



Luxury condominium development (Thailand)

## ◆ Southeast Asia

The Group is engaged in joint development of condominiums for sale with other companies in Hong Kong, Vietnam and Thailand. Business development in all three of these markets is based on stable prospects of growth in demand over the medium and long term.

Further, we announced our first housing development in Indonesia in November 2017. Although most housing in the region is built using reinforced concrete, in line with local custom, with this project we intend to exhibit our strength by utilizing our design expertise and knowledge of creating attractive interiors using wood. Our partner in the project is PT. Summarecon Agung Tbk, a leading Indonesian listed real estate developer. Continuing on from the United States and Australia, we are striving for growth via the development of housing-related business in Southeast Asia. Housing demand in Asia is strong due to rapid development of infrastructure, growing populations and increasing income levels. We aim to minimize business risk through regional diversification, while also contributing to the development of the living environment in Southeast Asia.



Residential property (Indonesia)



## Sustainability

## Initiatives to Address CSR Material Issues

### Material Issue 1

#### Continue to Procure Wood and Materials that Take Sustainability and Biodiversity into Consideration

##### Fundamental Policy

The world's forests continue to decrease in size as a consequence of illegal deforestation and the indiscriminate conversion of farmland to boost production of commodities such as palm oil, soybeans, or beef. In light of these developments, some countries are proceeding to introduce laws and strengthen regulations to eliminate illegally logged timber from the market. Therefore, we predict the implementation of stronger policies globally. Meanwhile, in Japan, maintenance of forests has halted in part because of an aging and declining forestry workforce, and there are growing concerns about some forests becoming devastated.

Amid this situation, the Group is promoting sustainable forest management and procurement of wood both in Japan and overseas, along with positioning conserving biodiversity as one of our key CSR themes.

Current awareness of issues and basic strategies	Evaluation metrics	Fiscal 2017 target	Fiscal 2017 results	Fiscal 2018 target	Fiscal 2020 target figures	Relevant SDGs	
Environmentally responsible society	Percentage of imported timber from certified forests among all imported timber sold	11.0%	12.8%	12.0%	12.0%	  	
	Volume of domestic timber exported	100,000 m <sup>3</sup>	120,000 m <sup>3</sup>	183,000 m <sup>3</sup>	200,000 m <sup>3</sup>		
	Volume of plantation timber, timber from certified forests, and Japanese timber handled at overseas distribution bases	964,000 m <sup>3</sup>	1,163,000 m <sup>3</sup>	626,000 m <sup>3</sup>	783,000 m <sup>3</sup>		
	Volume of wood chips used for fuel	861,000 m <sup>3</sup>	847,000 m <sup>3</sup>	1,316,000 m <sup>3</sup>	800,000 m <sup>3</sup> (1,380,000 m <sup>3</sup> ) <sup>*1</sup>		
	Volume of timber from certified forests (SGEC timber) handled at domestic distribution bases	60,000 m <sup>3</sup>	78,000 m <sup>3</sup>	68,000 m <sup>3</sup>	85,000 m <sup>3</sup>		
	Volume of unused wood in domestic timber	200,000 tons	286,000 tons	236,000 tons	185,000 tons (236,000 tons) <sup>*1</sup>		
	Percentage of Japanese timber used for new custom-built detached housing in the housing business	Multi-balance construction method	72%	71%	71%		75%
		Big-frame construction method	51%	50%	50%		55%
	Percentage of reviews conducted for suppliers who handle directly imported timber and wood products with verified legal compliance (Timber and wood product department)		100%	100%	100%		100%
	Establish forestry management that enables conservation of biodiversity, and evaluate value as natural capital	Percentage of SGEC-certified managed forests in newly acquired forests managed by the Group	100%	100%	100%		100%
Number of native species planted at new detached housing sites		35,000 trees / year	31,248 trees / year	36,000 trees / year	210,000 trees / Total of 6 years		

\*1 Targets at the time of deciding the Medium-Term CSR Management Plan. Given the results for fiscal 2017, the targets were revised to be within ( ) in April 2018

### Material Issue 2

#### Promote the Reduction of the Environmental Impact of Our Business Activities

##### Fundamental Policy

As the impact of climate change becomes more apparent worldwide, companies are being asked to reduce their greenhouse gas emissions and adopt energy-saving measures to combat global warming.

In consideration of the impact of our activities on the environment, the Group is engaged in activities that take steps towards reducing greenhouse gas emissions and combating climate change, such as encouraging thoroughgoing energy-saving activities and the use of renewable energies.

In the Housing and Construction Business, we are targeting a ZEH (net zero-energy house) proliferation rate of 80% in fiscal 2020. Furthermore, we are promoting the reduction, reuse, and recycling of industrial waste in order to reduce our environmental impact and use resources effectively.

Current awareness of issues and basic strategies	Evaluation metrics	Fiscal 2017 target	Fiscal 2017 results	Fiscal 2018 target	Fiscal 2020 target figures	Relevant SDGs		
Low-carbon society	Office segment (consolidated companies inside and outside Japan)	Change in CO <sub>2</sub> emissions compared to fiscal 2013	7.2% reduction Total emissions 32,887t-CO <sub>2</sub>	10.1% reduction Total emissions 31,871t-CO <sub>2</sub>	11.4% reduction Total emissions 31,407t-CO <sub>2</sub>	More than <sup>*3</sup> 7% reduction (More than 16% reduction)	  	
			Sumitomo Forestry (offices in Japan)	13.3% reduction	18.7% reduction	19.4% reduction		-
			Affiliated companies in Japan (offices)	1.3% reduction	4.6% reduction	1.8% reduction		-
			Affiliated companies overseas (offices)	3.4% increase	14.0% increase	3.0% reduction		-
	Reduce CO <sub>2</sub> emissions by the Group	Change in CO <sub>2</sub> emissions per production volume compared to the previous year	Kutai Timber Indonesia (Indonesia)	0.9% reduction	10.8% reduction	0.8% increase	Reduction of more than 1% average intensity per year for fiscal 2015 – 2020	  
			Vina Eco Board (Vietnam)	7.4% reduction	38.0% increase	23.9% reduction		
			AST Indonesia (Indonesia)	8.5% reduction	9.0% increase	4.1% reduction		
			Nelson Pine Industries (New Zealand)	2.7% increase	5.8% reduction	23.7% increase		
			Rimba Partikel Indonesia (Indonesia)	10.1% reduction	9.6% reduction	0.5% reduction		
Reduce CO <sub>2</sub> emissions outside the Group (products, service recipients)	Percentage of Green Smart houses in new custom-built detached housing (Number of Green Smart houses at order placement / total number of houses ordered)	70.0%	69.4%	73.0%	More than 80.0%			
	Percentage of Green Smart ZEH-type houses in new custombuilt detached housing (Number of Green Smart ZEH-type houses at time construction started / total number of construction starts) <sup>*1</sup>	35.0%	30.1%	45.0% (order base)	More than 80% (order base)			
Recycling-oriented society	Achieve zero emissions					 		
	Recycling rate at new housing construction sites	92.0%	92.5%	93.9%	98.0%			
	Recycling rate at remodeling sites	79.4%	76.2%	77.6%	80.0%			
Reduce volume of industrial waste generated	Reduction in industrial waste generated at new construction sites compared to fiscal 2013	26.0% reduction	15.5% reduction	20.6% reduction	30% reduction			
	Change in industrial waste per unit of sales <sup>*2</sup> compared to fiscal 2014	3.5% reduction	5.2% increase	1.9% increase	Reduction of more than 2%			

