals, trees and grasses. The children expressed their enjoyment at “discovering new things through contact with nature.” Some volunteered the question, “What can we do in our daily lives to help the environment?”

We plan to continue using Manabi no Mori as a base for promoting natural forest restoration and environmental education.

Involvement in Creation of Gakken Manga *Mori to Ki no Himitsu*—Donated to 26,000 Organizations Nationwide

Gakken Co., Ltd. has put out a popular manga series trying to explain a variety of topics in story form to make them easy to understand. Sumitomo Forestry offered full cooperation in the production of *Mori to Ki no Himitsu* (Secrets of the Forest, Trees and Wood), published in March 2007. Hoping to find answers to questions they have about forests, trees and wood, the central characters in the story visit various facilities associated with Sumitomo Forestry, including the Mt. Fuji Manabi no Mori natural forest restoration project, forestry sites and the Tsukuba Research Institute. By reading the story, children can learn all about environmental issues and forests. We donated this book to around 23,000 elementary schools and 3,000 public libraries. We hope the book will foster greater awareness among children of the current condition of our forests and get them thinking about environmental issues.



Gakken educational manga
Mori to Ki no Himitsu

Mark of Certification Acquired in Accordance with the Next Generation Law

The Law for Measures to Support the Development of the Next Generation (Next Generation Law) stipulates that business owners formulate and implement action plans for assisting employees in childcare. Activities implemented under Sumitomo Forestry's 1st Action Plan (fiscal 2005-2006) met the specified criteria required for certification, which was granted by the Tokyo Labour Bureau in April 2007.

Under the 2nd Action Plan (fiscal 2007-2008), we will continue efforts to help employees strike a balance between home and work, while making steps towards a corporate culture and systems that allow men, in particular, to partake in childcare.



"Kurumin" mark
of certification

National Skills Competition Gold Winner to Represent Japan at WorldSkills 2007

Four employees of Sumitomo Forestry Home Engineering Co., Ltd. took part in the 44th National Skills Competition, held in October 2006, and all four came away winning an award—the Health, Labour and Welfare Minister's Prize, or gold award, a silver award, and two performance awards. The competition pits young workers against each other in a contest of skills, the objective being to raise the level of those skills. The Home Engineering team entered the "building carpentry" category, in which they needed a high level of expertise to complete a "tower roof truss" in 12 hours. The team won their awards by demonstrating skills they had acquired at the Sumitomo Forestry Construction Technology College. The gold-winning employee will go on to compete against the world's best in November 2007 at the International Skills Festival for All, to be held in Japan for the first time in 22 years.



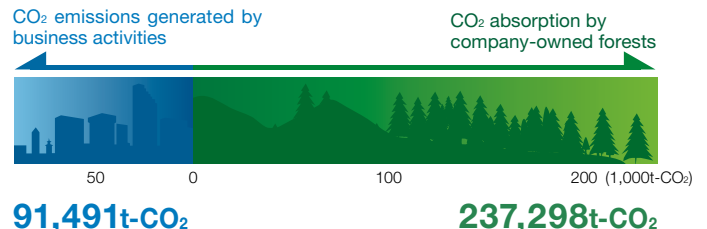
A Sumitomo Forestry Home Engineering employee outclasses 116 other competitors.

CO₂ Balance for Business Activities

To support Japan in its efforts to achieve goals prescribed under the Kyoto Protocol, Sumitomo Forestry has been working on achieving a 6% reduction in group-wide CO₂ emissions per sales unit by 2010 compared with fiscal 2004 levels. Although fiscal 2006 saw a 20.3% reduction in emissions compared to fiscal 2004, because of the large impact of sales increases due to mergers and other factors, in order to further reduce CO₂ emissions, we are looking at establishing new targets, including the revision of relevant indexes.

CO₂ absorption in fiscal 2006 was 237,298t-CO₂.

• Sumitomo Forestry Group CO₂ balance in domestic businesses (FY2006)



Reconfirmation of Collective Housing Earthquake Resistance

In 2005, cases of falsified earthquake resistance data were exposed and turned into a major scandal. Collective Housing Headquarters (now Real Estate Business Headquarters) carries out structural calculations in compliance with the Building Standard Law of Japan. Our collective housing structures are capable of withstanding major earthquakes like the 1923 Great Kanto Earthquake, as required under the same law. Nevertheless, we decided to reconfirm structural calculations for 101 properties that had been examined under contract between April 2000 and December 2005 by inspection bodies currently under the spotlight. Re-inspections were completed, and the sturdiness of the properties confirmed, by March 2007.

Management Systems

Corporate Governance

Sumitomo Forestry is working to enhance and strengthen corporate governance in order to improve the transparency of corporate management and to ensure sound and sustainable management.

Corporate Governance

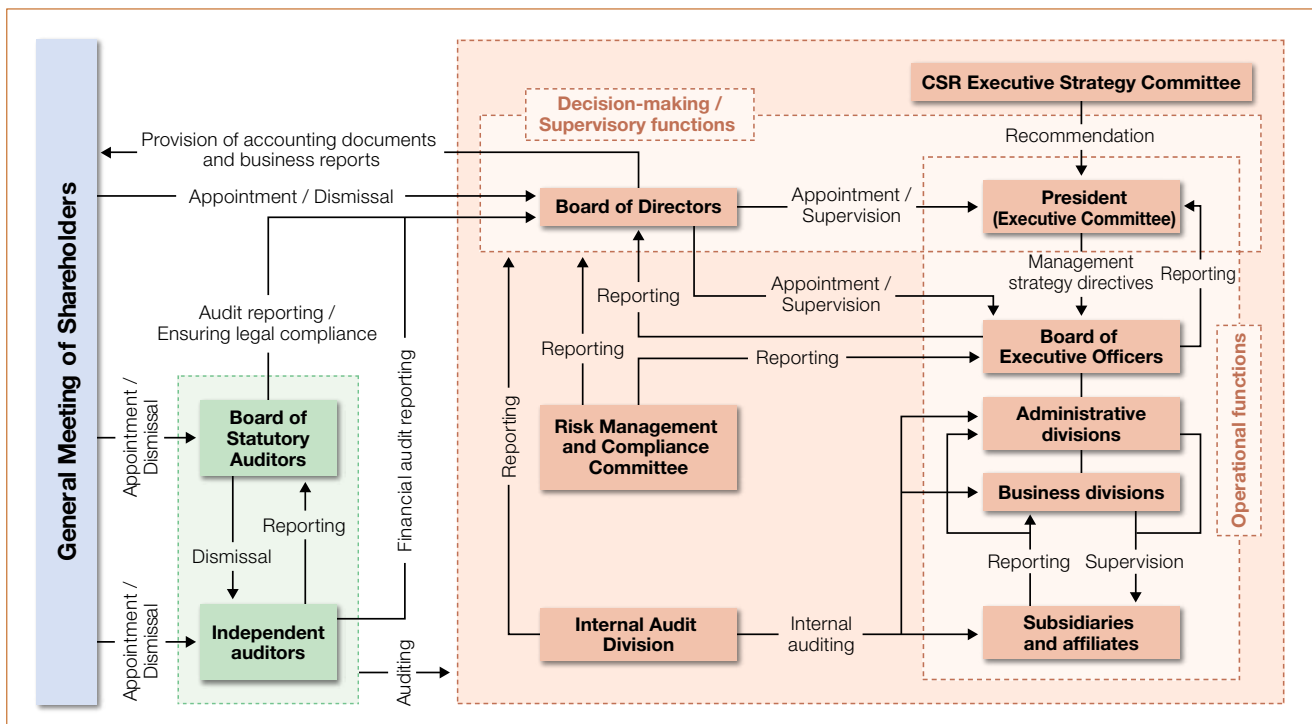
Ever since its founding, Sumitomo Forestry has managed its business with an emphasis on trust and based on notions of social contribution and environmental conservation. The Sumitomo Forestry Ethical Charter, established as a set of action guidelines, reflects this position. The Corporate Philosophy, too, was formulated to solidify our management stance, listing "Sumitomo Spirit," "Respect for Humanity," "Environmental Protection" and "Putting Customers First" as Active Guidelines.

In 2002, we incorporated an executive officer system into our corporate governance structure, a move that separated decision-making and supervisory functions from operational functions as a way to strengthen oversight and clarify accountability. At the same time, the number of directors was reduced to speed up decision-making. The current framework consists of seven directors and 16 executive officers. Additionally, audits undertaken by the Internal Audit Division are being used to elevate the monitoring and supervisory functions of directors to a practical level.

The Board of Statutory Auditors comprises four statutory auditors (including two from outside the company) who, besides sharing the task of attending important in-house meetings, visit Sumitomo Forestry's domestic and overseas bases together with the Internal Audit Division to audit operations. Statutory auditors report monthly to the Board of Directors on on-site audits they have conducted of business locations and meet quarterly to exchange views with representative directors regarding important company issues and improvements to the auditing environment. In this manner, they provide valuable feedback on their findings to the management team.

Group companies are each supervised by a division in charge of subsidiaries at their parent company. Administration and guidance of Group companies is carried out through these departments. We also ensure business of the entire corporate group is conducted in an appropriate manner through direct, regular audits of Group companies by statutory auditors and internal audit departments of the parent companies, as well as regular meetings of Statutory Auditors of Sumitomo Forestry and its subsidiary companies (for information exchange) attended by Group company auditors.

● Corporate governance structure As of April 1, 2007



Compliance and Risk Management

Proper and legally compliant operations are the basis for good management, and therefore we strive to achieve total compliance. We are also enhancing internal controls and risk management to make Sumitomo Forestry more responsive to the diverse risks facing each business.

Compliance

The Sumitomo Forestry Group realizes that a steadfast policy of compliance is vital for a corporation to continue business activities as a member of society and has therefore positioned the enhancement of compliance management as one of our most crucial managerial issues.

In July 2006, the Compliance Group was established within the General Administrative Division to promote and coordinate compliance management for the entire Sumitomo Forestry Group. The department is making efforts to strengthen the compliance framework, identifying compliance risks and formulating countermeasures pertaining to business activities of the whole Group.

Sumitomo Forestry encourages employees to come forward with any information that is broadly related to compliance. The Compliance Desk has been in place since 2002 as an internal channel for reporting illegal behavior and is available to all Group company employees (including temporary, part-time and casual employees). Points of contact have been established both in-house (general manager of the General Administrative Division) and outside the company (an attorney advisor). In fiscal 2006, we established regulations prohibiting unfair treatment of “whistleblowers,” and a pamphlet encouraging employees to use the service was produced and distributed to all Group employees. This and other promotional activity led to six reports during the fiscal year, well up on the previous year.

One specific initiative with a compliance focus has been a review of management systems with the purpose of

promoting safe driving by employees of all Group companies in Japan. This involved improving upon regulations and revising the obligations of safe driving administrators, as well as creating an information database. We worked to improve administrative efficiency and raise awareness towards safe driving, for example by introducing mandatory submission of driving records by employees who drive in the course of their work.

We will continue to foster compliance awareness by enhancing in-house training via e-learning and other methods.

Case Example

On June 9, 2006, the Kanto Local Finance Bureau issued a 15-day suspension order on the moneylending business of real estate brokerage Sumitomo Forestry Home Service Co., Ltd. in accordance with the Money-Lending Business Control Law. Fixed fees charged for short-term low-sum stopgap financing of real estate buyers had been judged to be interest charges and, as a result, the company was deemed to have charged interest in excess of the maximum allowed under the Investment Deposit and Interest Rate Law. In response, the company implemented urgent corrective measures and sought to toughen its compliance framework to prevent a reoccurrence by performing a full review of operations and personnel placements, and revising manuals.

Internal Controls and Risk Management

In May 2006, Sumitomo Forestry’s Board of Directors Meeting approved basic policy on developing and managing the internal control systems. The policy outlines the Group’s current internal controls and related issues and places particular emphasis on strengthening corporate governance and establishing a risk management system. In addition, a project team was set up in July 2006 to establish internal control systems for ensuring proper financial reporting. The team is working with independent auditors towards an April 2008 launch.

Risk is managed at a corporate governance level through monitoring and supervision by the Board of Directors and audits performed by statutory auditors. Risks integral to the company’s business pursuits, including risks pertaining to credit uncertainty of business partners, inventory

management, market conditions, occupational safety, quality and environmental pollution, are managed by the most suitable business divisions, which consider the possibility and potential impact of the risks becoming reality when formulating countermeasures. Earthquake response, compliance, information systems security and other risks that require company-wide countermeasures are managed for the Group by the Head Office, led by the General Administrative Division.

With regard to risks that materialize in the form of sudden emergencies, systems are being put in place that will facilitate direction by managers toward a swift and appropriate response when they arise. A dedicated Emergency Hotline has been set up for reporting emergencies and a “two-hour rule” has been introduced, stipulating that management must be informed within two hours of an emergency occurring.

Social Report

Together with Our Customers

Houses are the basic infrastructure for our lives and special places that we can call our own. As such, they have an enormous influence on the way we live our lives.

Sumitomo Forestry is making society better by providing houses where people can live for a long time feeling secure.

