

October 29, 2009



**Large-Scale Commercial Forest Plantation Project Slated in Indonesia  
– Joint-Venture Formed with Work to Start on 40,000 Ha Tract and  
Eventually Expand to 280,000 Ha–**

Sumitomo Forestry Co., Ltd. (Head office: 3-2 Otemachi 1-chome, Chiyoda-ku, Tokyo; President and CEO: Ryu Yano) and Alas Kusuma Group, an Indonesian firm in the forestry and plywood manufacturing industries ("Alas" hereafter) have finalized plans to launch a large-scale commercial forest plantation project in Indonesia.

Sumitomo Forestry (Singapore) Ltd., our local subsidiary in Singapore, and PT. Sari Bumi Kusuma ("SBK" hereafter), an Alas company, will handle the project with even 50 percent equity stakes in the issued shares of PT. Wana Subur Lestari ("WSL" hereafter), a joint-venture firm established to implement the forest plantation project. Plans are to launch the project on a forest tract of around 40,000 hectares in scale and expand it to a final scale of around 280,000 hectares. Pilot forestation operations are scheduled to begin in October 2009, with the shift to full-scale operations coming in 2010.

**1. Project Objectives**

It is anticipated that global consumption of wood products will continue to expand in line with world population growth. In particular, it is virtually certain that population growth and rising standards of living in Indonesia and other Southeast Asian nations as well as China, India, and the rest of Asia at large will increase demand for lumber and paper pulp as well as wood products for use as biomass fuels. To help satisfy this uptrend in global demand for wood products, Sumitomo Forestry plans to continue producing wood resources on 280,000 ha of restored forestland while at the same time devoting attention to regional societal development and the natural environment.

**2. Project Significance**

As the world's third-largest country in terms of rain forest resources, Indonesia has witnessed the rapid loss and deterioration of its forested lands due to wildfires, illegal logging, and slash-and-burn farming practices. According to a report by the Food and Agriculture Organization of the United Nations (FAO), forested area in Indonesia totaled 97.85 million ha in the year 2000 (for a forestation ratio of 54 percent) but had declined sharply to 88.50 million by 2005 (for a corresponding forestation ratio of 49 percent), and the country has continued to lose forested land at a pace of around 1.9 million ha each year.

The project will be a large-scale, sustainable commercial forest plantation venture that harnesses the expertise and business resources of two leading forestry enterprises: Sumitomo Forestry Group (SFG) of Japan and Alas of Indonesia. The project will proceed under a license from Indonesia's Ministry of Forestry permitting utilization of timber from commercial forests (Note 1) and provide employment opportunities to local residents as responsible participants in forest plantation operations. This approach will both contribute to the development of regional society and actively assist in curbing forest degradation and greenhouse gas emissions attributable to illegal logging and disorderly slash-and-burn farming practices.

**Note 1. License to utilize timber from commercial forests**

Issued by the Indonesian government, this is a business license to engage in large-scale commercial forest plantation operations in Indonesia. The license is valid for 100 years.

**3. Plantation Area and Forestation Methods**

Lowland forests and peat-swamp forests (Note 2) that have been degraded by illegal logging and slash-and-burn farming comprise most of the land that will be targeted for forestation under this project. Although illegal logging and slash-and-burn farming practices are still common in these areas even today, the government has not implemented effective countermeasures. As a consequence, Indonesia is at risk of losing forestlands and many invaluable plant and animal species that it should be striving to protect and preserve. Under the project, targeted lowland and peat-swamp forests will be divided into three zones: (i) forest preservation zones, (ii) buffer zones, and (iii) forestation zones. Additionally, the forestation zones will be further classified by differences in environmental factors including soil quality and moisture conditions so that forestation operations can be optimized to local environmental conditions.

Forestation program planning will harness cutting-edge satellite information technologies acquired through joint research under the Space Open Lab system (Note 3) provided by the Japan Aerospace Exploration Agency (JAXA). The program will also comprise a mosaic planting process that sets aside appropriate preservation zones and implements forestation only in selected areas suited for that purpose. Furthermore, it will strive to restore lands to conditions suited for sustainable commercial forest plantation through the aggressive planting of indigenous species and with management strategies that place emphasis on the protection of biodiversity.