\*1 The calculation method for these indicators differs from the company's popularized results displayed on the Sumitomo Forestry ZEH website (<http://sfc.jp/ie/lineup/smart/zeh/>)

\*2 Per unit of in-house sales at domestic manufacturing plants



\*3 Targets at the time of deciding the Medium-Term CSR Management Plan. Given the results for fiscal 2017, the targets were revised to be within ( ) in April 2018

## Initiatives to Address CSR Material Issues

### Material Issue 3 Promote Development of Workplaces Where Diverse Personnel Can Work with Vigor and Enthusiasm, Demonstrating Their Abilities and Individuality

## Fundamental Policy

The Sumitomo Forestry Group makes no distinctions based on gender, age, nationality, race, religion or disability, and is advancing maintenance of a safe and healthy workplace in which highly motivated employees can display their abilities. In addition, we are conducting initiatives aimed at providing opportunities for female employees, such as issuing the "Sumitomo Forestry Group's Declaration on Empowering Women" to the entire Group under the name of the President.

Current awareness of issues and basic strategies	Evaluation metrics	Fiscal 2017 target	Fiscal 2017 results	Fiscal 2018 target	Fiscal 2020 target figures	Relevant SDGs	
Promote fair employment and treatment	Ratio of female employees in management positions	Sumitomo Forestry	3.3%	3.2%	More than 3.8%	More than 5.0%	  
		Domestic subsidiaries	-	4.6%	-	-	
	Ratio of female employees	Sumitomo Forestry	20.0%	20.4%	More than 20.0%	More than 20.0%	
		Domestic subsidiaries	-	31.6%	-	-	
	Ratio of employees with disabilities *1	Sumitomo Forestry	2.2%	2.26%	More than 2.2%	More than *4 2.0% (More than 2.2%)	
		Domestic subsidiaries	2.0%	1.75%	Company targets		
Promote work-life balance	Number of paid leave days used	Sumitomo Forestry	10 days	9 days	More than 10 days	More than 10 days	
		Domestic subsidiaries	Company targets	43.9%	Company targets	More than 50%	
	Hours worked overtime (Reduction in average overtime hours compared to fiscal 2013)	Sumitomo Forestry	-14.8%	-20.7%	-25.2%	-30%	
Strengthen occupational health and safety	Number of occupational injuries in Company-owned forests*2	Sumitomo Forestry	0	1	0	0	
	Number of occupational injuries at new construction sites*3	Sumitomo Forestry	0	9	0	0	
	Number of occupational injuries in other situations*3	Domestic subsidiaries	Company targets	2	Company targets	0	

\*1 Results as of June 2017

\*2 Number of occupational injuries among sub-contractors at workplaces in Company-owned forests

\*3 Number of cases eligible for work compensation benefits under the Industrial Accident Compensation Insurance Act

\*4 Targets at the time of deciding the Medium-Term CSR Management Plan. Given the results for fiscal 2017, the targets were revised to be within ( ) in April 2018

### Material Issue 4 Strengthen and Promote Risk Management and Compliance Mechanisms

## Fundamental Policy



The Sumitomo Forestry Group is working to reinforce the mechanism for managing business risks by constantly managing prioritized risks through the Risk Management Committee.

Current awareness of issues and basic strategies	Evaluation metrics	Fiscal 2017 target	Fiscal 2017 results	Fiscal 2018 target	Fiscal 2020 target figures	Relevant SDGs
Strengthening the Risk Management System	-	Confirm the state of progress for 41 prioritized risk items at the quarterly CSR & Risk Management Committee	Addressed targeted risk items and shared case studies where risks materialized at monthly meetings of the Executive Committee	Confirm the state of progress for 45 prioritized risk items at the quarterly CSR & Risk Management Committee	Manage prioritized risk items through the Risk Management Committee	-

### Material Issue 5 Promoting the Development and Sale of Products and Services that Are Safe, Reliable and Environmentally Conscious

## Fundamental Policy

Sumitomo Forestry believes that popularizing durable, high-quality houses as social assets plays an important role in creating a prosperous society. In addition, Sumitomo Forestry actively promotes the use of the Excellent Long-Term Housing Certification and the Japanese Housing Performance Indication System for customers' peace of mind and safety and to enhance property value.

Current awareness of issues and basic strategies	Evaluation metrics	Fiscal 2017 target	Fiscal 2017 results	Fiscal 2018 target	Fiscal 2020 target figures	Relevant SDGs
Improve safety and quality	Ratio of design performance evaluations implemented for new custom-built detached houses	More than 90.0%	98.9%	More than 99.0%	More than *1 90.0% (More than 99.0%)	  
	Ratio of construction performance evaluations implemented for new custom-built detached houses	More than 90.0%	97.9%	More than 99.0%	More than *1 90.0% (More than 99.0%)	
	Ratio of houses certified as Excellent Long-Term Housing for new custom-built detached houses	More than 90.0%	93.3%	More than 97.0%	More than *1 90.0% (More than 97.0%)	
Improve communication with customers	Pass rate for after-sales maintenance advisors and housing inspectors (all persons at Sumitomo Forestry Home Tech Co., Ltd. in charge of maintenance)	100.0%	100.0%	100.0%	100.0%	
	Ratio of design performance evaluations implemented for custom-built detached housing	83.0%	83.0%	85.0%	90.0%	

\*1 Targets at the time of deciding the Medium-Term CSR Management Plan. Given the results for fiscal 2017, the targets were revised to be within ( ) in April 2018

## Environmental Management Structure

The Group has established the Sumitomo Forestry Group Environmental Policy. Under this policy, all manner of business processes and product lifecycles, including product development, design, production, materials procurement, distribution, waste management and services, are managed in a way to facilitate the creation of a sustainable society.

Furthermore, "Co-existence with the environment" is an article of the Sumitomo Forestry Group Code of Conduct, which incorporates not only Group businesses, but supply chains as well. The Group clarifies its position on promoting initiatives towards the environment with all parties, including business partners and associated companies.

### Sumitomo Forestry Group Environmental Policy

Through our experience nurturing forests since our founding, Sumitomo Forestry Group has learned to appreciate the wonders of wood and the importance of nature. As a corporate entity with a close affinity to nature, we will pursue business activities that balance both environmental and economic interests and contribute to a sustainable society.

#### 1. Develop business operations centered on wood and forests

We will cultivate forests and their ability to preserve and enhance the rich ecosystem to protect biodiversity, actively utilize timber resources and create new corporate value.