High-Quality Houses with Excellent All-Round Balance

The Housing Business Headquarters consistently aims to ensure a high level of quality in the houses it supplies through the activities of the Quality Improvement Committee, as well as through quality improvement working group meetings, which are held once a month to ascertain issues from existing houses and make improvements to housing materials. The quality and performance of housing is proven through verification testing at the Tsukuba Research Institute.

To give customers peace of mind when making a purchase, we are increasing our use of the Housing Performance Indication System, through which housing performance is evaluated by third-party experts. In fiscal 2006, Housing Performance Evaluation at Design Stage indication was implemented for 95.9%¹ of our houses.

A Support System for Promoting Longer-Lasting Homes

Extending the lifespan of houses is a priority for promoting a recycling-oriented society. We have set the standard minimum expected service life² for principal structural members at 75 years and employ only highly durable materials elsewhere. The Long-Term Support System has also been established, providing support for 60 years after the sale of a home, and involves implementation of our own regular inspections. (Yoshimitsu Masuyama, Warranty & Customer Information Division)

Houses Capable of Withstanding Earthquakes and Fire

Japan is constantly exposed to the threat of a major earthquake and provisions need to be made to ensure people can live in their houses for a long time without fear. Sumitomo Forestry ensures its houses are capable of withstanding earthquakes by verifying earthquake resistance, using homes actually on the market as experimental facilities. Earthquake resistance has been confirmed to be high, with no structural damage, collapse or destruction even in trembles far more powerful than the 1995 Kobe earthquake.

In March 2007, we launched *MyForest—Taika*, a wooden-frame home built employing a fire-resistant structure recognized by the Ministry of Land, Infrastructure and Transport. This makes it possible to build wooden houses using the post-and-beam construction method even in fire prevention zones. (Taisuke Nagashima, Technology Division)

Stakeholder comment I want to know what value you place on long-lasting houses. (Architect)

Realizing Safe and Comfortable Homes

Sumitomo Forestry believes in the concept of creating a comfortable home for every family member, and one that is easy to live in well into the future. This belief is reflected in our application of universal design, based on research carried out by the Tsukuba Research Institute. Design factors include space and flow planning, hallway width and dimensional planning to allow smooth and easy movement and posture, and the use of materials and fixtures to prevent accidents occurring inside the house. Sumitomo Forestry is also aware of the growing demand for crime prevention capabilities in response to the rising incidence of unlawful entry. We offer houses that are safe from

1. Denominator includes properties under construction that are not subject to performance evaluation.



Yoshimitsu Masuyama
Manager
Warranty & Customer Information
Division
Housing Business Headquarters

2. The number of years a material or component is expected to function as originally intended, assuming a certain level of maintenance as envisaged by Sumitomo Forestry. (Regular inspections are required.)



Taisuke Nagashima
Team Manager
Technology Division
Housing Business Headquarters

crime through careful scrutiny of premises and incorporation of excellent crime prevention qualities into house plan design.

To prevent sick house syndrome, all the building materials we employ are “F☆☆☆☆” products, which release the least amount of formaldehyde.

Stakeholder comment I want you to disclose information relating to sick house syndrome. (CSR representative of a corporation)

Communication with Customers

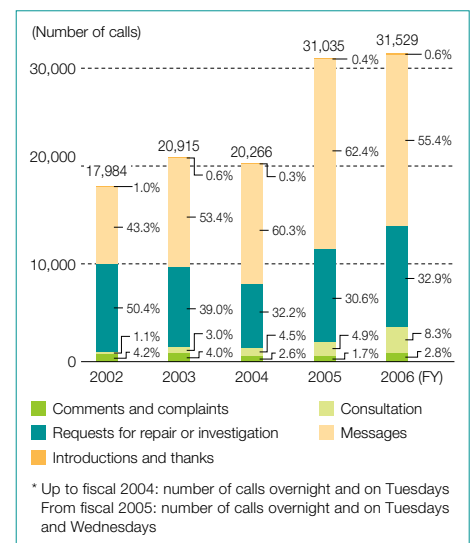
Responsive to Customer Needs, Always Concerned about What You Think

In addition to the delivery of quality products, after-sales support is a vital aspect of the “Putting Customers First” principle. Sumitomo Forestry has Customer Support Centers in place at offices nationwide that are dedicated to after-sales support. The centers are staffed by full-time specialists who are able to respond promptly to requests for advice, repairs or maintenance from customers.

A Call Center staffed by specialist operators has also been established to field calls at night and on holidays. Combined with Customer Support Centers, we now offer a 24-hour-a-day, 365-day-a-year consultation service.

To find out what customers are thinking, we collect opinions and comments through questionnaires implemented when customers move in and at the time of two-year and 10-year inspections. Questionnaires are also handed to customers after the completion of regular or unscheduled maintenance checks for the purpose of gathering feedback on response speed, the quality of repair or maintenance, and the attitude and behavior of maintenance contractors.

● Number of calls to Call Center



Property Development

Property Development for Harmony with the Environment

Sumitomo Forestry’s Property Development Business Division is embracing the “development” theme, creating environments in which children can grow up well in order to promote the development of safe, healthy and comfortable properties where people of all ages can feel secure.

The Property Development Business Division’s first project was the 2006 Forest Garden Kamishidami development in Nagoya’s Moriyama Ward. Consideration to the surrounding area was made by matching the color of the exterior of the housing with that of the adjacent land and buildings, and effort was directed into creating a property that fostered communication among residents and community contact through the positioning of symbolic trees, and benches beneath the trees, along approaches to the houses.

Stakeholder comment I want you to consider the community when you develop properties. (Architect)



Forest Garden Kamishidami—fostering communication

Multi-Unit Residential and Support Services for the Elderly

In November 2006, Sumitomo Forestry founded a new company, Sumirin Life Assist Co., Ltd., to carry out rental activities and management for nursing care facilities and multi-unit residences for the elderly. Our aim is to offer living environments in which senior citizens can live in comfort, feeling safe and secure, not only through infrastructure (buildings), but also through support services, such as nursing care.

Together with Our Business Partners

We are strengthening our collaboration with business partners through a wide range of initiatives that enable us to conduct safe and sound business such as green procurement and the reduction of work-related accidents.

Raw Material Considerations

Promotion of Green Procurement

To help prevent environmental pollution, reduce environmental impact and build a recycling-oriented society, Sumitomo Forestry has established its own Green Procurement Guidelines and *Timber Procurement Standards*, prioritizing the purchase of products and services with low environmental impact from suppliers who are working to reduce the environmental impact of their business activities. Evaluation focuses on the environmental conservation efforts of business partners and product assessment based on seven specific criteria. In June 2007, we formulated the Timber Procurement Philosophy and Policy, making further advancements in green procurement.

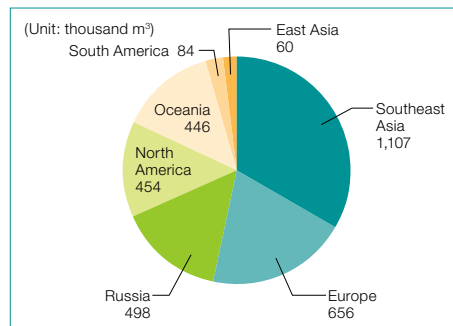
Timber Traceability

Legal compliance by log and timber product suppliers is confirmed through inspections to ensure Sumitomo Forestry does not handle any illegally logged timber. Inspections of logging sites by local representatives are carried out as required to improve reliability. So far, legal compliance has been confirmed for roughly 50% of business partners. It is sometimes difficult to obtain documentation as some timber products have their logs felled in one country, yet manufactured and processed in another. Nevertheless, we are pushing ahead with inspections towards confirmation of legal compliance by all suppliers during fiscal 2007.

● Green Procurement Guidelines (outline of product evaluation)

1. Reduction of the use of substances or emissions that affect the environment or human health
2. Reduced consumption of energy resources
3. Use of materials only from forests managed in a legal and sustainable manner
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 lifecycle

● Sources of imported timber (volume)



Communication with Business Partners

Cooperation with Building Contractors to Reduce Work-Related Accidents

Sumitomo Forestry has established Health and Safety Management Guidelines and is cooperating with building contractors toward the elimination of work-related accidents, including construction site accidents involving falls and slipping, heavy machinery, or power tools. However, although we broadcast a basic policy of "strict adherence to safe work and procedures" in fiscal 2006, the number of work-related accidents rose to 20, higher than the previous year. The accidents were caused by human error. In fiscal 2007, we would like to eliminate work-related accidents by raising awareness towards self-management of workplace health and safety based on "full implementation of danger prediction procedures for preventing disasters." (Naoyuki Takahashi, Team Manager, Environmental Safety Division, Housing Business Headquarters)

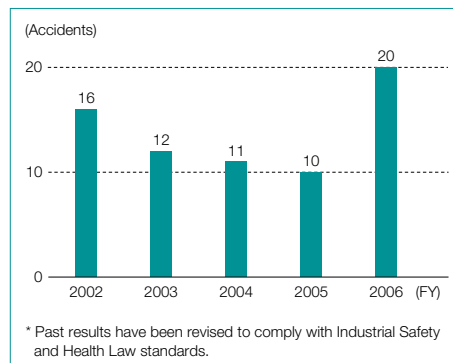


Naoyuki Takahashi
Team Manager
Environmental Safety Division
Housing Business Headquarters

Communication with Timber and Building Materials Business Partners

Sumitomo Forestry has set up the "Sumirin-kai" as a gathering for deepening mutual friendship among timber and building materials business partners in each locale. Training sessions and meetings for information exchange are held to foster product research and development and sound development of production and distribution, as well as for encouraging improvements to business partner operations and the entire timber and building materials industry. The company also hosts training sessions and various seminars as the organizer of Precut Forum 21, a study forum for precut factories nationwide. Fiscal 2006 events included presentations on such topics as "Industrial Waste and Proper Disposal."

● Number of work related accidents at construction sites (at least 4 days off)



Together with Our Shareholders

Sumitomo Forestry ensures high transparency in management and proactive disclosure of information to build trust with shareholders and investors.

Communication with Shareholders and Investors

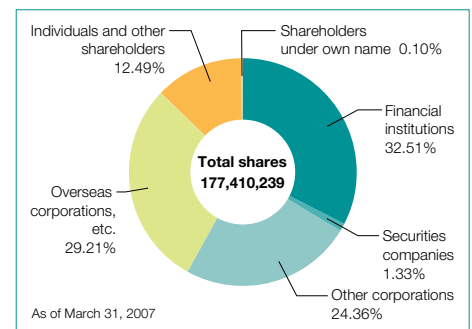
In the interest of greater transparency of management, Sumitomo Forestry takes a proactive approach to information disclosure. We devise ways to make the information we disclose easy to understand, using video presentations at the General Meeting of Shareholders every June, for example. In an effort to build stronger relationships of trust, we actively create forums for communication with shareholders and investors. Earnings briefings are held following the announcement of interim and year-end results and, in fiscal 2006, 190 individual meetings were held, 13% more than in fiscal 2005. We also publish English and Japanese versions of the *Annual Report* and a Japanese language report for shareholders on business activities, which attempt to convey the essence of Sumitomo Forestry in a straightforward manner.

Business presentations were held on two occasions in fiscal 2006, in July and October, introducing respectively the timber and building materials business and custom-built detached housing business. The executive managers concerned were in attendance in both cases. Attendees “came to realize the potential of a future based not solely on the pursuit of profit” and “found hearing about strategy from the people responsible in the field very meaningful.” We will be continuing these efforts in order to foster greater trust.



IR reports

Share distribution (by shareholder type)



Inclusion in Socially Responsible Investment Indexes

Socially responsible investment (SRI) is attracting a lot of attention. SRI involves evaluating target corporate investments not only on financial performance, but also on activities aimed at fulfilling corporate social responsibility (CSR), such as considerations to the global environment, initiatives promoting equal opportunities for employees and contributions to the development of local communities. Sumitomo Forestry has been included for two years running in the Dow Jones Sustainability World Index (DJSI World), an internationally renowned SRI index.

The company has also been included in the FTSE4Good Global Index since September 2004 and the Morningstar Socially Responsible Investment Index (MS-SRI) since June 2005.

We will continue to fulfill our obligations to society through not only economic activities, but also through environmental and social activities.



FTSE4Good



Together with Our Employees

Sumitomo Forestry understands that employees are human assets of the company and therefore strives to maintain a comfortable and productive working environment for people from all backgrounds.

Fostering a Workplace Environment where a Diverse Range of Employees Can Be Active

Basic Personnel Policy

At Sumitomo Forestry, employees are viewed as valuable human assets. To be an “excellent company” in housing and wood products businesses, we conform to the following basic policy within our personnel system.

Basic Personnel Policy

As we aim to be a truly “excellent company” in housing and wood products businesses, we shall make efforts to put in place effective personnel systems, carry out appropriate and efficient placement of human assets, implement human resources development and training, and build a group of “strong and independent” individuals who are always willing to take up a challenge, all in accordance with Sumitomo Forestry’s Corporate Philosophy, which states, “Respect for humanity— We create an open corporate culture that instills a strong sense of pride and motivation in employees.”

