

November 4, 2005



Announcement of Establishment of New Particleboard Manufacturing Plant  
at Overseas Subsidiary

Sumitomo Forestry Co., Ltd. (Head office: 1-8-1 Marunouchi, Chiyoda-ku, Tokyo; President: Ryu Yano) announced that it was decided at the Board of Directors Meeting held on June 30, 2005, that KTI (PT. Kutai Timber Indonesia), the company's subsidiary in Indonesia engaged in the manufacture of wooden building materials, will construct a new factory to commence a new line of business in the manufacture of particleboard (PB). Details regarding the construction of the new manufacturing plant are described below.

1. Purpose

- (1) The goal of the Sumitomo Forestry Group's business is the global expansion of its comprehensive housing business. The investment made to establish this new manufacturing plant is a part of this overall vision, with expectations that KTI will follow in the footsteps of RPI (PT. Rimba Partikel Indonesia) in the PB business. The new factory will contribute to the Group's consolidated profits through domestic sales in Indonesia, where demand for PB is expected to grow, and exports of products, such as newly-developed lightweight PB.
- (2) Due to recent tightening of logging restrictions in natural forests in Indonesia, it has become increasingly difficult to procure raw wood used in the manufacture of plywood. In response to this situation, the establishment of this new factory would provide an environmentally-friendly and sustainable business that would promote the effective utilization of resources that have conventionally been discarded, such as waste wood discharged by KTI and its surrounding factories engaged in such industries as plywood, lumber, and wood work, as well as leftover scraps from fast-growing trees and plantation timber, and small-diameter trees.
- (3) Another objective of establishing this factory is to develop and sell compound secondary processed products that make use of PB, thereby further strengthening the business foundation of KTI in its endeavors to become a comprehensive wooden building materials company.

2. Outline of New Factory

Site of construction:	Adjacent to KTI factory grounds in Probolinggo, East Jawa, Indonesia
Land area:	Approx. 110,000 m <sup>2</sup>
Building:	Split-level two-story, steel-frame building. Total floorspace of approximately 14,000 m <sup>2</sup>
Construction schedule:	Start construction in middle of November 2005

	Expected completion at end of September 2007
Operation startup:	October 2007 (plan)
Amount of investment:	Approx. USD 39,000,000
Production items:	Various particleboard products (including ordinary PB products as well as lightweight falcataria PB) (production capacity: 400 m <sup>3</sup> / day, 128,000 m <sup>3</sup> / year)
Number of employees:	330 (projected for October 2007)

### 3. Future Prospects

The establishment of the factory is expected to have minimal impact on the results of Sumitomo Forestry's operations for the fiscal year ending March 2006, and no changes shall be made to the business forecast currently disclosed.

#### [For Reference]

##### 1. Outline of KTI

Company name:	PT. Kutai Timber Indonesia
Head office:	Summitmas II, 8 <sup>th</sup> Floor, J1. Jend Sudirman Kav.61-62 Jakarta 12190, Indonesia
Date established:	September 1970
Capital:	USD 15,000,000 (capitalization increased in August 2005)
Representative:	Akito Kataoka
Number of employees:	1,913 (as of April 2004; if temporary employees and part-timers are included, approx. 3,000)
Business activities:	Manufacture and sales of plywood, secondary processed plywood, woodworking products
Production capacity:	Plywood line 130,000 m <sup>3</sup> / year (2004) Woodworking line 56,000 m <sup>3</sup> / year (2004)
Sales:	USD 66,620,000 (2004)

##### 2. Other Information

###### 2-1.

###### (1) What is PB (particleboard)?

- \* Particleboard is a relatively thick board with isotropic properties, made by binding pieces of cut wood or broken-up wood fragments (such as chips, flakes, wafers, strands, etc.) with synthetic resin adhesives, and applying high heat and pressure to form the board.
- \* Particleboard was first developed and produced industrially in Europe in the 1930s and 40s with the aim of making effective use of thinning timber or leftover materials from forestlands. Today, while Europe remains a key manufacturing region, particleboard is produced all over the world and is an industry that makes effective use of wood materials. Unlike Japan, it is

difficult for Europe in particular to obtain raw wood for producing plywood; as a result, PB has developed into an alternative to plywood as board material.

- \* The difference between particleboard and fiberboard is that fiberboard is made by grinding up wood material into fiber-like material and recombining these fibers, with the intertwining of the fibers being the primary binding agent forming the board; particleboard, on the other hand, is made by breaking up wood material into small pieces and recombining the pieces, with the adhesive interlinking the pieces being the primary binding agent forming the board.

## (2) Types of PB

Many types of particleboards are currently manufactured for a variety of purposes. JIS A5908 sets forth different categories for particleboards based on state of the two surfaces of the board, bending strength, type of adhesive used, and formaldehyde emission.

## (3) Features of PB

- \* Superior heat-insulating and sound-insulating properties.
- \* Can be used to satisfy a very wide range of needs because the board can be produced in a thickness (6 ~ 40 mm) or dimension to meet a specific requirement.
- \* Because the board is subject to thickness swelling and loss of strength due to exposure to water or absorption of moisture, care must be taken regarding where it is used, in addition to whether surface protection or sealing of the board ends is necessary, as well as allowing a 2 ~ 3 mm gap in the joints to account for stretching.
- \* The degree of deflection (amount of sagging) is large when bearing loads over a long period of time, and the bending strength and Young's modulus is only 1/4 to 1/2 that of other materials having an equivalent specific gravity.
- \* By bonding a veneer over the particleboard, the particleboard achieves the same strength as the board material, making particleboard ideal for use as core material or underlayment.
- \* Particleboard is superior to other wood materials in its ability to hold nails, but its ability to hold wood screws is only half that of other wood materials.

## 2-2. KTI Forest Plantations

- (1) Recognizing the multifaceted importance of forests, KTI is engaged in a number of efforts described below to make effective use of its forest plantations and plantation timber.

- \* Develop housing materials made from various types of trees that had conventionally been of low value.
- \* Expansion of joint afforestation activities in collaboration with local residents, corporations, universities, and municipalities.
- \* Carry out experiments on the planting of new varieties of fast-growing trees, and select superior varieties from among the tested trees.

The aggregate total of trees planted up until fiscal 2004 amounts to 3,584,000, showing an increase of 1,030,000 trees from the fiscal 2003 figure.

With the aim of protecting the environment, KTI is also engaged in testing the planting of long-lived varieties of trees in areas not conventionally suitable for afforestation, such as riverbanks, mountain ridges, and steep slopes.

- (2) In January 2005, KTI received Chain of Custody (COC) certification, which guarantees that KTI properly manages and uses the certified wood materials cut down and processed from forests having Forest Stewardship Council (FSC) certification.

## 2-3. KTI's Social Contributions

- (1) KTI established the KTI Educational Foundation in 2000 as a project commemorating its 30<sup>th</sup> anniversary. Every year since 2001, this Foundation has been providing scholarships to primary and middle school students in the Sebulu area of East Kalimantan and the Probolinggo and Krucil areas of East Jawa.
- (2) In addition to providing educational aid, the Foundation has also been involved in such activities as providing support for the livelihood of residents living in the areas around its factories, donating relief funds to victims of the Sumatra Earthquake and Tsunami.
- (3) In 2004, KTI donated ten sanitation carts to the local authorities in Probolinggo.