#### 2. Develop and offer environmentally conscious products and services

We will develop and sell products and services that are environmentally conscious throughout the entire product lifecycle.

#### 3. Minimize and improve environmental impact

To minimize and improve environmental impact, we will employ procurement practices that prevent environmental pollution and climate change and promote the effective utilization of natural resources.

#### 4. Ensure strict legal compliance

We will adhere to all environmental laws, rules and regulations, global standards, voluntary standards and accords with stakeholders.

#### 5. Make continual improvements to our environmental management system

We will accurately assess environment-related risks associated with our business activities and, with a medium-to-long-term outlook, set and work to fulfill yearly environment goals. In addition, we will regularly evaluate our environmental management system and make continual improvements.

#### 6. Promote environmental education

We will provide environmental education for all parties involved in the Sumitomo Forestry Group's business operations and encourage voluntary environmental efforts.

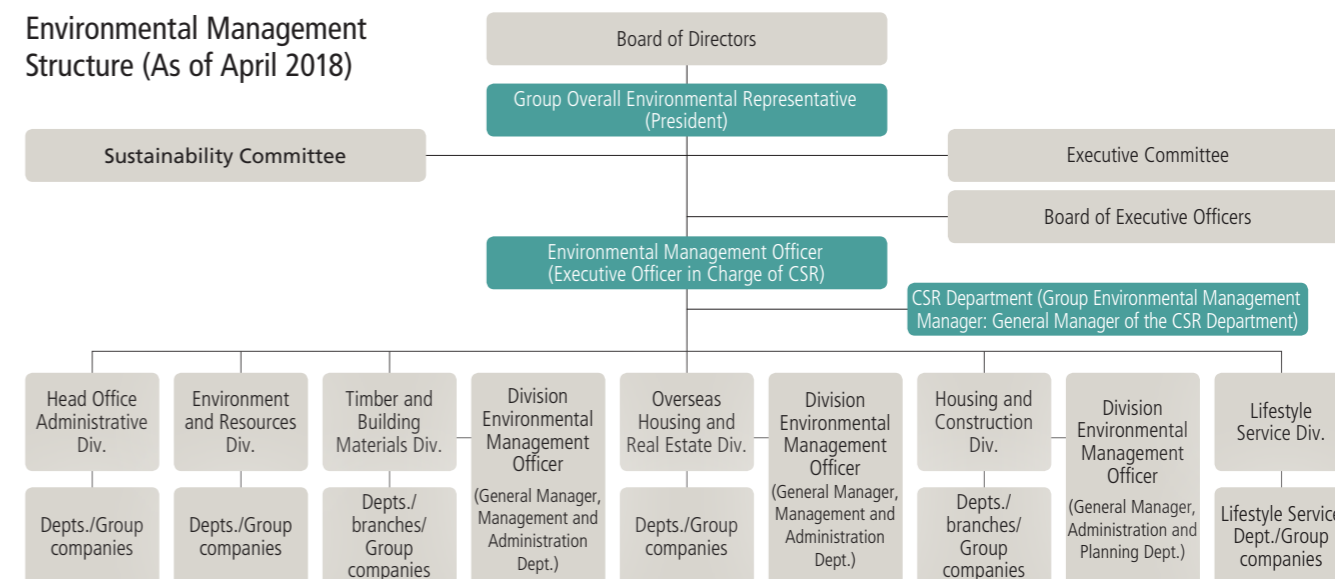
#### 7. Pursue active communication

We will actively disclose information about our environmental policies and initiatives and pursue activities that convey the wonders of trees and forests and the importance of nature.

## Environmental Management Structure

The Sumitomo Forestry Group has put in place an environmental management structure with top management in charge of environmental management. Beneath the Group Overall Environmental Representative, there are the Executive in Charge of CSR and the General Manager of the CSR Department. Regular checks on the progress of environmental activities advanced by divisions and departments within the Group and related issues are conducted against the "CSR budget," which sets forth numerical targets for each fiscal year, to raise the effectiveness of those activities.

### Environmental Management Structure (As of April 2018)



### ISO 14001 Certification Status

Sumitomo Forestry acquired ISO 14001 certification for its entire custom-built detached housing business in fiscal 1997 ahead of other players in the housing industry. Certification was subsequently acquired for other operations, with all departments and divisions in the Company achieving integrated ISO 14001 certification in fiscal 2002. The scope of certified Group companies has been extended to businesses with a substantial impact on the environment, and five Group companies are integrated in Japan. In addition, 6 Group companies are proceeding with certification overseas, with a focus on manufacturing companies. As of April 2018, 85.2% of consolidated organizations (Net sales basis) have received certification.

Domestic companies within the registration scope of ISO 14001 certifications are periodically audited by external certification bodies. In fiscal 2017, 36 departments and divisions at 6 companies underwent transition assessment surveillance for the new standard ISO 14001:2015 (JISQ14001:2015), and were approved to register for transition to the new standard. Overseas manufacturing factories proceeded with the transition process for the new standard in the same way as the domestic companies, and successfully completed the transition in April 2018.

In addition to reviews conducted by external certification bodies, internal environmental audits are periodically carried out by employees (i.e., internal environmental auditors) who have passed an exam upon completion of an in-house training course to become internal environmental auditors.

### Sumitomo Forestry Group ISO 14001 Certification Status (As of April 2018)

Company Name	Date of Certification	
Expanded Domestic Group Certification	Sumitomo Forestry (excluding overseas)	August 2002 <sup>*1</sup>
	Sumitomo Forestry Landscaping Co., Ltd.	November 2002 <sup>*2</sup>
	Sumitomo Forestry Crest Co., Ltd.	September 2003 <sup>*2</sup>
	Sumitomo Forestry Home Tech Co., Ltd.	March 2013 <sup>*2</sup>
	Japan Bio Energy Co., Ltd.	August 2014 <sup>*2</sup>
	Sumirin Agro-Products Co., Ltd.* <sup>3</sup>	August 2017 <sup>*2</sup>
PT. Kutai Timber Indonesia (KTI)	July 2001	
Nelson Pine Industries Ltd. (NPIL)	July 2003	
PT. Rimba Partikel Indonesia (RPI)	October 2005	
PT. AST Indonesia (ASTI)	January 2007	
Vina Eco Board Co., Ltd. (VECO)	March 2014	
PAN ASIA PACKING LTD.	April 2017	

<sup>\*1</sup> Certification was acquired by departments and divisions from 1997 before integrated certification was acquired for the entire Company

<sup>\*2</sup> Acquired by inclusion in Sumitomo Forestry's scope of registration

<sup>\*3</sup> Sumitomo Forestry Landscaping Co., Ltd. (Currently)

## Addressing Climate Change

In December 2015, COP21 (2015 United Nations Climate Change Conference) negotiated and adopted the Paris Agreement, the new framework for addressing climate change starting in the year 2020. The global aim of the agreement, which entered into force in November 2016, is to maintain global average temperature levels that do not rise more than 2°C from what they were before the Industrial Revolution.