Helping Employees Achieve a Balance between Work and Personal Lives

Sumitomo Forestry creates homes for people, and that is precisely why we care about our employees’ families, aiming to create workplace environments that allow employees to enrich their lives at home. In fiscal 2006, we made revisions to our childcare and nursing care support programs to promote a better balance between work and private lives. The programs were improved with the introduction of a reduced working week (four days) option and provisions to encourage participation in childcare by male employees, including 100% paid leave for the first five days of parental leave and expanded eligibility for reduced working hours for the purpose of childcare, which is now available to parents of children in elementary school fourth grade and below.

“Family Friendly Day” is a provision available at the Housing Business Headquarters and its sales offices, where the regular days off are Tuesday and Wednesday. This program enables at least one Saturday or Sunday to be set aside as a holiday each month.

Affirmative Action

Childcare support and an expanded range of job categories open to women are two of the initiatives being advanced to encourage women to play a more active role in the company. Affirmative Action Exploratory Meetings were held in four locations around Japan in fiscal 2006, providing an opportunity for opinion exchange. Ideas held by female design and production personnel (on-site managers) were reflected in the measures formulated.

In Japanese companies, the average ratio of female employees in management positions is 10.1%, somewhat lower than in many other countries. Companies in the construction industry have an even lower ratio, making this an area requiring attention. In March 2007, Sumitomo Forestry formulated a Medium-Term Affirmative Action Plan in an effort to raise the ratio of female employees among newly hired graduates to 40% in fiscal 2011, and treble the current percentage of female employees in management positions. (Masako Habutsu, Personnel Division)

New Business Proposition Program— Power for the Future Project

The Power for the Future Project, a program for soliciting new business proposals, was launched so that the motivation and skills of employees could be utilized to generate new businesses. The program enables employees to put forward their own proposals for new businesses in six fields, including the nursing care service business, new businesses targeting former and current owners of Sumitomo Forestry houses, and overseas businesses, while receiving advice from executive officers, the sponsors. In fiscal 2006,

● FY2006 results

- Number of newly hired graduates..... 159
- Ratio of female employees.....15.7%
- Ratio of disabled employees.....1.68%
- Rate of female employees taking parental leave..... 100%
- Average cost of training per person ... 107,600 yen
- Ratio of employees using the “Refresh Vacation” program50.6%
- Ratio of employees using the “Family Friendly Day” provision22.0%
- Number of management positions filled by female employees..... 14



Comment from an employee who took parental leave

Atsushi Nakai

Manager
Technology Division
Housing Business Headquarters

We had decided that my wife would not go to her parents’ place to give birth and raise our second child, so my boss let me take eight days off as parental leave. This meant the two of us could share the headaches associated with childbirth and be there together to watch the new baby growing. I would like to see the number of times childbirth leave for men can be taken extended to make childcare easier for nuclear families.



Masako Habutsu

Manager
Personnel Division

● Ratio of female employees among newly hired graduates



some 300 proposals were submitted. Promising ideas will be pursued with the employees who conceived the ideas playing a central role in guiding them towards business establishment.

Employee Satisfaction Survey

We undertake employee satisfaction surveys with the purpose of regularly identifying the work climate and attitudes of Sumitomo Forestry employees, as well as surveying thoughts on personnel systems. Findings are reflected in future measures.

When asked if they were satisfied working for the company, 74% of respondents said they were satisfied. A rewarding job and visible career goals were identified as major reasons for their satisfaction. The sharing of a common operating policy was raised as an area that needs to be worked on.

In response to the findings, we will seek improvements in employee satisfaction. Efforts might include communicating company policy through ongoing training and other programs as well as establishing new career paths to meet diversifying employee needs.

Creating a Safe and Healthy Workplace Environment

Sumitomo Forestry views long working hours as a major area requiring improvement. Various countermeasures are being undertaken, including the introduction of a web-based timesheet management systems and educational activities. In addition, the Sumitomo Forestry Group Mental Health Support Program has been established to ensure employees remain in a healthy state of mind. The system allows employees to consult anonymously with specialists. In fiscal 2006, Personnel Division staff and counselors held mental health seminars at 27 branch offices around the country.



Poster on mental health

Helping People Grow at Sumitomo Forestry

Supporting the development of independently minded human assets is the basis of Sumitomo Forestry's human resources development policy.

Multifaceted Training Matches Objectives and Career Paths

Based on the key words "independence" and "support," Sumitomo Forestry offers a range of training opportunities for the development of career-minded employees capable of taking the initiative. A multifaceted education and training program is available and includes: career design training; "cafeteria-style" training to support the acquisition of business skills; overseas training programs to foster the development of human assets capable of global business expansion; management strategy training and external studies programs for the development of future leaders; and the Sumitomo Forestry Business College, which offers self-development training courses on a voluntary participation basis.

Career Consultation and Support

We believe that by helping each and every employee be active and take the initiative in their work and set career goals, the entire company becomes more dynamic. Therefore, we set up the Career Support Desk in fiscal 2007 as a channel for consultation. In-house career advisors field career-related concerns from employees. (Chikage Ito, Personnel Division)

● List of training programs and numbers of participants

- Career design training.....530
- "Cafeteria-style" training 15
- External studies programs 1
- Overseas training programs..... 1
- Sumitomo Forestry Business College3,011



Chikage Ito
Manager
Personnel Division

Together with Society

Sumitomo Forestry makes use of the knowledge accumulated through its business activities in performing social contribution activities relating to environmental education and forest preservation. We also engage actively in communication with society in order to convey our corporate stance.

Explaining Our Corporate Stance to Society

Explanations of our Corporate Philosophy and corporate stance to all stakeholders are important for them to be able to understand and identify with Sumitomo Forestry. But to achieve that we must go beyond corporate advertising and other “one-way” communication. We are going to create a web-based forum for two-way opinion exchange and increase the number of occasions, such as special events and environmental lectures, through which we can engage in direct communication. (Shota Miura, General Administrative Division)



Shota Miura

Manager
Corporate Communications Group
General Administrative Division

Communicating the Attraction of Wood at Omotesando Hills

From January 15 to 21, 2007, Sumitomo Forestry hosted the Sustainable Forest Gallery at the Omotesando Hills complex in Tokyo to communicate the attraction of wood as a renewable resource and wooden houses. The gallery welcomed over 1,500 visitors during the week and attracted a lot of interest from television, newspaper and other media.

On the Saturday and Sunday, Forest Management Division employees joined in to stage four seminars covering the close relationship Japanese have had with wood from ancient times, the superiority of wood as a material with a wide range of benefits, and that wood is a resource that can be produced in perpetuity when forests are well managed.

The Omotesando Hills venue attracted many visitors in their 20s and 30s, plus many families. Staff also managed to interact with junior high and high school students, an age group with which we have very little direct contact. We will continue to seek similar opportunities to call attention to the sustainability and attraction of wood.



Explanations to visitors covered topics such as the state of Japan's forests and the need to use thinnings.

Stakeholder comment

I would like to see you publicize more information about wood. (Architect)

Investing for Realizing a Sustainable Society

Investment in the Clean Fund

Global warming and other environmental issues have grown in severity in recent years, meaning greater importance is being placed on initiatives aimed at realizing a sustainable society. Given this, more consideration towards the environment is also required in money flows. Sumitomo Forestry became the first company to invest in the Clean Fund set up in March 2007 by the Sumitomo Mitsui Banking Corporation. The ¥500 million investment is contributing to environmental conservation in the form of funding for the environmental initiatives of small and medium-sized businesses. We will maintain a corporate social responsibility (CSR) outlook as we actively pursue investments providing some sort of contribution to society. (Makoto Hiejima, Finance Division)



Makoto Hiejima

Team Manager
Finance Division

Socially Responsible Investment of Pension Funds

Socially responsible investment (SRI) is attracting a lot of attention as a way to encourage environmental considerations and social activities by corporations. Such investments are rapidly expanding, valued at around ¥300 trillion worldwide and ¥250 billion in Japan, although this is still small compared to the United States and Europe. Sumitomo Forestry's corporate pension plan has invested ¥1 billion of a total ¥36 billion pension fund assets (as of April 30, 2007) into SRI funds in accordance with the stance taken by the company on CSR.

Social Contribution Activities Based on Our Core Business

Contributing to Society through Our Knowledge of Forests and Wood

As well as protecting our abundant forests well into the future, Sumitomo Forestry is engaged in a wide range of social contribution activities as we believe we should make use of our store of technology and knowledge to contribute to the sustainable utilization of timber resources and local community development. Fostering greater understanding about forests in society is a particularly important element of forest preservation. This is why we put effort into environmental education, through lectures and classes at elementary or junior high schools, and field trips to company-owned forests. We also undertake regeneration of forests damaged by disaster and activities contributing to the development of local communities that are conducted by overseas offices.

Forest Study Programs at Forester House

At the company-owned forest in the Mt. Besshi area of Niihama, Ehime Prefecture, we practice forms of forest management that reflect forest ecosystems, and use the facilities of Forester House for employee training, dissemination of forest and forestry industry information to the local community, and introductions to Sumitomo Forestry's environmental activities. In July 2006, we implemented a forest field trip for approximately 120 students of Niihama's Sumino Junior High School as part of the "Mori wa Tomodachi" (Forests are Our Friends) promotional project carried out by Ehime Prefecture. The students went away with a deeper knowledge of forest preservation, acquired through forest walks and nature games.

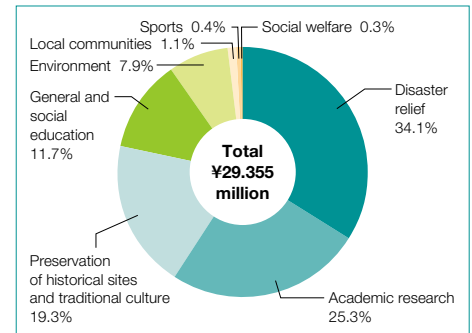
Natural Forest Restoration and Environmental Education at Mt. Fuji Manabi no Mori

National forest on the foothills to the south of Mt. Fuji was extensively damaged by Typhoon Violet in 1996. As part of its contribution to the development of the local community, Sumitomo Forestry set out to restore the natural forest, launching the Mt. Fuji Manabi no Mori natural forest restoration project in 1997. A steering committee was set up to govern the project and comprised representatives from local government, environmental volunteer groups, academic institutions and media organizations. Efforts currently involve forest cultivation activities, especially the clearing away of underbrush, and environmental education programs for local elementary and junior high school students have been underway since 2006. To ascertain the effectiveness of the restoration activities, specialists are engaged in vegetation monitoring, wildlife habitat surveys and basic surveys for the promotion of usage and preservation.

Donation of Cloned Cherry Tree *Togyu no Sakura*

The *Togyu no sakura*, an old weeping cherry tree in Kyoto's Daigo-ji Temple grounds, has tremendous cultural value and Sumitomo Forestry is assisting in efforts to preserve it by using the company's cloning technology to produce cloned seedlings. A cloned cherry tree was planted at Daigo-ji Temple and bloomed for the first time in 2005. In February 2007, a cloned seedling of the *Togyu no sakura* was planted at the National Hospital Organization Tokushima, a center for muscular dystrophy treatment. The hospital had cut down a large cherry tree to build a new ward, but received numerous comments from patients expressing their disappointment. A doctor at the hospital approached Sumitomo Forestry after seeing a news story about the cloned cherry tree at Daigo-ji Temple producing flowers. The company, from a social contribution perspective, responded by presenting to the hospital two cloned cherry trees.

Breakdown of funds allocated to social contribution activities



Junior high school students playing nature games as part of their forest field trip



Planting the *Togyu no Sakura*

Setsuko Kashiwagi, M.D.

(photo right)

Dept. of Internal Medicine,
National Hospital
Organization
Tokushima

I imagined how enjoyable it would be to give a taste of Daigo-ji Temple spring to inpatients with incurable nervous disorders and muscular dystrophy. The people at Sumitomo Forestry very kindly acted on my enquiry, planting two young trees that were the product of their valuable research. In April, pretty blossoms could be seen on the weeping cherry right in front of the hospital building, totally transforming the view. I could sense how pleased the patients were when I heard them talk about the young blossoms.

Environmental Report

Environmental Vision

Sumitomo Forestry will contribute to the creation of a sustainable society by pursuing initiatives in line with the company's Medium-Term Environmental Management Policy.

Using Timber as a Renewable Resource to Contribute to the Creation of a Sustainable Society

The environment is now a pressing global issue and corporations find themselves bearing increasing social responsibility. The Sumitomo Forestry Group plays a role in creating society's infrastructure through forest management, manufacturing and distribution of timber and building materials, and wooden housing construction. The utilization of timber as a renewable resource is a business attribute that should be exploited in global warming prevention and other activities, such as the preservation of forests and ecosystems, for the Group to contribute to the creation of a sustainable society.