**Note 2. Peat-swamp forests**

Peat soil is one of the defining attributes of peaty marshland. It is known that large quantities of greenhouse gases (carbon dioxide, methane, etc.) are released into the atmosphere when such areas are improperly developed or exploited. Through joint research with Kyoto University's Research

Institute for Sustainable Humanosphere and Center for Southeast Asian Studies, this project will implement forest management strategies that minimize the development-induced peat decomposition and consequent release of greenhouse gases.

Note 3 Joint research under the JAXA Space Open Lab system

URLs (in Japanese)

<http://aerospacebiz.jaxa.jp/openlab/index.html>

<http://aerospacebiz.jaxa.jp/openlab/case/21p03.html>

As a candidate theme for research solicited by JAXA for Space Open Lab system, Sumitomo Forestry, working in collaboration with Professor Yuzo Suga of the Faculty of Environmental Studies at Hiroshima Institute of Technology, proposed the development of a model for the utilization of satellite imaging data for forestation operations in developing countries. This theme was adopted in FY 2008 and research is still under way. Our goal is to establish new forestation technologies that harness the imaging data from Earth observation satellites.

#### **4. The Roles for SFG and Alas as Partners in the Joint-Venture**

SFG will provide its forestation and seedling cultivation technologies as well as financial support. Alas will set up WSL, apply for and obtain necessary licensing and permits, and strive to build a consensus of support for the project at the local community level. The forestation joint-venture will be made possible by fusing Sumitomo Forestry's forestation and other technologies and experience related to trees with joint-venture partner Alas' expertise in running business enterprises in Indonesia. This combination can be expected to yield immense synergistic benefits.

#### **5. Future Project Expansion Plans**

Initially the project is to start operation on 40,000 ha of forestland and ultimately expand to around 280,000 ha in scale with the addition of areas that Alas Group companies have already acquired, or are seeking, the licensing to manage. To maximize the value of timber grown on the lands placed under project management, operations will move forward with a view to the potential construction of wood fiber manufacturing complexes including wood pulp mills.

#### **6. Corporate Profile of Joint-Venture Company**

Company name: PT. Wana Subur Lestari (The name essentially means "thriving forests forever" in Indonesian.)  
Founded: October 2009  
Location: Kubu Raya Regency, Western Kalimantan Province, Republic of Indonesia

**Project site area:** 40,040 ha in initial year (27,300 ha of that total suited for forestation); approx. 280,000 ha by 2019  
**Paid-in capital:** 20 billion IDR (Issued stock: 20,000 shares)  
**Principal shareholders:** Sumitomo Forestry (Singapore) Ltd. 50%  
SBK 50%  
**Employees:** 30 (initially planned)  
**Business lines:** Commercial forest plantation operation and timber sales

**Project Speed, the long-term business plan that defines SFG's orientation over the longer term, declares the creation of new income-generating businesses and reforms in employee awareness as Group objectives. Overseas business operations, moreover, are given importance as a priority area for growth along with the real estate business and home remodeling business. In the years ahead, we plan to expand our forestation projects as ventures that can be expected to enjoy strong global demand and effectively harness our technologies and expertise.**

## Reference Notes

### **1. Alas Kusuma Group Profile**

Alas Kusuma is one of the leading forestry industry groups in Indonesia. It went into business in 1962 as a logging venture, is specialized in the lumber industry, and has invested its business resources in forest management and the acquisition of logging rights. Its holdings include 750,000 ha in HPH districts (native forest concessions) and logging quotas totaling 600,000 m<sup>3</sup> per year on Kalimantan Island. As one of Indonesia's most environmentally aware forestry operators, it has acquired forest management (FM) certification from the Forest Stewardship Council (FSC) and is engaged in the reforestation of logged native forestlands.

The Alas Kusuma Group has a steady and sustained trading business in wood panel products and Sumitomo Forestry is its largest client in Japan.