### Setting SBT

(Science Based Targets)

Science Based Targets (SBT) are long-term greenhouse gas (GHG) emission reduction targets that fall in line with the worldwide objective of limiting global warming to well below 2°C. In Japan, the Ministry of the Environment encourages initiatives that adopt SBT as a means of evaluating corporate GHG reduction target levels.

Sumitomo Forestry Group declared in June 2017 that it would set SBT under the SBT initiative\*<sup>1</sup> and establish new GHG reduction targets for the entire Group. Subsequently, those targets were officially approved as SBT in July 2018. The new SBT for the Sumitomo Forestry Group are as follows.

- ① Scope 1 and 2\*<sup>2</sup>: Total 21% reduction (Target Year 2030; Base Year 2017)
- ② Scope 3\*<sup>2</sup>: Total 16% reduction in categories 1\*<sup>3</sup> and 11\*<sup>3</sup> (Target Year 2030; Base Year 2017)

Based on these SBT as a long-term reduction target, we intend to be even more proactive in reducing our GHG emissions and implementing climate change measures, such as in-depth energy-saving initiatives and encouraging the use of renewable energies.



- \*1: The SBT initiative was established in 2015 by four organizations (UNGC, CDP, WRI, and WWF) for the purpose of promoting GHG emission reduction targets based on scientific data in order to keep global warming to below 2°C compared to pre-industrial levels.
- \*2: Scope 1: Direct GHG emissions of a company, including those from fuel consumption. For example, the use of gasoline for company vehicles  
Scope 2: Indirect GHG emissions (including CH<sub>4</sub> and N<sub>2</sub>O) from purchased electricity and heating. For example, electricity used by offices  
Scope 3: GHG emissions occurring in the supply chain. For example, any of the 15 categories of supply chain emissions, such as at the time of raw material manufacturing or when using sold products
- \*3: Category 1 (in Scope 3): GHG emissions when harvesting, manufacturing, or transporting purchased (or acquired) goods and services.  
Category 11 (in Scope 3): GHG emissions when using sold goods and services.

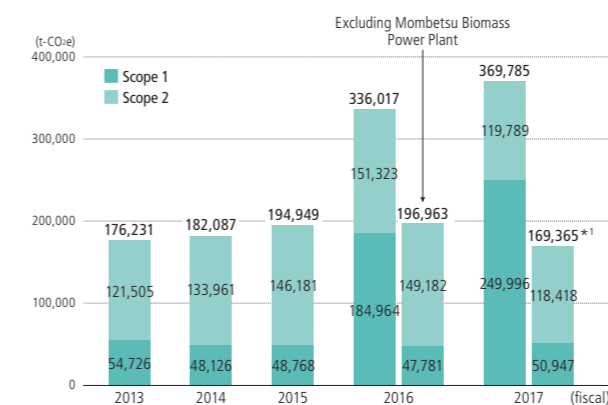
### Obtaining greenhouse gas emissions data based on the GHG Protocol

Since 2012, we have endeavored to obtain quantitative data for each scope that conforms to the GHG Protocol, the widely used global GHG measurement standard.

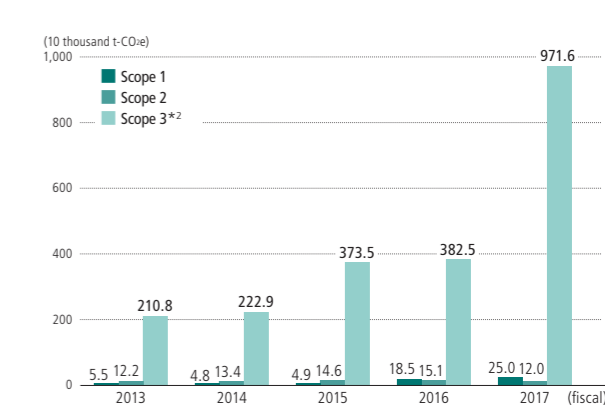
The Group made an entry into the biomass power generation business in 2011 and in December 2016 commenced operations at the Mombetsu Biomass Power Plant (consolidated subsidiary). While the plant's main fuel source is unused carbon-neutral timber from forests, coal is used as a supplementary fuel to ensure smooth operation and maintenance. Accordingly, total CO<sub>2</sub> emissions for Scopes 1 and 2 in fiscal 2017 for the Sumitomo Forestry Group increased 10.0% year on year to 369,785 t-CO<sub>2</sub>e.

Of the total for Scope 1 and 2, overseas plants emitted 29.7%, while domestic plants and the power generation business accounted for 56.4%. We started measuring Scope 3 emissions in fiscal 2013 and in fiscal 2017 the amount came to 9.716 million t-CO<sub>2</sub>e.

### CO<sub>2</sub> emissions for Scopes 1 and 2



### CO<sub>2</sub> emissions for Scopes 1, 2, and 3



- \*1 Excluding the numeric data for the biomass power generation businesses in Mombetsu and Hachinohe, as well as Alpine MDF Industries Pty Ltd. due to sale of all shares.  
\*2 From fiscal 2015 onwards we expanded the range of our measurements in Scope 3 from three categories to 15.  
From fiscal 2017 onwards we expanded the range of our measurements in Scope 3 from domestic emissions only to those emitted by the entire Sumitomo Forestry Group.

### Carbon stock in forests

Trees absorb CO<sub>2</sub> and fix carbon as they grow. The Group owns and manages forests in Japan and overseas; the total amount of carbon stock\* by company-owned forests in Japan in fiscal 2017 was 13.06 million t-CO<sub>2</sub> (up 0.52 million t-CO<sub>2</sub> YoY) and by plantation areas overseas it was 7.83 million t-CO<sub>2</sub> (up 7,763 t-CO<sub>2</sub>).

\*The volume of carbon accumulated through absorption of CO<sub>2</sub> by forests. The volume accumulated in forests is estimated with a formula that multiplies various coefficients for different tree types, including bulk density and carbon content ratio. Note that we exclude large forests purchased during the fiscal period subject to the estimate because we are unable to ascertain how much carbon increased over the 12 months prior. For Japan, our carbon stock estimate covers both natural forests and plantations, but for overseas it only includes plantations. The amount of carbon stock for Japan is as of the end of the fiscal year. For overseas, it is as of the end of the calendar year.

### Participating in the Japan Climate Change Initiative

Sumitomo Forestry is a founding member of the Japan Climate Initiative, a network of companies, local governments, and NGOs that further the dissemination and exchange of information in aiming to realize a carbon-free society. The Japan Climate Initiative is managed by CDP Worldwide-Japan, the World Wide Fund for Nature in Japan (WWF Japan), and the Renewable Energy Institute. We will continue to leverage the information obtained through our participation in the Japan Climate Initiative to actively promote climate change measures, including larger issues that would be difficult for the Group to resolve on its own.

➔ CO<sub>2</sub> emission reduction main targets and results on Page 49

## Initiatives Towards Sustainable Procurement

The Group has established the Sumitomo Forestry Group Procurement Policy in order to sustainably procure timber. This policy calls for social and environmental considerations, such as providing fair opportunities when selecting suppliers and the sustainability of procured products. In 2015, this policy was revised, and its scope of coverage was expanded beyond timber to include building materials such as metals, ceramics and plastic products.