Medium-Term Environmental Management Policy

The Medium-Term Environmental Management Policy formulated in December 2005 stipulates four central themes for environmental management: (1) Pursue thorough environmental management; (2) Strengthen and promote environmental education; (3) Enhance environmental communication; and (4) Promote social contribution activities. Sumitomo Forestry is working hard to reduce the environmental impact of its activities by pursuing the principal initiatives listed on the right.

Principal initiatives for comprehensive environmental management

- In addition to reducing CO₂ emissions from business operations, we will work with customers and business partners to lessen the environmental impact of products and services throughout their entire lifecycles.
- We will achieve sustainability of timber resources through the promotion of green procurement and the use of timber cut from forests that have received special forest management certification.
- We will aim to achieve zero emissions at an early stage.
- We will strictly control the use of harmful substances.

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 the potential impact of our activities on the environment, and we contribute to society through the vigorous pursuit of business operations in harmony with conservation principles.

Established in December 1994

Environmental Policies

Founded on our corporate philosophy and environmental philosophy, Sumitomo Forestry seeks to make a positive contribution through all its business operations to maintain and improve 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 distribution that takes account of the entire lifecycle of products, from resource utilization through to 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 also employing resource utilization technology with excellent 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 impact by implementing the necessary control measures.
 - 1) Strive to minimize the environmental impact 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 reuse.
 - 3) Recognize that reducing environmental impact 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 such targets at least once a year.

This policy is publicly disclosed and communicated to all employees.

Formulated in October 2000
Ryu Yano, President/Director

Environmental Management

Among the first in the housing industry to acquire ISO 14001 certification, Sumitomo Forestry is trying to reduce environmental impact through a management system that covers the entire company. We are also directing energy into environmental education and the promotion of proper treatment of industrial waste.

Environmental Management System

Sumitomo Forestry introduced an environmental management system (EMS) in fiscal 1995, and its housing business acquired ISO 14001 certification in fiscal 1997, before anyone else in the housing industry. The certification was upgraded in fiscal 2002 to encompass the whole company. Certification at Group companies was also pursued with four companies—Sumitomo Forestry Landscaping, Sumitomo Forestry Home Service, Sumitomo Forestry Crest and Sumitomo Forestry Two-By-Four Homes—being included in an ISO 14001 group certification as of fiscal 2006.

In an attempt to integrate environmental management into day-to-day operations, “environmental budgets” were introduced in fiscal 2006 to all departments, including those overseas. As an extension of this, Indonesian company AST Indonesia also acquired ISO 14001 certification in fiscal 2006.

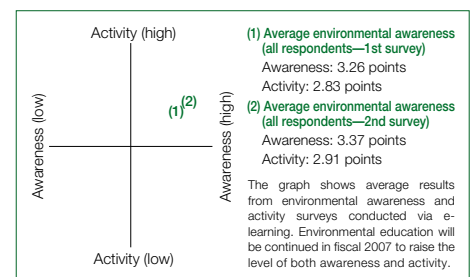


Meetings of environmental representatives are held for information exchange

Environmental Education and Training

Environmental education programs are conducted for the purpose of nurturing employees who will possess an awareness of environmental issues and take action of their own accord. The strengthening and promotion of environmental education is also referred to as a priority issue in the Medium-Term Environmental Management Policy. E-learning programs for all employees and executive officers were initiated in fiscal 2006, with the implementation of two self-learning exercises on general environmental issues. In addition, 56 administrative department heads and group managers at Head Office participated in training designed to cultivate knowledge of environmental management by employees in leadership roles.

• Results of environmental awareness surveys (via e-learning)



Environmental Risk Management

Identification of Environmental Risks

Waste treatment, asbestos, illegal logging, soil contamination, polychlorinated biphenyls (PCBs), volatile organic compounds (VOCs), and impact on ecosystems represent some of the major risks to our business activities. Sumitomo Forestry identifies such risks and develops appropriate countermeasures. No environmental accidents or major violations of environmental laws or regulations occurred during fiscal 2006.

Proper Treatment of Industrial Waste

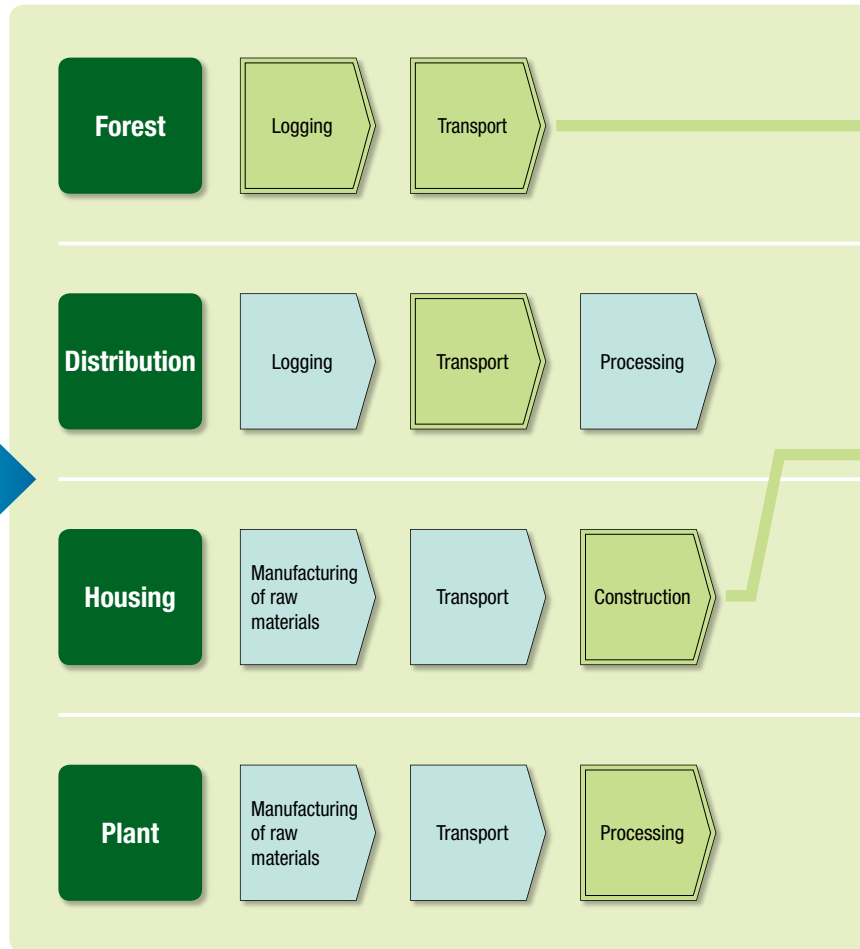
Around half of illegally dumped industrial waste is said to be construction waste. It is therefore essential that Sumitomo Forestry acts responsibly to promote appropriate methods of waste treatment. In fiscal 2006, we surveyed industrial waste treatment methods at all Group companies and promptly corrected any shortcomings observed in outsourcing contracts and manifest forms. We also sought to cultivate knowledge about proper industrial waste treatment through 24 study sessions held around the country, attended by 506 people. Sumitomo Forestry and affiliates formulated their industrial waste management regulations and made improvements to their management systems, and clarified the roles and responsibilities of related personnel. To improve compliance, we commenced a group-wide switch to electronic manifest forms. At the same time, we are trying to outsource waste treatment to only the best contractors. Sumitomo Forestry will continue to ensure proper treatment of industrial waste by implementing internal audits of industrial waste management and treatment conducted by individual divisions and companies, as well as inspections of treatment facilities.

Balance of Input & Output in Business Activities

In order to understand the environmental impact of business activities and to promote effective activities to reduce that impact, we calculate the input of resources and energy and the volume of emissions of CO₂ and waste according to the lifecycle of products in each business.

Environmental Impact of Business Activities

INPUT	
Energy	2,248,930GJ
Electricity	301,334 kWh
Gasoline	14,184 kL
Diesel	16,564 kL
Heating oil	246 kL
Heavy oil A	546 kL
LPG	106 t
Processed natural gas	120,162 Nm ³
Raw materials	2,056,079t
Wood	1,382,956 t
Metal	26,103 t
Plastic	12,005 t
Paper/fiber	3,971 t
Concrete	434,744 t
Glass/ceramic/non-combustible building materials	119,494 t
Paint	473 t
Adhesive	75,871 t
Other	462 t
Water	955,991t
Plant	732,928 t
Office	223,063 t



Life Cycle Assessments

For a company to be able to contribute to the realization of a sustainable society through environmentally-friendly business activities, it first has to be well aware of the primary issues affecting its own business. Therefore, the Sumitomo Forestry Group carries out life cycle assessments (LCA) to ascertain the environmental impact of all its business activities. LCA is a method of evaluating the overall environmental impact of a product throughout its lifecycle, from raw material procurement, manufacturing and transportation, to sale, usage, re-use and disposal.

In fiscal 2006, we set up the cross-functional LCA Technical Working Group. Under the guidance of Professor Nobuaki Hattori of the Graduate School of Tokyo University of Agriculture and Technology, the group researched analytical methods, obtained data on production volume to be used in analysis and undertook inventory analysis* of timber, timber products, housing, and factory-made products handled by the Sumitomo Forestry Group. Previous assessments had revealed considerable environmental impact in the timber product transport stage and the occupation stage of housing. We are now looking to raise the accuracy of analysis and enhance production volume, while also linking LCA findings to specific initiatives for reducing environmental impact as a way to measure our environmental conservation activities and contribute to developing a vision for the future.



Nobuaki Hattori

Professor
Graduate School
Tokyo University of Agriculture and
Technology

As a company involved in all facets of timber, I would like to congratulate the Sumitomo Forestry Group on making an all-out effort to evaluate environmental impact at all of its companies using LCA. The recent assessments on logs, wood materials and houses provided a good overview of the environmental impact of Sumitomo Forestry Group business activities. The overseas transport operations of distribution divisions and the occupation of wooden houses, which are a product of the housing business, each had a noticeable impact. Through feedback to divisions involved in such operations as materials procurement and basic housing design, the company should be able to offer products and services with a relatively low impact on the environment.

LCA initiatives have only just begun, but I would like to see the company make continual efforts to conduct comprehensive assessments that cover substances besides CO₂ (NO_x, SO_x, etc.) in its daily operations.

* Analysis of the input (energy, materials, etc.) and output (gas emissions, waste, etc.) involved in the lifecycle of a product from its manufacture to disposal.