### **2. SFG Forestry Operations Abroad**

Sumitomo Forestry has been involved in numerous forestation operations in Indonesia to date. From 1991 to 2003, it handled a rain forest restoration project and replanted over 500 ha of forestland using indigenous species such as Dipterocarp. Applying the technological benefits and expertise it derived from that venture, in 2000 the company participated in an ODA-backed program to restore forest fire-ravaged tracts in the Way Kambas National Park and reforested 360 ha in that undertaking. Additionally, it has been engaged in work to gauge the potential of forestation CDM projects as a means of curbing greenhouse gas emissions. In that process, the lesson learned was that forest restoration is possible but that it cannot be achieved by growing trees alone; unless the local inhabitants also benefit and cooperate, such undertakings will not be successful.

As a collaborative project with local inhabitants, Sumitomo Forestry affiliates in Indonesia have pursued social forestation projects by providing free supplies of seedlings and guaranteeing purchases of lumber from the grown forests once they are harvested. This approach ensures local inhabitants with lumber income while ensuring our affiliates access to lumber resources.

Sumitomo Forestry also handles forestation operations on consignment from other firms and provides consulting services in this field. Utilizing the forestation technologies and community symbiosis expertise it has amassed through its undertakings in Indonesia, Sumitomo Forestry is well-positioned to assist corporate clientele interested in pursuing environmental forestation projects or commercial forest plantation projects that utilize the lumber resources.

## Sumitomo Forestry Group Forestry Operations Abroad

Number	Time Span	Details
1	1991-2003	Rain forest restoration project (East Kalimantan Province, Indonesia). Planted approx. 500 ha mainly in indigenous tree species on lands ravaged by wildfires and slash-and-burn farming practices. A cumulative total of approx. 740,000 trees were cultivated.
2	1999-	KTI forestation program with fast-growth tree species (Eastern Java Province, Indonesia). Collaborative forestation program with local inhabitant participation. Currently approx. 7,000 ha in cultivation. Approx 2.15 million trees planted by 2008. Part of the forestation area awarded forest management certification by Forest Stewardship Council.
3	2002-	RPI forestation program with fast-growth tree species (Central Java Province, Indonesia). Social forestation program with local inhabitant cooperation. Approx 1.46 million trees planted by 2008 and 1,400 ha placed into cultivation by end of same year.
4	2000-2004	ODA grant-based forestation project (Lampung Province, Indonesia). Participated in Japan's first ODA project for forestation purposes. Approx. 360 ha and 610,000 trees placed into cultivation over a three-year span.
5	2005-	Provided support for Mitsui Sumitomo Insurance-led environmental forestation project (Jogjakarta Province, Indonesia). Approx. 300,000 trees planted on 350 ha by 2007. Still under cultivation.
6	2007-	Provided support for Roland Corp.-led 70 ha commercial forestation project for lumber production and 30 ha environmental forestation project aimed at cultivating water resources and contributing to the economic advancement of local citizens. (Both projects located in Central Java Province, Indonesia.) A total of 100 ha planted as of 2008 and still in cultivation.
7	1993-	NPIL (New Zealand). Planted 3,550 ha of company-owned forestland. Harvested lumber is to be used for manufacture of medium-density fiberboard (MDF) and laminated veneer lumber (LVL).
8	2007-	Kowa Mokuwai KK eucalyptus forestation project (Papua New Guinea). Forestation projection on approx. 20,000 ha of forestland. Approx. 4.15 million

		trees planted as of 2008 and cumulative total of 11,298 ha placed into cultivation by 2008 year-end.
9	2009-	Forestation project in Indonesia's Bromo Tengger Semeru National Park (Eastern Java Province, Indonesia). Project scheduled to extend over 20-year span with the objective of restoring degraded land near Bromo Mountain, an area considered sacred to the Hindu faith. In April 2009, Sumitomo Forestry announced plans to utilize this forest plantation project as part of its carbon offset scheme for single-family homes.

### **Explanation of Abbreviations**

**KTI: PT. Kutai Timber Indonesia (Indonesian plywood manufacturing subsidiary)**

**RPI: PT. Rimba Partikel Indonesia (Indonesian particle board manufacturing subsidiary)**

**NPIL: Nelson Pine Industries Limited (New Zealand MDF manufacturing subsidiary)**

**ha: Hectare (metric unit of area)**