Furthermore, we revised our previous timber procurement standards and reorganized them as the Timber Procurement Management Regulations and Due Diligence Manual in March 2018.

### The Sumitomo Forestry Group Procurement Policy (Excerpt)

The Sumitomo Forestry Group utilizes wood as a renewable natural resource in its business operations. To contribute to a sustainable society, we are committed to procurement activities that take into account economic, environmental and societal interests and comply with the following policy:

1. Procurement based on legal and highly reliable supply chains
2. Procurement based on fair opportunity and competition
3. Procurement of sustainable timber and wood products
4. Communication

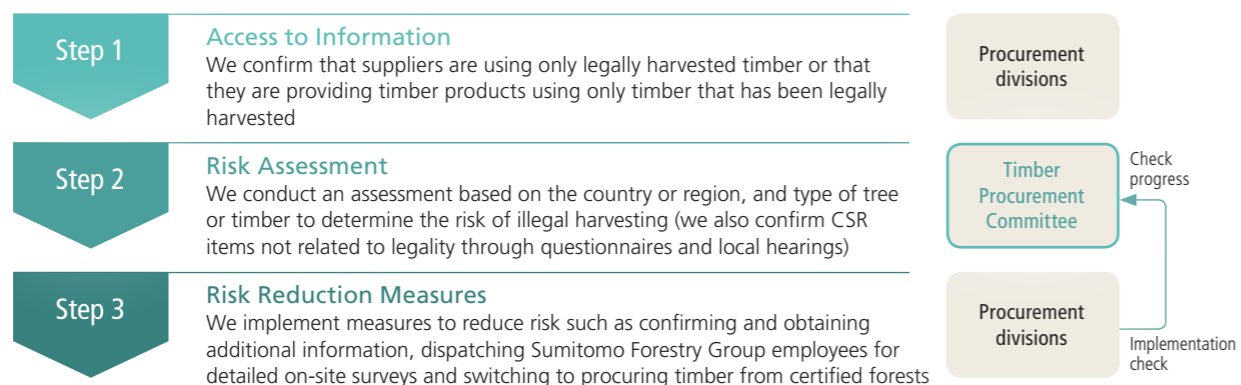
### Promotion System of Timber Procurement Management

Sumitomo Forestry Group established the Timber Procurement Committee, comprising managers from departments in charge of timber procurement. The committee confirms the status of timber procurement and discusses issues related to Group-wide timber procurement, including procurement standards and risk assessments for illegal logging.

### Initiatives for Enabling Sustainable Timber Procurement

#### < Due Diligence for Timber Procurement >

Based on The Sumitomo Forestry Group Procurement Policy, the Group conducts due diligence to verify the legality of our timber procurement. Each division that procures timber reports to the Timber Procurement Committee on the progress with this due diligence, and works to promote continual improvement in the supply chain.



\* In addition, issues other than legality are verified via questionnaires and/or interviews

**Step 1:** We use information to confirm that the supplier can only supply legally-harvested timber or wood products made from legally-harvested timber. (Key items verified: supplier name, address, whether supplier has received approvals, etc., name and quantity of product to be procured, species of tree in product and logging site, main buyers, etc.)

**Step 2:** For the information in Step 1 above, illegal logging risk assessments are conducted for each country, region, tree species and timber type.

**Step 3:** As additional measures for wood and timber products other than those evaluated as "low risk" in Step 2 above, we implement countermeasures to reduce risk, including confirming and acquiring additional information, performing local traceability investigations, and switching to procurement of materials from certified forests.

### Consideration for Human Rights, Labor, Biodiversity Conservation, and Local Communities

The following items are checked through supplier surveys and local interviews for the products that are being procured:

- Whether the rights of workers and local inhabitants are abused in the area where we procure the products and their raw materials from. If this is the case, whether suppliers check their logging practices take place with consideration for these rights.
- Whether high conservation value forests are included in the area where we procure the products and their raw materials from. If this is the case, whether suppliers check their logging practices with consideration to forests with high conservation value.

### Results of Due Diligence on Suppliers

In fiscal 2017, three Timber Procurement Committee meetings were held, and we confirmed legality and sent questionnaire surveys to 106 suppliers. We conduct checks of all new suppliers, while we perform checks on existing suppliers once every two years.

CSR Material Issues	Evaluation metrics	Fiscal 2016 results	Fiscal 2017 results	Fiscal 2020 target
Continue to Procure Wood and Materials that Take Sustainability and Biodiversity into Consideration	Percentage of reviews conducted for suppliers who handle directly imported timber and wood products with verified legal compliance (%)	100%	100%	100%

### Promoting the Widespread Use of Timber from Certified Forests

The Sumitomo Forestry Group is working to build a reliable supply chain with our suppliers. As one of the goals of the Mid-Term CSR Management Plan, we are aiming to increase the volume of timber from certified forests that is handled. Having obtained CoC Certification\* on our own, we provide certified materials to the market and consumers.

CSR Material Issues	Evaluation metrics	Fiscal 2016 results	Fiscal 2017 results	Fiscal 2020 target
Continue to Procure Wood and Materials that Take Sustainability and Biodiversity into Consideration	Percentage of imported timber from certified forests among all imported timber sold (%)	10.9%	12.8%	12.0%
	Volume of plantation timber, timber from certified forests, and Japanese timber handled at overseas distribution bases (1,000 m <sup>3</sup> )	812	1,163	783
	Volume of timber from certified forests (SGEC timber) handled at domestic distribution bases (1,000 m <sup>3</sup> )	68	78	85

\*CoC (Chain of Custody) certification ... A system designed for businesses involved in the process of processing and distributing forest products. A product can be labeled with a certification mark if, in each process of processing and distribution, it is ascertained that the forest products are harvested from certified forests (certified timber), it is verified that the risk assessments of non-certified materials are being conducted, and all businesses involved in the series of processes have received CoC certification.

### Communication with Suppliers in the Housing and Construction Business / Business Partner Evaluation

We evaluate corporate overview, quality, cost, delivery period, environmental response and services every year for companies that we procure from in the Housing and Construction Business (suppliers excluding on-site equipment manufacturers, precut factories, building material operators and frame centers). We provide feedback from the evaluation results as a way to play a role in bettering our suppliers. As a part of the evaluation process, we regularly perform audits of suppliers' factories.

Name/scale	Fiscal 2017 result
Evaluation and Feedback Based on the Supplier Evaluation Standards	Response Rate: 81.7% of main business partners

### Response to the Clean Wood Act

In May 2017, Japan implemented the "Act on Promotion of Use and Distribution of Legally-Harvested Wood and Wood Products," commonly known as the "Clean Wood Act." This law aims to encourage the use of timber made from trees harvested in conformity with the laws and ordinances of Japan and other countries of origin, and to form markets that exclude illegally-logged wood leading to environmental destruction.