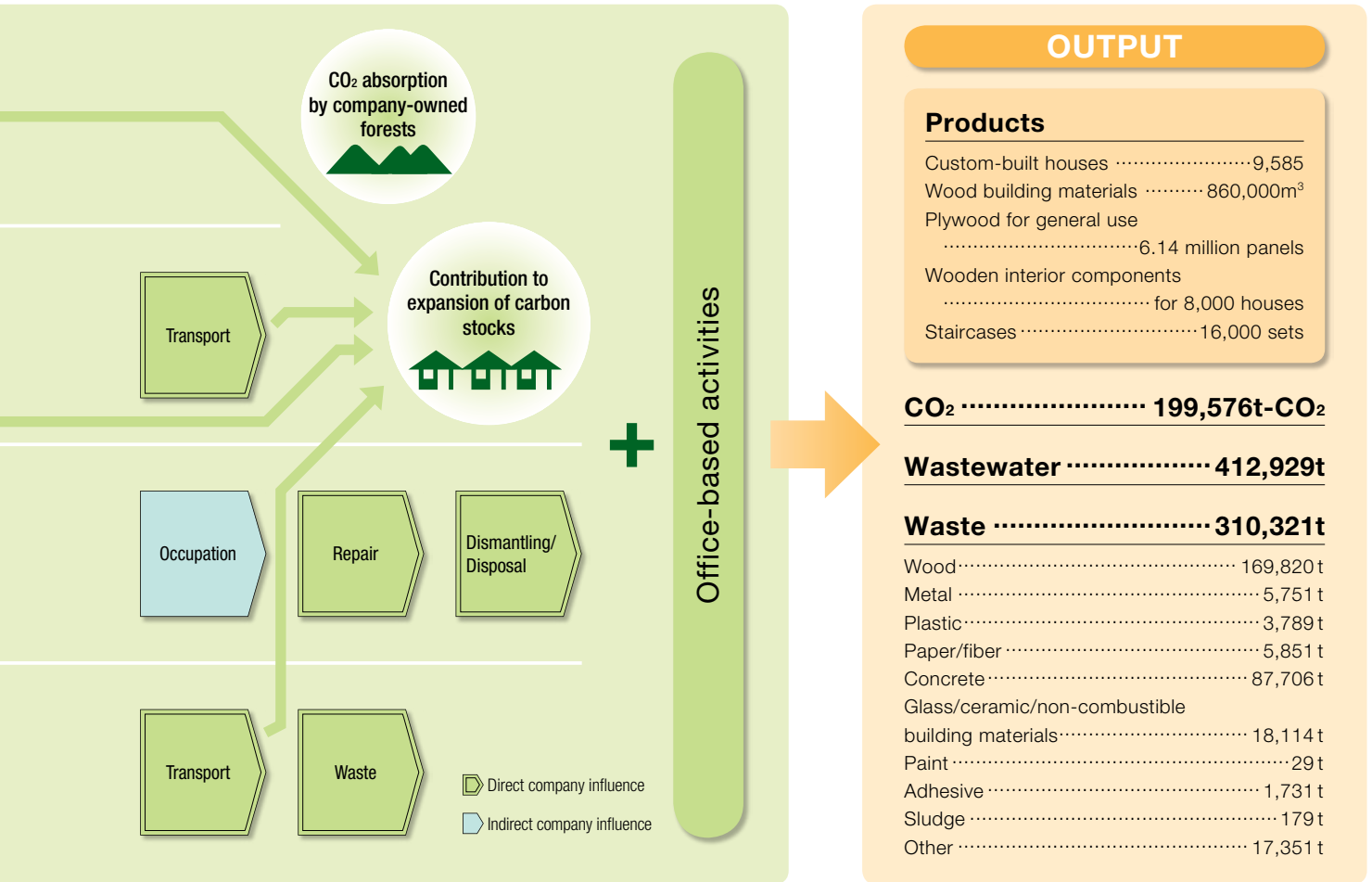
Data calculation

Input

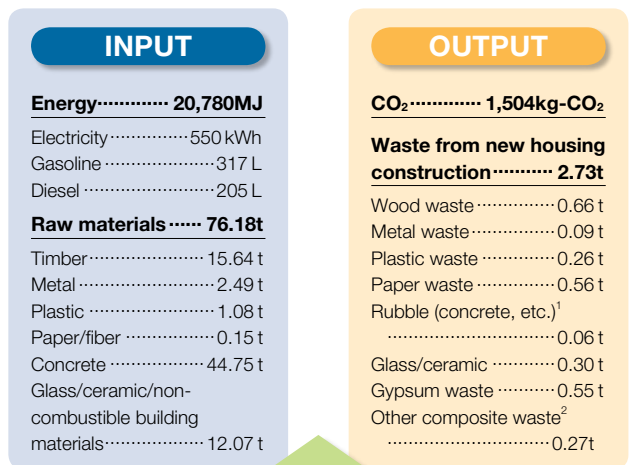
- Energy consumption values for office activities, production and other direct activities were tabulated for each energy category; values for on-site construction and other indirect activities were reached by multiplying the amount of energy consumed in a standard process by the number of construction projects.
- Raw material values for the housing business were calculated by tabulating the volume of each type of principal structural material used for one standard house (147.39m²) and multiplying by the number of houses completed.
- The volume of raw materials input at domestic and overseas plants was tabulated. Water consumption by offices was estimated from utilities expenses.

Output

- In the housing business, waste from demolition work and new housing construction was included. Manifest form values were used for demolition work waste, while the waste value from new housing construction was reached by multiplying the average of a sample (21 houses in fiscal 2006) by the number of new houses built.
 - For timber and building material production activities, the volume of waste disposed of by domestic and overseas plants was tabulated according to waste type.
- We will continue to review calculation procedures as we include other areas indirectly influenced besides those listed above, and other businesses. We are also aware that further improvements to accuracy need to be addressed.



Environmental Impact of Constructing a New House



- Rubble, concrete, asphalt concrete
- Other output, including inert composite waste, controlled composite waste, fiber, asbestos, etc.

Contribution to the Expansion of Carbon Stocks

Carbon stocks refer to stocks of CO₂ stored within the atmosphere, forests and the ocean that play a major role in global warming prevention. As trees grow, they absorb and retain CO₂ from the atmosphere. When mature trees are harvested and used as building material, the CO₂ contained in the trees is stored for a long time, which is why wooden housing is likened to building forests in the city. The Sumitomo Forestry Group handled approximately 3.84 million cubic meters of timber and wood building materials in fiscal 2006, 279,000m³ of which was timber used in housing construction. That is roughly equivalent to 2.41 million t-CO₂, or the amount of CO₂ emitted by 440,000 regular households each year. CO₂ absorption by company-owned forests was 237,000 t-CO₂.

Through the re-use and recycling of timber and by using timber procured from sustainably managed forests and promoting the construction of quality, long-lasting wooden houses and the use of wooden building materials, the Sumitomo Forestry Group will look to expand carbon stocks in the form of timber in the future, thereby helping to prevent global warming.

Stakeholder comment

What is the environmental impact of an average Sumitomo Forestry house? (Environmental NGO)

Environmental Activity Plans and Results

At Sumitomo Forestry, each division establishes key initiatives and annual goals. Overseas affiliates also launched initiatives in fiscal 2006 in line with environmental goals and implementation plans.

Outcome of Fiscal 2006 Activities

Individual divisions in the Sumitomo Forestry Group undertake activities for each fiscal year based on environmental budgets they have formulated to match their particular responsibilities. Environmental activities were pursued through a total of 377 initiatives in fiscal 2006, including 131 initiatives by Sumitomo Forestry on its own (up 36 year-on-year), 181 by affiliates within Japan (up 72), and 65 for overseas affiliates (commenced fiscal 2006). Administrative departments at Head Office, which had previously administered budgets separately, were incorporated into the framework this year along with newly established divisions.

Despite the increase in the number of organizations and initiatives, the success rate for fiscal 2006 activities was roughly the same as the previous year, proving consistency in our efforts. As was the case in fiscal 2005, energy went into initiatives linked to daily operations, which fostered greater involvement in environmental budget initiatives within each division. (Hidekazu Tanaka, Environmental Management Division)



Hidekazu Tanaka
General Manager
Environmental Management Division
(Environmental Controller)

Environmental goals and results

Sumitomo Forestry

☆☆: Target achieved ☆: Target almost achieved ×: Target not achieved

Priority	Division	Key Initiatives	FY2006 Plan	FY2006 Results	Evaluation	FY2007 Plan
Prevention of global warming	Entire Group	Reduction of CO ₂ emissions	Reduce CO ₂ emissions per sales unit by 2% compared to FY2004; continue activities to spur CO ₂ emission reductions such as promoting "Cool Biz" initiatives and encouraging a switch to eco-cars*	Achieved 20.3% reduction compared to FY2004 due to large increase in sales from business merger, etc.	☆☆	Review CO ₂ emissions reduction targets and set new targets
	Forestry & Environment Headquarters	Continuation of sustainable company-owned forest management	Implement 8th Forest Management Plan (acquire certification for company-owned forests; introduce small-area clearcutting to certain plantations)	Acquired SGEC forestry certification for all company-owned forests in September and carried out small-area clearcutting; fell short of some thinning targets	☆	Maintain SGEC forestry certification and supply/promote use of timber from certified forests
	Timber & Building Materials Business Headquarters	Promotion of waste wood as biomass energy resource	Increase volume by tapping new sources (including bark and green wood); develop new sources	Developed new suppliers, handling 349,000m ³ , thereby attaining target	☆☆	Increase volume, introducing currently unused wood types (green wood, tree prunings, etc.)
	Housing Business Headquarters	Reduction of CO ₂ emissions in houses during the occupation stage	Increase provision of houses conforming to next-generation energy conservation standards (80% of orders)	Attained an 89% order ratio for houses conforming to next-generation energy conservation standards, better than 80% target	☆☆	Further increase provision of houses conforming to next-generation energy conservation standards
Waste reduction	Timber & Building Materials Business Headquarters	Recycling of wood waste	Increase volume of wood chips used in paper-making and fiberboard	Achieved 170,500m ³ , falling slightly short of target (188,000m ³)	☆	Increase volume of demolition wood chips handled for paper-making and fiberboard (continued)
	Housing Business Headquarters	Improvement of recycling rate for specific construction materials	Launch initiatives aimed at achieving zero emissions	Defined zero emissions as part of headquarters role	☆☆	Explore specific measures and a timeline for achieving zero emissions
	Real Estate Business Headquarters	Reduction of waste from reinforced concrete (RC) structures	Make efforts to reduce volume of waste per floor area (continued)	Achieved 0.08m ³ /m ² over the entire fiscal year, thereby attaining target	☆☆	Make efforts to reduce 0.08m ³ /m ² of waste per floor area (continued)
	Housing Business Headquarters	Reduction of waste (wooden apartment buildings)	Make efforts to reduce volume of waste per floor area (continued)	Achieved 0.15m ³ /m ² over the entire fiscal year, falling short of target	☆	To be pursued by Housing Business Headquarters following organizational changes
Green procurement	Timber & Building Materials Business Headquarters	Increasing handling of products and raw lumber that use sustainable forest resources	Increase handling of NPIL products, which bear the "wood-based board environmental declaration and recycling mark" of the Japan Fiberboard and Particleboard Manufacturers Association (continued)	Target increase achieved	☆☆	Integrate into target for plantation timber products
			Increase handling of conifer and broadleaf plantation timber and plantation timber plywood (continued)	Fell short of target due to variance in volumes of plantation timber plywood between regions	☆	Increase handling of plantation timber plywood (continued)
	Housing Business Headquarters	Compliance of materials procurement with procurement standards	Ensure current manufacturers comply 90% with green procurement corporate evaluation requirements	Achieved 90% compliance ratio	☆☆	Ensure current manufacturers comply 95% with green procurement corporate evaluation requirements (continued)
Enhancement of communication	Timber & Building Materials Business Headquarters	Promotion of internal and external environmental information activities	Promote environmental communication in-house and externally	Initiatives advanced by each division, but fell short of some targets; environmental education implemented through internal sales meetings and environmental information shared through meetings and correspondence with business partners	☆	Continue efforts to promote internal and external environmental communication

* Eco-car: A low emissions vehicle that produces little or no CO₂ or NO_x, substances that cause global warming and atmospheric pollution. Current eco-cars include electric vehicles, CNG vehicles, hybrid vehicles and fuel-cell vehicles.

Initiatives at Affiliates—Sumitomo Forestry Crest

In fiscal 2006, we managed to implement our environmental management plan mostly as planned. To promote effective utilization of energy at the Shizuoka and Kashima plants, we halted simple incineration and introduced incinerators with heat transfer and boiler functions, which are used as heat sources for air-conditioning systems and paint drying rooms. At the Komatsushima Plant, bark-peeling machines and steam chambers have been installed, enabling effective utilization of 6,000m³ of Japanese cedar each month. Electronic manifest forms were also introduced in April 2007 to promote proper treatment of industrial waste. Furthermore, we have been trying to raise employee awareness through environmental education, industrial waste management education and presentations on green procurement at each plant. As we strive to achieve further reductions in environmental impact, we will look to upgrade or introduce new environmental facilities at our four plants (Katsuhiko Hagio, Sumitomo Forestry Crest)



Katsuhiko Hagio
General Manager
Business Reform Promotion Division
Sumitomo Forestry Crest

Affiliates (Japan)

Priority	Company	Key Initiatives	FY2006 Plan	FY2006 Results	Evaluation	FY2007 Plan
Prevention of global warming	Sumitomo Forestry Two-By-Four Homes	Reduction of CO ₂ emissions in houses at the occupation stage	Modify order target to focus on houses using external thermal insulation and continue to promote energy-efficient houses	Achieved 75% over the entire fiscal year	☆	Aim to receive 80% of housing orders for houses using external thermal insulation (continued)
	Sumitomo Forestry Landscaping	Promotion of tree planting	Promote tree planting, using ratios of the quantity (target: 32%) and value of tree planting (target: 4.6%) as indicators (continued)	32% tree planting quantity ratio (= no. of tree planting cases ÷ no. of completed houses); target attained 2.9% tree planting expense ratio (= expense of tree planting ÷ value of completed houses); fell short of target	☆☆ ×	Continue initiative using the same indicator (2% target increase over fiscal 2006) Continue initiative, aiming for 2% increase in the value of tree planting
Waste reduction	Sumitomo Forestry Crest	Reduction of simple incineration / landfill disposal of industrial waste generated at each plant	Set targets and investigate concrete measures to reduce waste at each plant	Zero emissions were achieved at the Kashima Plant; at other facilities, waste plastic and other waste that previously underwent industrial treatment and disposal was sold as a recyclable resource	☆☆	Continue initiative
Reduction of harmful substances	Sumitomo Forestry Crest	Reduction of use of paint containing toluene, xylene or styrene	Install solvent recovery devices at the Kashima and Nihama plants and reduce waste paint	Attained reduction target (10,000 liters/year (approx. ¥2 million) of paint solvent at two plants)	☆☆	Conduct soil investigation within factory premises (Kashima Plant)
Reduction of environmental impact of office activities	Sumitomo Forestry Home Service	Beautification activities (independent evaluations)	Target: an average 19 points across all offices	Achieved an average 18.72 points across all offices	☆☆	Target: an average 20 points across all offices
Waste reduction	Sumitomo Forestry Home Service	Increasing the number of brokerage cases	Aim for a total of 2,800 brokerage cases for condominiums and detached houses	Attained a total of 2,799 cases	☆☆	Continue initiative Target: 2,900 cases
Social Contribution	Sumitomo Forestry Crest	Participation in community-run activities Participation in "Millennium Forest" afforestation program in Tokushima Prefecture	Aim for participation by 40 volunteers over 3 events (continued)	34 volunteers participated in 4 events; also, a total of 16 volunteers participated in community-run beach cleanup activities on 3 occasions	☆☆	Participate in 3 supplementary planting or clearing activities; Participate in community cleanup activities

Affiliates (Overseas)

Priority	Company	Key Initiatives	2006 Plan	2006 Results	Evaluation	2007 Plan
Prevention of global warming	RPI	Promotion of afforestation	Aim to plant 700,000 trees	Planted approx. 450,000 trees over the entire fiscal year (planting season (rainy season) arrived late, therefore work will carry on into following year)	×	Continue afforestation activities Target: 820,000 trees
		Reduction of diesel usage	Operation of biomass boiler	Operation commenced February 2006	☆☆	Establish biomass power generation facility
Waste reduction	KTI	Promotion of afforestation	Aim to plant 1,400,000 trees	Fell short of planting target as rainy season arrived late	☆	Continue afforestation activity; aim to plant 2.5 million trees
	NPIL	Reduction of water usage for wood chip washing	Explore reduction measures	Commenced monitoring of water usage for washing after installing monitoring equipment	☆☆	New initiative: Measure noise levels as part of measures to reduce inconvenience to local residents
Reduction of harmful substances	ASTI	Reduction of waste (focus on use of recycled materials)	Aim for 20% inclusion of crushed plastic	Used 20% crushed plastic over course of year	☆☆	Continue initiative
	ALPINE	Sales promotion of environmentally-friendly products	Aim for 10,000m ³ sales volume for environmentally-friendly products	Fell short of target	×	New initiative: Examine indicators for the reduction of waste packing materials

Conservation and Effective Forest Resource Utilization

Sumitomo Forestry is promoting sustainable utilization of forest resources both in Japan and around the world through the afforestation projects and the acquisition of forestry certification. We are also attempting to revitalize Japan's forestry industry through the proactive use of domestic timber.

Forests Today and the Role of Sumitomo Forestry

The depletion and devastation of forests has become a global issue. As a user of timber and owner of vast tracts of company-owned forests, Sumitomo Forestry is expected to play a major role in forest preservation. We are applying the forest management expertise we have so far acquired to forest preservation activities in Japan and overseas in order to ensure the availability of forest resources well into the future.

Tree and Wood Related R&D

Due to its involvement with trees and wood, Sumitomo Forestry is conducting research and development activities with the goal of utilizing trees in a broad capacity. Japanese people know about the benefits of wood through experience, but many of those benefits have not been scientifically proven. We believe it is our job to provide scientific clarification of the potential of wood. Therefore, we conduct R&D related to trees and wood at all stages, from the forest to the finished timber product. Activities cover plantation tree breeding and cultivation methods, application of new methods of wood material processing, housing applications, specific application proposals for differing species, and bringing out the best in wood to create safe, secure and comfortable living spaces. (Masahiro Minoura, Tsukuba Research Institute)

Policy on Biodiversity Preservation in Company-Owned Forests

Sumitomo Forestry has always taken the natural environment into account in its management of company-owned forests. In September 2006, a new basic policy regarding the preservation of biological diversity was incorporated into the forest management framework. In our Shikoku forests, we are working with local government bodies and other organizations to protect the alpine plant, *tsugazakura* (*Phyllodoce nipponica*)*, which grows there. Throughout the country, we collect data on rare species in regions in which our forests are located, based on official information provided by prefectural governments. This is compiled into our own *Red Data Book*, which is then distributed and explained to site representatives and workers to make them more aware of the importance of protecting rare species. In addition to these educational activities, we are in the process of creating an operations manual. This involves researching methods for preserving forests adjacent to rivers and lakes, which are believed to possess a high degree of biodiversity.

Stakeholder comment I would like you to disclose a definitive policy on biodiversity preservation along with related measures. (Environmental NGO)



Niihama, where Sumitomo Forestry originated



Masahiro Minoura
Deputy General Manager
Tsukuba Research Institute

● Policy on biodiversity preservation in company-owned forests

1. Diversity of ecosystems

We shall properly manage strictly protected areas designated under the Natural Parks Law and other legislation in a manner stipulated by the law. In other areas, we shall ensure continuity of forests by limiting the area of forest harvested, particularly when clearcutting is conducted.

2. Diversity of species

We will work to prevent a decline in the number of species existing in natural forests by refraining from expansive planting projects and other extreme activities involving the replacement of species that would have a major impact on existing ecosystems. We will also give the utmost consideration to the protection of rare flora and fauna in all operations, making reference to the *Red Data Book*.

3. Genetic diversity

Genetic variation and the maintenance of populations to support them will become issues in the future. However, analysis is complicated and therefore we shall closely watch monitoring activities carried out by government and public institutions and their findings.

* Designated as a protected species by Ehime Prefecture. Shikoku's Akaishi Range is said to be their southern limit in Japan.

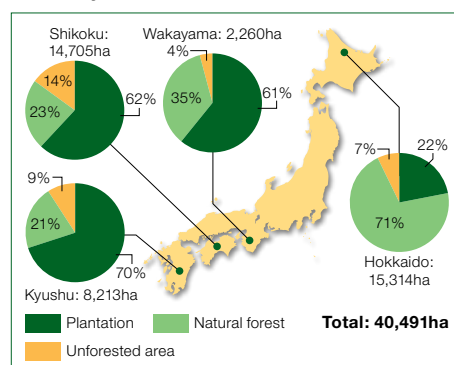
Forest Conservation in Japan

Management of Company-Owned Forests

Sumitomo Forestry pursues sustainable management of all company-owned forests, which are located in Hokkaido, Shikoku, Kyushu and Wakayama and cover a total of 40,491 hectares (about one thousandth of Japan's land area). Small-area clearcutting methods have been adopted to enable efficient felling of trees ready for harvesting, allow forestry skills to be passed down to younger generations, and to increase the amount of CO₂ absorbed through forest revitalization. In September 2006, we acquired Sustainable Green Ecosystem Council (SGEC) forestry certification, meaning our forest management has been approved by an independent body.

Stakeholder comment As an industry leader, I would like you to clarify the issues and action that needs to be taken. (Environmental NGO)

● Distribution and area covered by Sumitomo Forestry-owned forests



Utilization of Japanese Timber

Working with government on domestic timber promotion

Sumitomo Forestry Timberland Management responded to a Forestry Agency call for participants in a “new production system” to promote the utilization and stable supply of domestic timber. The company was selected as a participant in April 2006. The purpose of the system, pursued over five years from fiscal 2006, is to build up timber supply chains, find ways to cut costs for privately-owned forests and develop a steady timber supply. Eleven areas around the country were designated model areas, with Sumitomo Forestry Timberland Management providing consulting services to operations in the Shikoku area, helping to boost distribution of domestic timber.

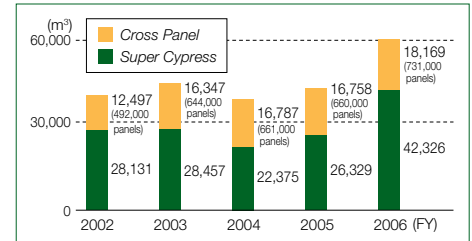
Utilization of domestic timber in houses

Sumitomo Forestry maintains a policy of actively using domestic timber in housing and is undertaking initiatives accordingly. The domestic timber ratio (of principal structural members) for houses sold by Sumitomo Forestry was 51% as of the end of fiscal 2006 and our goal is to raise that to 70% by fiscal 2008. *MyForest* detached homes constructed specially for the Hokkaido market use 100% Hokkaido-produced timber for all principal structural members.

We hope to raise the domestic timber ratio further by increasing the use of domestic timber for plywood roof sheathing and studs.

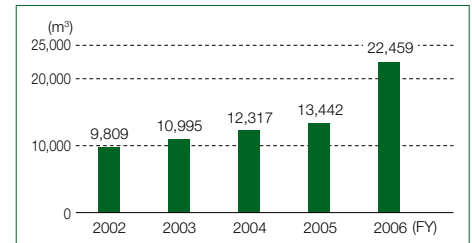
Stakeholder comment I would like to see you take the lead in promoting use of domestic timber. (Architect)

• Super Cypress and Cross Panel usage (Housing Business Headquarters)



Sumitomo Forestry is proactive in utilizing domestic timber. *Super Cypress* is a structural laminate made from domestic cypress, and *Cross Panels* are load-bearing wall panels made from Japanese cedar and Japanese larch.

• Volume of MIZDAS®-dried wood (Timber & Building Materials Business Headquarters)



MIZDAS®-dried wood is high-quality timber that has been dried using Sumitomo Forestry's proprietary new drying technology (patent no. JP3361312). The company offers technological guidance to domestic timber mills around Japan in efforts to promote the use of structural timber products made from Japanese cedar or other domestic timber.

Overseas Forest Preservation

Overseas affiliates are engaged in afforestation efforts to ensure a stable supply of logs, protect natural forests and contribute to local economic growth. KTI (Indonesia) planted 1,129 hectares, RPI (Indonesia) 282 hectares, and NPIL (New Zealand) 104 hectares of forest in 2006.

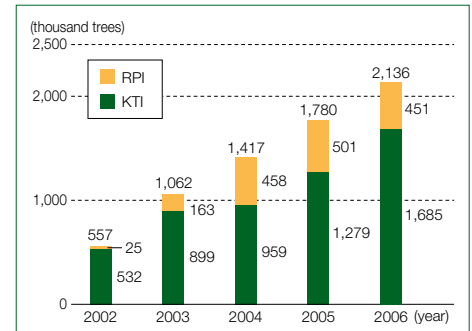
Contribution to Development of Local Communities

Afforestation projects are pursued with the cooperation of local residents so that residents themselves benefit from those efforts. For example, KTI in Indonesia distributes seedlings to local residents free of charge for them to plant and then sell back to the company six to seven years later when the trees are ready for harvesting. This program was launched in 2003, with 548 hectares of forest now planted. We plan to apply this form of “social forestry” in other countries too in the future.

Promoting Use of Timber from Sustainable Forests

Sumitomo Forestry procures timber from forests all over the world. To promote sustainable management of those forests, the company's Wood Products Trading Division and Building Materials Division acquired Forest Stewardship Council (FSC) Chain-of-Custody (CoC) certification in fiscal 2006, having put in place systems for prioritizing timber certified as being sustainable and legally compliant. Our contribution to the protection of overseas forests will continue as we encourage our sales partners to acquire similar certification. (Toshiki Ishikawa, Wood Products Trading Division)

• Afforestation in Indonesia



Toshiki Ishikawa

Manager
Panel Group
Wood Products Trading Division
Timber & Building Materials Business Headquarters

Global Warming Prevention Activities

As global warming becomes an increasingly critical issue, we face the urgent task of reducing CO₂ emissions. Sumitomo Forestry will strive to reduce CO₂ emissions generated by business activities and customer households, and help to absorb atmospheric CO₂ by properly maintaining its forests.

Global Warming and the Role of Sumitomo Forestry

Global CO₂ emissions continue to rise. The Intergovernmental Panel on Climate Change (IPCC) *Fourth Assessment Report* states that the rise in greenhouse gases due to human activity has almost certainly led to global warming, and predicts that the Earth's average air temperature at the end of the 21st century will have risen by up to 6.4°C compared to 1980-1999 levels. Time is running out for countries to achieve CO₂ reduction targets as stipulated for the first commitment period under the Kyoto Protocol. Japan is required to reduce emissions by 6%, but instead emissions had increased 8% as of fiscal 2005. Concrete action needs to be taken.

In addition to efforts to reduce CO₂ emissions generated by business activities, Sumitomo Forestry is helping to absorb CO₂ through the promotion of domestic timber usage and proper management of forests.

Around 13% of all Japan's CO₂ emissions actually come from households and emissions from this source are increasing all the time. Sumitomo Forestry, as a housing provider, accepts it bears a major responsibility. (Ryo Soda, Environmental Management Division)



Ryo Soda
Team Manager
Environmental Management Division
Forestry & Environment Headquarters

Reducing the Global Warming Effect of Business Activities

Sales rose dramatically in fiscal 2006 as a result of a business merger, allowing the Sumitomo Forestry Group to easily exceed its overall target reduction per sales unit. The reduction achieved was 15.2% compared to the previous year. Efforts were made, as explained below, to reduce the actual volume of CO₂ emissions from plants and offices, but the Group emitted a total 199,576 tons of CO₂ in fiscal 2006, a 7.2% increase from the previous year.

Reduction of CO₂ Emissions at Plants

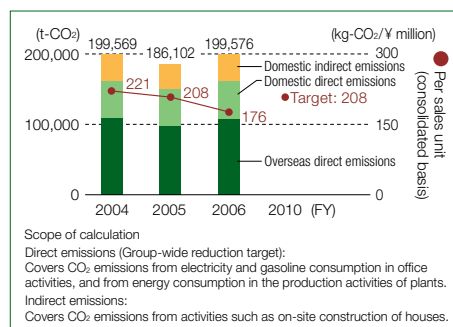
New Zealand's Nelson Pine Industries (NPIL) manufactures medium density fiberboard (MDF) using radiata pine plantation timber. Annual production is about 370,000m³. In 2005, the company managed an 8,600-ton reduction in CO₂ emissions by switching from coal to wood waste as a heat source for drying timber. In 2006, improvements were made to equipment for processing wood chips, the raw material used in MDF manufacturing, into fiber. Power consumption fell 10%, contributing to an additional CO₂ reduction of around 5% compared to 2005.