On November 22, 2017, Sumitomo Forestry's Timber & Building Materials Division, which imports and sells timber, was the

first company in Japan to be registered as a Type 1 timber-related operator. Subsequently, on February 20, 2018, Sumitomo Forestry Wood Products Co., Ltd. was registered as Type 1 and Type 2 timber-related operator (procurement and sales of timber). Also, Sumitomo Forestry's Housing and Construction Division was registered as a Type 2 timber-related operator (construction) on March 16, 2018, while Sumitomo Forestry Crest Co., Ltd. was registered as a Type 2 timber-related operator on May 9, 2018. The Sumitomo Forestry Group as a whole is working to procure timber in compliance with all laws and in a sustainable manner.

## Stakeholder Relations

The Sumitomo Forestry Group takes advantage of various opportunities to communicate with stakeholders from a clear understanding of its role and purpose as a member of society. Through its business activities, the Sumitomo Forestry Group strives to meet the expectations and demands of a variety of stakeholders to build positive relationships.

### 1 Customers

Our customers are surrounded by widespread social and environmental change. Amidst the diversification of peoples' needs, perspectives, and lifestyles, the Sumitomo Forestry Group remains committed to providing high-quality products and services that bring joy to our customers, in line with Our Values. In addition, the Group is enforcing initiatives related to safety and quality issues and formulating risk mitigation. The Group is also linking further progress to the creation of new business opportunities and customer satisfaction by promptly addressing social and environmental change through sustainable improvements.

Main responsibilities		Communication methods	
Provide safe and high-quality products and services Disclose information in a timely and proper fashion, report responsibility Understand stakeholder requests and needs through communication and improve satisfaction		Sumitomo Forestry Call Centers Customer satisfaction surveys Website, mass media, etc. Exhibitions and other events	
Ratio of houses certified as Excellent Long-Term Housing for new custom-built detached houses	Pass rate for after-sales maintenance advisors and housing inspectors*	Number of inquiries handled by call centers	Percentage of customers who responded "I would recommend Sumitomo Forestry homes"
<b>93.3%</b>	<b>100.0%</b>	<b>126,106</b>	<b>86.9%</b>

\* All persons at Sumitomo Forestry Home Tech Co., Ltd. in charge of maintenance

### 2 Business Partners

As stipulated by the Sumitomo Forestry Group Timber Procurement Policy, we proactively work toward the sustainable procurement of timber globally. While working and communicating with business partners and suppliers, we make every effort to engage in fair and open procurement activities with the preservation, growing, and planting of forest resources and the promotion of effective application of limited natural resources, including positive utilization of timber from certified forests. We aim to reinforce our business foundation by building and maintaining healthy relationships based on mutual development.

Main responsibilities		Communication methods	
Build fair and open business relationships Improve occupational health and safety Strict compliance with laws and regulations		Purchasing and procurement activities Hold safety conferences, safety patrols, and building contractor meetings Hold research conferences and information exchange events Evaluate suppliers (surveys and on-site visits)	
Volume of plantation timber, timber from certified forests and Japanese timber handled at overseas distribution bases	Volume of wood chips used for fuel	Volume of unused wood in domestic (Japan) timber	Percentage of reviews conducted for suppliers who handle directly imported timber and wood products with verified legal compliance
<b>1,163</b> thousand m <sup>3</sup>	<b>847</b> thousand m <sup>3</sup>	<b>286</b> thousand tons	<b>100.0%</b>

### 3 Shareholders and Investors

With the aim of maintaining and strengthening the trust of capital markets, the Sumitomo Forestry Group makes every effort to fulfill its reporting responsibility to shareholders and investors so its share price reflects an accurate assessment of its corporate value. Through the timely and transparent disclosure of a wide range of information, including non-financial aspects, we aim for further understanding of our management policies, strategies and business plans. At the same time, we feed back the opinions and requests of investors and other stakeholders to management, facilitating the creation of measures to improve corporate value and sustain growth.

Main responsibilities	Communication methods
Timely and appropriate information disclosure Information transparency and reporting responsibility Appropriate shareholder returns	General Meeting of Shareholders, results briefings, and individual investor briefings Individual meetings with analysts and institutional investors Disseminate information through the website, shareholder communications, briefing materials, and other relevant materials Responses to SRI and other evaluations and research organizations

Return on equity (ROE)

**10.3%**

Individual meetings with institutional investors and analysts in Japan and overseas

**173** meetings

Guiding overseas investors around a Sumitomo Forestry Group-owned forest



### 4 Employees and Their Families

The Sumitomo Forestry Group is engaged in measures that enhance respect for diversity and human rights, promote the creation of open work environments free of discrimination, ensure safety in the workplace, consider work-life balance, and reduce long work hours with the aim of providing workplaces where employees are motivated and lead fulfilling lifestyles. Along with removing risks to employees by undertaking initiatives to resolve related issues, we intend to carry out one of Our Values, "We promote a free and open-minded corporate culture that respects diversity," and foster a group of employees who are always willing to take on new challenges.

Main responsibilities		Communication methods	
Provide and maintain a work environment where human rights are respected and employees can work under safe and healthy conditions without discrimination Promote measures and systems that enhance work-life balance		Conduct employee awareness surveys Family Open Day Informal Management Committee comprised of both labor and management members Publication of internal newsletter and operation of the intranet	

Hours of overtime work (compared with fiscal 2013) (non-consolidated basis)

**20.7%** reduction

Number of hours each employee took part in in-house training on average per year (non-consolidated basis)

**13.1** hours

Annual training cost per employee (non-consolidated basis)

**¥100** thousand

Percentage of employees who have joined the labor union (non-consolidated basis)

**100.0%**

### 5 Regional Communities

As written in our policies, the Sumitomo Forestry Group proactively fosters business activities in regions that revitalize local economies and promote employment, thereby operating in harmony with local communities. We aim to advance business development in each country and region by providing more insight into the Group through regional community engagement, cooperation and information disclosure. At the same time, we will continue to create both economic and social value for regional communities through business activities.

Main responsibilities	Communication methods
Help solve social problems Reduce environmental impact in business Preserve the natural environment and biodiversity	Help form communities through social contributions Contribute to the environment and society through collaboration with NPOs/NGOs Volunteers for planting and forest development Supporting employee volunteer activities

Cost of social contribution activities

Approx. **¥189** million

Amount of donations related to social contributions

Approx. **¥215** million

Employees participate in a forest development volunteer activity



## Diversity (Fair Employment and Benefits that Respect Diversity)

Equal opportunity and diversity in employee hiring and compensation practices are respected based on international standards for the human rights of people from all walks of life. These principles are set out in the Sumitomo Forestry Group's Code of Conduct Guidebook.

### Activities for Diverse Talent Acquisition

In its recruitment activities, the Group emphasizes the ambition and volition of the applicant, and does not differentiate selection processes according to academic background or gender. At Group companies outside Japan, the employment of local staff is actively promoted, and talented personnel are employed and promoted to management positions, irrespective of race or gender.

As for the disciplinary punishment and dismissal of employees, if there has been a compliance violation, the employee will be dealt with appropriately in accordance with Employment Regulations. Unfair dismissals are not allowed.