Indonesia's Rimba Partikel Indonesia (RPI) manufactures particleboard from plantation and other timber. In 2006, the company switched the fuel source of some of its facilities from diesel to wood biomass, resulting in a CO₂ emissions reduction of approximately 16% compared to 2005.

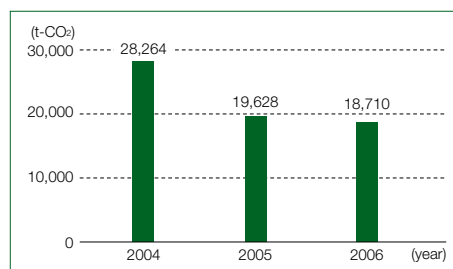
Reduction of CO₂ Emissions at Offices—Sumirin Base Techno

The Eastern Japan Business Division of Sumirin Base Techno, which undertakes ground improvement and foundation work for "Sumitomo Forestry's Home" houses, achieved an approximate 30% reduction in gasoline consumption compared to the previous year by replacing half its company vehicles with fuel-efficient "eco-cars" at the end of the lease term, encouraging driving at fuel-efficient speeds, and moderate air-conditioning temperature settings in summer and winter. As a result, CO₂ emissions fell around 19% in fiscal 2006 to 240 tons of CO₂ from 298 tons of CO₂ the previous year.

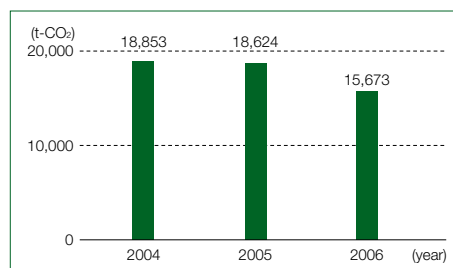
CO₂ emissions from business activities



Trend in CO₂ emissions from NPIL



Trend in CO₂ emissions from RPI



Reducing the Global Warming Effect of Households

Reducing Energy Usage through *Ryouonbou* Natural Heating and Cooling

We know that a lot of the energy generated by households throughout their lifecycle, up to 70-80%, is consumed in the occupation stage. Energy consumption during occupation therefore has to be curbed through means such as the utilization of natural energy. Sumitomo Forestry provides houses that offer comfortable living but manages to reduce energy consumption through its *Ryouonbou* design concept, which draws upon the wisdom and techniques used in traditional Japanese houses.

Ryouonbou is based upon the concepts of “*Kaze no Sekkei*,” for creating a cool environment in summer, by blocking out the sun and alleviating heat by creating channels for airflow; and “*Taiyo no Sekkei*,” for providing warmth in winter by letting in sunlight and retaining heat. *Kaze no Sekkei* incorporates the use of skylights that open to provide passages for airflow and wide eaves to block out the sun. *Taiyo no Sekkei* includes the installation of large south-facing windows to let in light, as well as the enhancement of insulation and airtightness to prevent heat from escaping. Customers also have the opportunity to get a feel for the sunlight conditions of their house in the design stage through sunlight simulations that also take into consideration the effect of neighboring buildings. According to design calculations incorporating the *Ryouonbou* concept enables a Sumitomo Forestry house to generate approximately 20% less CO₂ emissions during the occupation stage than a regular house conforming to next-generation energy conservation standards.

In order to promote the application of the *Ryouonbou* approach, we have our designers experience firsthand a *Ryouonbou* designed house so they can learn more about the concept. They stay overnight at our Tsukuba Research Institute in an experimental environmentally-symbiotic home that has incorporated the *Ryouonbou* concept. This allows them to experience the benefits for themselves, which is not possible simply by observing manuals and data. There were 11 participants in fiscal 2006. (Tatsuo Ohsaka, Technology Division)

Stakeholder comment I would like to know about the extent of *Ryouonbou* designed houses and customer response. (Environmental NGO)

Employing Next-Generation Energy Conservation Standards

The Japanese government has established energy conservation standards to help reduce energy usage in houses. Sumitomo Forestry has employed next-generation energy standards for housing specifications since fiscal 2005. The standards prescribe the highest level of insulation efficiency. In fiscal 2006, next-generation energy conservation standards were used in 89.5% of specifications. These standards correspond to the highest energy-saving capability (level 4) under the Housing Performance Indication System.

We are also working to achieve reductions in energy usage by recommending special household equipment such as energy-efficient heat pump hot water systems and efficient air-conditioning systems to customers.

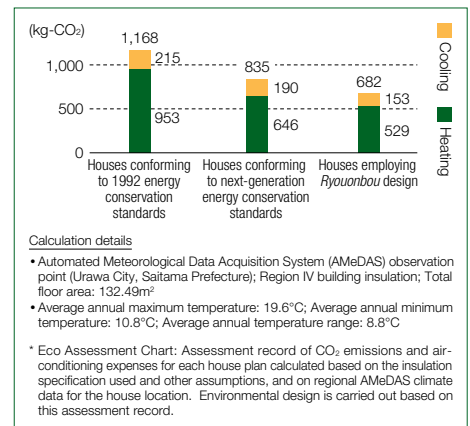
Utilization of Solar Power Systems

Sumitomo Forestry has supplied houses with a low environmental impact through CO₂-absorbing wooden houses and its *Ryouonbou* concept, which removes over-reliance on heating and cooling systems. We will also promote the use of solar power systems in new houses as a way to reduce the environmental impact of housing even further.



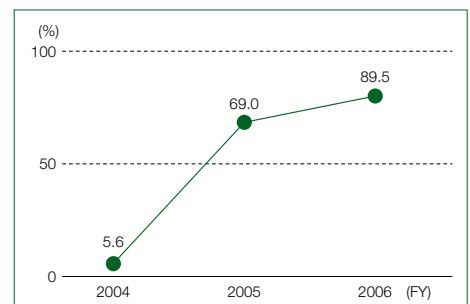
Tatsuo Ohsaka
Manager
Technology Division
Housing Business Headquarters

Comparison of CO₂ emissions from houses using Eco Assessment Charts*



Sunlight simulation is used in design

Percentage of houses conforming to next-generation energy conservation standards



Effective Resource Utilization and Waste Reduction

Many resources go into building a house and we must therefore try to reduce the usage volume and carry out recycling of those resources. Sumitomo Forestry is taking steps towards using more and more recycled materials in its houses and achieving zero emissions of waste from plants and new housing construction sites.

Policy on Resources

Building a house requires an enormous amount of resources. Around 76.2 tons of resources are used for the principal structural members and materials for one house (with 147m² total floor area). We believe we must try to reduce the volume of resources used and pursue greater recycling. The use of recyclable resources, careful sorting of waste from construction and demolition sites, and utilization of recycled crushed stone and other recycled products are the type of definitive initiatives we need to apply to all materials in order to complete the recycling cycle. (Katsuhiko Fujita, Environmental Safety Division)



Katsuhiko Fujita
Team Manager
Environmental Safety Division
Housing Business Headquarters

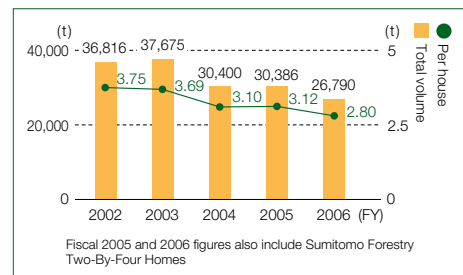
Zero Emissions Initiatives

To advance the recycling of resources, we have commenced initiatives targeting zero emissions of all industrial waste generated at production plants and new housing construction sites. A working group was set up within the Housing Business Headquarters in fiscal 2006. In fiscal 2007, all divisions, including affiliates, commenced initiatives based on the 3Rs—reduce, reuse and recycle. Our aim is to achieve zero emissions by the end of March 2010.

Zero emissions achieved at Sumitomo Forestry Crest's Kashima Plant

The Kashima Plant of Sumitomo Forestry Crest, which manufactures stairs, floors and other interior fittings, commenced zero emissions initiatives in fiscal 2003, earlier than any other Sumitomo Forestry Group company. The company attained the zero emissions goal in December 2006, having implemented careful sorting of waste, established channels for facilitating recycling of resources, and installed solvent recovery systems for recovering paint thinner. A reduction in heating oil consumption was also achieved by employing heat from waste incineration as a heat source for plant heating systems and drying rooms. The company must now maintain its zero emissions status and try to further reduce the environmental impact of its recycling activities. (Tomohiro Ohwaki, Kashima Plant of Sumitomo Forestry Crest)

Volume of industrial waste from new detached housing construction



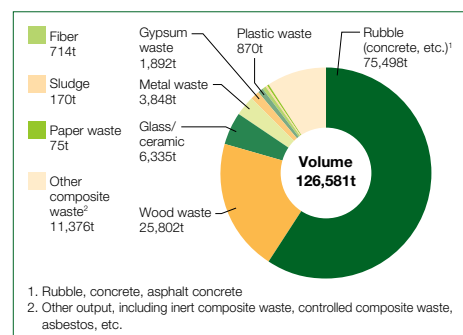
Tomohiro Ohwaki
Senior Staff
Kashima Plant
Sumitomo Forestry Crest

Stakeholder comment Are you going to make zero emissions of waste from new housing construction a goal of yours? (Environmental NGO)

Proper Handling of Demolition Waste

During the process of new housing construction, Sumitomo Forestry carried out demolition of 2,979 old houses during the year, generating 126,581 tons of waste. The company believes it should recycle this waste and has been trying to improve recycling processes since before the enactment of the Construction Materials Recycling Act through careful dismantling and sorting, and separate disposal of waste. Concrete and metals are almost 100% recycled, and so far wood waste is 97% recycled. However, we are still without effective methods for recycling tiles, glass, ceramics, gypsum board and composite materials, making the development of recycling routes one of our main challenges.

Breakdown of demolition waste volume



Promotion of Environmental Business

Sumitomo Forestry is employing the technology and experience it has amassed over the years in relation to trees and forests to develop the company's environmental business, believing the expertise should be employed broadly in the public domain.

Eco-Asset Service— Consultation on Using Corporate Green Zones in CSR Activity

Since 2004, Sumitomo Forestry Landscaping, together with InterRisk Research Institute & Consulting, Kajima Corporation and Kokusai Kogyo has been operating the Eco-Asset consulting business, which offers advice on the use of corporate green zones as a means to fulfill corporate social responsibility (CSR). The business involves making recommendations to companies that have a high interest in CSR activities and environmental issues on how to make the best use of green zones at plants and on rooftops or walls of office buildings, as well as recreational facilities and other company-owned green spaces or forests.

In fiscal 2006, Daido Steel Co., Ltd. consulted Eco-Asset about utilizing company-owned land in Hamatonbetsu, Hokkaido, for environmental education and local revitalization projects. Services provided included eco-monitoring and surveys on natural resource potential.



Omurozakura cherry blossoms in the grounds of Ninna-ji Temple

Ninna-ji Temple Omurozakura Research Project

Omurozakura is the collective name for the dozen or so varieties of cherry tree found inside the Ninna-ji Temple compound in Kyoto. A distinctive feature is that they grow no taller than a person. As Omurozakura growth has started to wane in recent years due to global warming and other effects, growth surveys, soil and root system surveys, clone propagation and DNA analyses were carried out to shed some light on the weak growth and hopefully lead to appropriate ways to manage and cultivate the trees. We plan to conduct related research over a period of three to five years through the Omurozakura Research Project, which we formed together with local government bodies and Chiba University in April 2007.



A joint research project was formed with local government bodies and Chiba University

Environmental Conservation in the Office

Sumitomo Forestry is trying to reduce the environmental impact of office work through initiatives centering on green purchasing, reduction of paper usage and reduction of power consumption. New green purchasing guidelines have also been established.

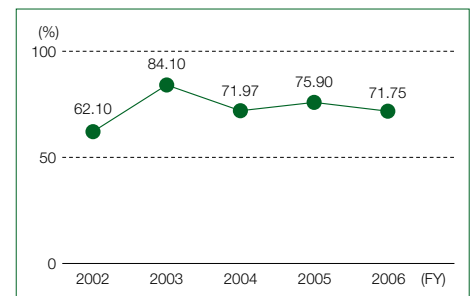
Promotion of Green Purchasing

Sumitomo Forestry has been promoting greater use of green purchasing for some time in order to prioritize products with a low environmental impact. Office Product and Company Vehicle Purchasing Guidelines were established in August 2006 as a clear set of standards. When purchasing stationery and office equipment, we make sure to buy products compliant with the Green Purchasing Law and products featuring the Eco Mark. Company vehicles are purchased based on a stricter set of standards we established in response to fiscal 2006 revisions to the auto-related "green tax" scheme. Priority is given to low-emission and fuel-efficient vehicles.