Recently, talent acquisition has been recognized as one of the major issue for management in Japan, triggered mainly by a low birth rate and aging population. At Sumitomo Forestry, our policy on hiring and compensation is properly reflected in our recruitment activities and in our Workstyle Diversification Department, an independent organization within the Personnel Department that supports the activities of our diverse workforce, including female staff, re-employed retirees, and employees with disabilities.

#### Employment and Promotion of Women (Non-Consolidated)

	2013	2014	2015	2016	2017
Ratio of female employees* <sup>1</sup>	17.8%	18.8%	19.4%	20.0%	20.4%
Ratio of female employees in management positions* <sup>1</sup>	1.9%	2.2%	2.6%	2.8%	3.2%
Ratio of newly graduated female recruits* <sup>2</sup>	23.8%	29.0%	26.8%	22.8%	18.0%

\*<sup>1</sup> Retroactively re-calculated based on enrolled personnel as of March 31 of each year  
\*<sup>2</sup> Calculated based on the number of employees as of April 1 each year

#### Status of Female Recruitment / Employment (Domestic Subsidiaries)

	2013	2014	2015	2016	2017
Ratio of female employees	29.5%	29.6%	30.4%	30.7%	31.6%
Ratio of female employees in management positions	3.2%	3.6%	4.0%	4.2%	4.6%
Ratio of newly graduated female recruits	36.5%	36.1%	48.0%	40.3%	40.2%

#### Employment of Persons with Disabilities (Non-Consolidated)

	2013	2014	2015	2016	2017
Ratio of employees with disabilities	2.18%	2.24%	2.12%	2.12%	2.26%

\*Fiscal 2017 calculation includes special subsidiary company "Sumirin Wood Peace Co., Ltd."  
\*Calculated based on the number of people enrolled as of June 1 in each fiscal year

#### Number of re-employed retirees

2013	2014	2015	2016	2017
28	43	34	46	50

## Work-Life Balance

We recognize diverse working styles and undertake a number of initiatives with the aim of creating a workplace where each and every employee can find satisfaction in what they do, remain healthy physically and mentally, and lead a fulfilling private life.

### Initiatives to Reduce Long Working Hours

In fiscal 2017, we overhauled our personnel system and have since been placing greater importance on preventing long working hours and encouraging productivity improvements. Some initiatives include a switch to a system where overtime hours worked are actually counted (as opposed to our previous deemed working hours system), the launch of flex-time and work interval systems, and the roll-out of an hourly productivity assessment system. We recognize that long working hours pose a significant business risk; if such a situation is left ignored, it will likely lead to occupational accidents and damage the reputation of our brand, and ultimately lead to future labor shortages.

Workstyle Enhancement Committees have been set up at branches of the Housing & Construction Business Division to implement initiatives to reduce long working hours. Additionally, for work system and operational flow reforms that are difficult to tackle at the branch level, the Long Working Hours Mitigation Committee was set up within the division to lead the campaign to reduce long working hours by making systems improvement proposals.

### The 6th Next Generation Law Action Plan (Fiscal 2015 to 2018)

Sumitomo Forestry formulates and implements action plans for supporting employees who are raising families, in accordance with the Act on Advancement of Measures to Support Raising Next-Generation Children (Next Generation Law).

- 1 Host seminars themed on workstyle reforms in order to foster a work environment that actively involves female employees who are raising children.
- 2 Hold "Family Open Days" to create a pleasant work environment for all employees to execute their talent.
- 3 Establish a system in which male employees and their seniors can discuss using childcare support programs as a means of promoting paternal involvement in childcare. Also, disclose the participation status of childcare-related programs on the Company's intranet.

### Telecommuting System

We offer a telecommuting system to all employees (excluding new graduates who have been at the Company less than three years and newly hired employees yet to pass six months at the Company). There are no limitations on how long an employee may telecommute and most users utilize the system for childcare or nursing care reasons, or to avoid long commuting times.

With the objective of further promoting diverse working styles, we continue to expand the use of this system by explaining its details and personally recommending it to employees who seek consultation about childcare or working styles.

### Encouraging Different Systems for Paid Leave

We encourage employees to take planned paid leave of more than 10 days every year, including so-called "refresh" leave and summer holiday leave. The average number of paid leave days used in fiscal 2017 was 9.0, up from 6.9 the previous year.

Also, employees who work at our housing business branches, which are closed on Tuesdays and Wednesdays, find it difficult to take leave to participate in family activities because they often need to meet with customers on Saturdays and Sundays. We therefore offer "Family Friendly Day Leave" to such employees. Under this system, they can take one Saturday or Sunday off every month to spend time with their family or engage in their favorite pastime.



## Human Resource Development

Based on the concepts of autonomy and support in human resource development, Sumitomo Forestry endeavors to train personnel who contribute to the realization of its corporate philosophy by nurturing a corporate culture that is open and inclusive, developing employees who are highly motivated and proud to work at Sumitomo Forestry.

Moreover, we believe it is our mission to pass along to the next generation the carpentry techniques that can be applied in a majority of situations, such as wooden houses, renovation work, and large-scale wooden structures. We are concentrating on the development of human resources with these valuable skills.

### Development of the Sumitomo Forestry Business Institute

The Sumitomo Forestry Business Institute, which was created in fiscal 2011, has been a center for skills development with an emphasis on self-initiative, while transitioning from a system based on training for each level for all positions to one focused more on self-development and selective training, based on the concept of "Supporting Motivated People." We also provide an e-learning curriculum that domestic Group employees can use to learn on their own.

#### Number of Employees Attending Main Training Programs (FY 2017)

Training program	Number of people attending (non-consolidated)	Number of people attending (Group companies)
Training for specific levels (11 courses)	904	145
Selective training (23 courses)	83	30
Self-development training (37 courses)	366	10
e-learning (6 mandatory courses)	4,906	4,737

#### Hours of Training Courses Taken and Training-Related Costs (Non-Consolidated)

	2013	2014	2015	2016	2017
Hours of training courses taken per employee	7.5	6.8	9.3	9.4	13.1
Spending on training per employee (¥ thousand)	91	91	91	100	100

### Preserving Traditional Building Techniques for Wooden Houses

The Sumitomo Forestry School of Professional Building Techniques is an educational institution certified by the Governor of Chiba Prefecture, and was founded by the Company in 1988 as an in-house training center. Through a one-year training curriculum, the school provides training for new employees at Sumitomo Forestry Home Engineering Co., Ltd. who aspire to work in carpentry. In terms of construction-related subjects, students study classroom-based subjects such as an introduction to building, structures, drawing, methods of construction, materials and supervision, as well as practical subjects, including tool operation and maintenance, the traditional technique of marking timber with sumi ink and a carpenter's square, as well as processing, safety work, model-based practical training, demonstration-based practical training and computing. By the end of their training, the students aim to obtain Grade 2 Carpenter Skills Certification.

After training, graduates are assigned to places all around Japan, and after a few years, We give them the opportunity to return to the school for 7–10 days of refresher training.

In fiscal 2017, the school welcomed 67 new enrollments, including carpenters employed at partner companies, and 66 students graduated. In fiscal 2018, the school had another 69 new enrollments.



Learning building methods



## Gauging Environmental Risks









We recognize that changes in the environment, such as climate change or biodiversity, may have an impact on our business activities. We therefore collect relevant information, conduct analyses when necessary, and make use of the results in business risk assessments. Depending on the degree of risk, each department decides on specific measures and assessment indicators for risks that arise in day-to-day operations and delivers a progress report every quarter to the Risk Management Committee, while for longer-term risks, countermeasures are formulated by the Sustainability Committee.

Risk Topics		
Risks Related to Climate Change	Natural Disasters	Damage from a major earthquake, wind, flood, or other destructive natural element could result in cost increases arising from interrupted operations at facilities or verification of safety in our housing products, delays in the completion of construction contracts, or other events. A significant increase in costs caused by a natural disaster could influence the Group's operating results and financial position.
	Mandatory GHG Emission Reduction Targets	As global efforts to reduce greenhouse gas (GHG) emissions become more substantive, it is possible that the reduction of GHG emissions by companies becomes mandatory in countries or regions where we have Group company offices. Failing to meet reduction targets poses the risk of an increase in business costs because of the need to purchase carbon emission credits.
	Environmental Response in Products and Services	Following amendments to energy-saving standards in fiscal 2013, demand is expected to increase for ZEH (zero-energy houses) and LCCM (Life Cycle Carbon Minus) houses, which are capable of reducing CO <sub>2</sub> emissions to below zero over their lifetime. Failing to quickly respond in terms of product development means the Sumitomo Forestry Group could see its market share shrink. Moreover, in the event of significant climate change, there exists the risk of having to change housing specifications or provide after-sales services to ensure houses are properly equipped to meet these standards.
	Change in Suppliers and Impact on Company-owned Forest Management	Given that timber is our main material and the source of our products, depletion of timber resources or change in vegetation as a result of climate change may mean that Sumitomo Forestry will be forced to change suppliers if restrictions are put in place. At the forests the Group owns or manages, forest conservation, tree growth, and vegetation may also be impacted by climate change such as changes to average temperature and annual rainfall, as well as storm and flood damage or changes in ecosystems.
	Energy Supply Shortages	Operations at our Group's plants that use hydroelectric power could come to a halt if dam levels fall as a result of less rainfall and hydroelectric power transmission is suspended.
	Impact on Financing	There is a growing tendency for rating agencies and institutional investors to assess the climate change initiatives of companies in terms of their corporate rating or ESG investments. If a financial institution attaches environment-related conditions to its lending terms, such as the implementation of an environmental assessment or other such climate change initiatives, and if Sumitomo Forestry Group fails to satisfy such conditions on time, its financing may be affected.

Risk Topics		
Risks Related to Biodiversity	Tighter Laws and Regulations	As laws and regulations designed to prevent a decline in biodiversity are enacted and tightened, it is assumed that in our businesses, in addition to management of Company-owned forests and the procurement and purchasing of timber, we are required to engage in revegetation efforts within and around building sites. Compliance risks will arise if we fail to appropriately address the requirements of these laws and regulations.
	Reputational Damage	If Sumitomo Forestry neglects to uphold its obligations in an appropriate manner and operates using illegally logged timber, the Company's reputation may be damaged and earnings, such as sales, would be directly affected.
	Changes in Timber Quality or Volume	Trees make up one part of the ecosystem and if changes in biodiversity affect the quality and volume of timber, we may have to switch suppliers. Forest conservation, tree growth, and vegetation may also be affected in areas that are managed and owned by Sumitomo Forestry, and in Group-owned forests.
	Impact on Financing	There is a growing tendency for rating agencies and institutional investors to assess the climate change initiatives of companies in terms of their corporate rating or ESG investments. If a financial institution attaches environment-related conditions to its lending terms, such as the implementation of an environmental assessment or other such climate change initiatives, and if Sumitomo Forestry Group fails to satisfy such conditions on time, its financing may be affected.
Risks Related to Illegal Logging of Forests	Tighter Laws and Regulations	Laws and regulations on illegal logging of forests continue to tighten around the world. Compliance risks and the likelihood of action for damages will arise if the Group fails to appropriately uphold lawful logging and procurement practices.
	Reputational Damage	If Sumitomo Forestry neglects to uphold its obligations in an appropriate manner and operates using illegally logged timber, the Company's reputation may be damaged and earnings, such as sales, would be directly affected.

## Financial Section\*

## External Commendations

 The FTSE4Good Global Index is a stock market index of the index provider FTSE, a joint venture between the UK's Financial Times and London Stock Exchange. We have been included in this index since 2004.	 Sumitomo Forestry is a composite stock in all three passively managed ESG indexes (FTSE Blossom Japan Index, MSCI Japan ESG Select Leaders Index, and MSCI Japan Empowering Women Index), selected by the Government Pension Investment Fund (GPIF).
 We have been included in the Morningstar Socially Responsible Investment Index (MS-SRI) since September 2008. Morningstar Japan selects for inclusion in the index 150 publicly listed Japanese companies that have been evaluated as possessing outstanding social credentials. The MS-SRI is Japan's first socially responsible investment share index.	 *The inclusion of Sumitomo Forestry in any MSCI Index, and the use of MSCI logos, trademarks, service marks or index names on websites do not constitute a sponsorship, endorsement or promotion of Sumitomo Forestry by MSCI or any of its affiliates. The MSCI Indexes are the exclusive property of MSCI. MSCI and the MSCI Index names and logos are trademarks or service marks of MSCI or its affiliates.
 We were awarded the Bronze Class commendation for the third consecutive year in the Sustainability Yearbook 2018, a CSR rating by RobecoSAM, in addition to being selected as one of the world's most sustainable companies for the 11th straight year in the Home Building Industry Sector.	 We have been selected in the 2018 Health & Productivity Stock Selection by the Ministry of Economy, Trade and Industry (METI) and the Tokyo Stock Exchange in recognition of our strategic initiatives on employee health from a management perspective for the second time and after a two-year absence. We have also been chosen as a Certified Health and Productivity Management Organization (in the large company category) for the second year running.
 CDP is one of the world's leading SRI evaluation bodies, and scores companies on their greenhouse gas emissions and climate change strategies. Sumitomo Forestry was selected for the second year running as a Climate Change A List company by CDP, its highest ranking. Of the companies selected for the A List in 2017, there were 112 global firms and 13 Japanese companies, including Sumitomo Forestry.	 We have also been chosen as a Certified Health and Productivity Management Organization (in the large company category) for the second year running.

\* From the beginning of the fiscal year ending March 31, 2019, the Sumitomo Forestry Group applies the "Partial Amendments to Accounting Standard for Tax Effect Accounting" (ASBJ Statement No. 28, February 16, 2018), etc., and a portion of figures listed for the fiscal year ended March 31, 2018 have been reclassified.