Participation in Team -6%

Sumitomo Forestry is a participant in the Japanese government-led greenhouse gas reduction campaign, "Team -6%," and is actively promoting "Cool Biz" and "Warm Biz" dress codes among employees. A questionnaire conducted at the end of the Cool Biz season revealed an average 4-6% reduction in power consumption at around 30% of sales offices, demonstrating the success of the initiative in reducing CO₂ emissions.

• Green purchasing rate at Head Office



Initiatives at Overseas Affiliates

Sumitomo Forestry's overseas affiliates know how important it is to build solid relationships of trust with local communities. We want to make an ongoing contribution to the development of local communities through greater employment, assistance in times of disaster and support for child education.

Human Resource Development at Overseas Affiliates

From the very establishment of an overseas facility, we make an effort to develop local human resources, recruiting as many people as possible, including managers, from the local resource pool, in order to promote local economic development and the transfer of technology. As a result, 99% of our employees at Kutai Timber Indonesia (KTI) are hired locally.

In 2005, Indonesian affiliates introduced study trips to Japan for managers. The week of training includes tours of plants belonging to Sumitomo Forestry Group companies and business partners, and visits to such facilities as model homes and the Tsukuba Research Institute. The objective, in addition to having managers learn about issues and improvements applicable to their own companies, is to foster greater understanding of the Group as a whole.

Overseas Afforestation Consultancy

Sumitomo Forestry has been asked to provide consulting services, from planning to planting, for the environmental afforestation project being pursued by Mitsui Sumitomo Insurance Co., Ltd. over the six years commencing 2005. Drawing upon the know-how we have so far developed through tropical forest regeneration, we are helping to regenerate around 300 hectares of forest within the Paliyan Wildlife Sanctuary, located in the Yogyakarta Special Region on the island of Java, Indonesia, which has been devastated by illegal logging. Through the planting of tall tree species native to Java Island, as well as fruit trees that will be of economic assistance to local residents, the project aims to regenerate tropical forests that will be high in biodiversity and contribute to the local economy.



Forest regeneration within the Paliyan Wildlife Sanctuary

Assistance for Victims of the May 2006 Java Earthquake

The Sumitomo Forestry Group companies in Japan responded to the May 2006 earthquake in central Java, Indonesia, with a total ¥10 million in relief funds. Group companies operating locally provided direct assistance to victims with food and material provisions, and supported the recovery efforts of schools and public organizations by giving away their plywood inventories. Sumitomo Forestry employees also made individual donations.

Sumitomo Forestry has one of the longest histories among foreign companies operating in Indonesia and presently has three affiliates and one sales office located on the disaster-afflicted Java Island. Fortunately, few of the facilities and employees involved in our operations were directly affected by the earthquake, but we wished to offer assistance to the people living on an island with which we have strong ties.

• Destination of donations

Donations by Group companies in Japan (total: ¥10 million)

- Sri Sultan Hamengkubuwono X, governor of Indonesia's Yogyakarta Special Region
- UNICEF Japan
- Japan Red Cross Society
- Japan Indonesia Association Inc.
- Nippon Keidanren (May 2006 Java earthquake relief fund)

Donations by employees (total: ¥7 million)

- Japan Platform

KTI Educational Foundation

To commemorate the 30th anniversary of its founding, our Indonesian Group company, Kutai Timber Indonesia (KTI), established the KTI Educational Foundation in 2000 for providing scholarships to elementary and middle school students living in the vicinity of the KTI factory and plantations. In 2006, the foundation provided approximately 62.5 million rupiah to 84 elementary and 30 middle school students, and 1 high school student. Contributions were also made in the form of donations for flood relief.



These students received KTI Educational Foundation assistance

Third Party Evaluation

We asked Toshihiko Goto, Chief Executive of Sustainability Forum Japan (the former Global Reporting Initiative Forum Japan) for his comments on this report.



Toshihiko Goto

Chief Executive
Sustainability Forum Japan;
Chief Executive
Social Investment Forum Japan;
Chair, Environmental Auditing Research
Group (EARG)

The world has been changing dramatically in recent times and leaders responded in June 2006 to the first real threat to the survival of the human species since the emergence of modern man some 200,000 years ago. The G8 summit of world leaders recognized that failure to halve the volume of greenhouse gases generated by human activity by 2050 could prove to be the downfall of the human race. It is now inevitable that Japan will be asked to cut emissions by 80-90%. This means that Japan's economic and social systems will need to undergo fundamental reform. The crucial period for this battle will be 10-15 years from now.

Sumitomo Forestry has just recently announced its 10-year Long-Term Management Plan, a rare undertaking for a Japanese corporation. That base should make it easier to respond to the aforementioned threat. Another advantage is the ability to quickly formulate management plans using a "backcasting" approach, supported by a clear vision of what Sumitomo Forestry will be like in 2020, as envisaged by employees participating in "Team 2020." I expect the company to formulate and announce policy and measures ahead of other companies. It may be necessary to quantify CO₂ reductions achieved through initiatives already in place such as the provision of long-lasting buildings and reductions in "wood mileage" due to the use of domestic timber.

It is great to see "caring for families" in the top management commitment. In reader surveys for CSR reports which I have been involved in, information on balancing work and personal lives has remained the number one item for the last seven years that readers want disclosed. But other surveys overwhelmingly demonstrate a low level of awareness on behalf of corporations about the need for disclosure, evidence of a gap between this awareness and reader expectations. Readers can identify best with messages put forward by top management.

I praise very highly Sumitomo Forestry's new range of initiatives relating to biological diversity, which complement efforts already underway. I suggest the company makes biodiversity one of its

main environmental themes and establishes specific objectives and targets, although striking a balance between biodiversity and forestry will undoubtedly have its difficulties. Forming corridors between individual protected areas is a key concept here and so I believe networking with companies in the same industry, NGOs, governmental organizations, and the general public will be vital. The 10th Conference of Parties (COP-10) to the Convention on Biological Diversity is to be held in Nagoya in 2010 and I hope Sumitomo Forestry's excellent initiatives will be brought to the world's attention.

I was able to experience for myself the wonder of the *Ryounbou* natural heating and cooling concept on a visit to the Tsukuba Research Institute on a hot midsummer's day. I truly hope the concept will strike a chord with all the potential new home owners out there and permeate throughout society.

Expansion overseas is one of Sumitomo Forestry's key policies. The Johannesburg Declaration at the World Summit on Sustainable Development in 2002 recognized "that poverty eradication, changing consumption and production patterns and protecting and managing the natural resource base for economic and social development are overarching objectives of and essential requirements for sustainable development," and highlighted the obligations of the private sector. Sumitomo Forestry's contributions to education in developing countries and the company's "social forestry" initiatives would be of some benefit in this respect, and therefore I hope work will be done to expand on them. Job creation, in particular, will probably be Sumitomo Forestry's greatest contribution. I also think that consideration should be given to signing up to global guidelines such as the United Nations Global Compact and UN Principles for Responsible Investment (PRI). Becoming a signatory not only establishes a platform for the company's actions, but is necessary for the company to improve its reputation overseas and continue to find acceptance within the world of socially responsible investment (SRI).

Compliance is naturally viewed as a requisite for business continuity. However the real value of CSR initiatives is in the raising of value of intangible assets. In other words, they increase the value of intellectual assets, human assets and organizational assets. For that reason, creating a lively and exciting workplace for employees should be a major objective.

In closing, I would like to note the sincerity with which Sumitomo Forestry took on board the feedback I provided about last year's report. I noticed efforts had been made relating to coordination with the website, the inclusion of more "check" and "act" type information and taking up the challenge of achieving zero emissions.

Reply to Third Party Evaluation

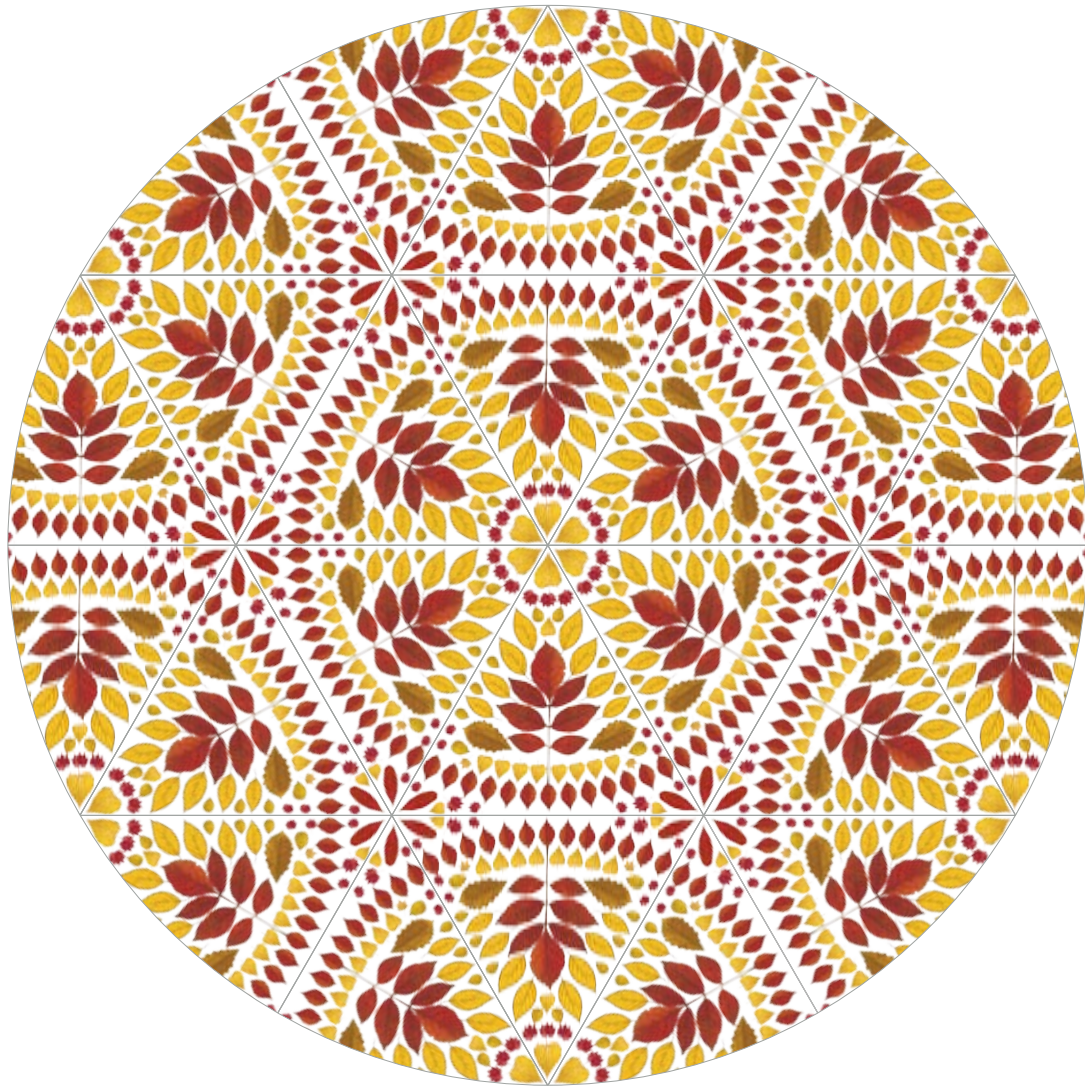
Thank you once again for your invaluable comments.

Global environmental measures of corporations are going to come under the spotlight a lot more now that the Intergovernmental Panel on Climate Change (IPCC) has recognized that the rise in greenhouse gases caused by human activity is almost definitely a factor in global warming. We will take seriously your advice about developing even more creative methods for spreading our *Ryounbou* concept and

the need to establish specific biodiversity targets, and we shall commit ourselves even more to realizing a sustainable society through business activities in which we utilize wood as a renewable resource.

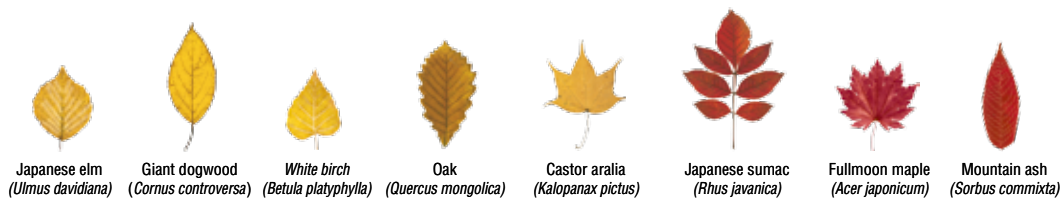
Hidekazu Tanaka
General Manager

Environmental Management Division



The Power of Forests Empowers the Future

Kaleidoscopes create beautiful visages through the movement of just a few colored beads or other similar items. The kaleidoscope image here has been created using leaves from the various trees being cultivated in our company-owned forest in Monbetsu, Hokkaido. The image represents Sumitomo Forestry's mission of creating a beautiful world through the passing down of our corporate culture, knowledge and know-how, and through the continual recycling of that all-important sustainable resource, wood.



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