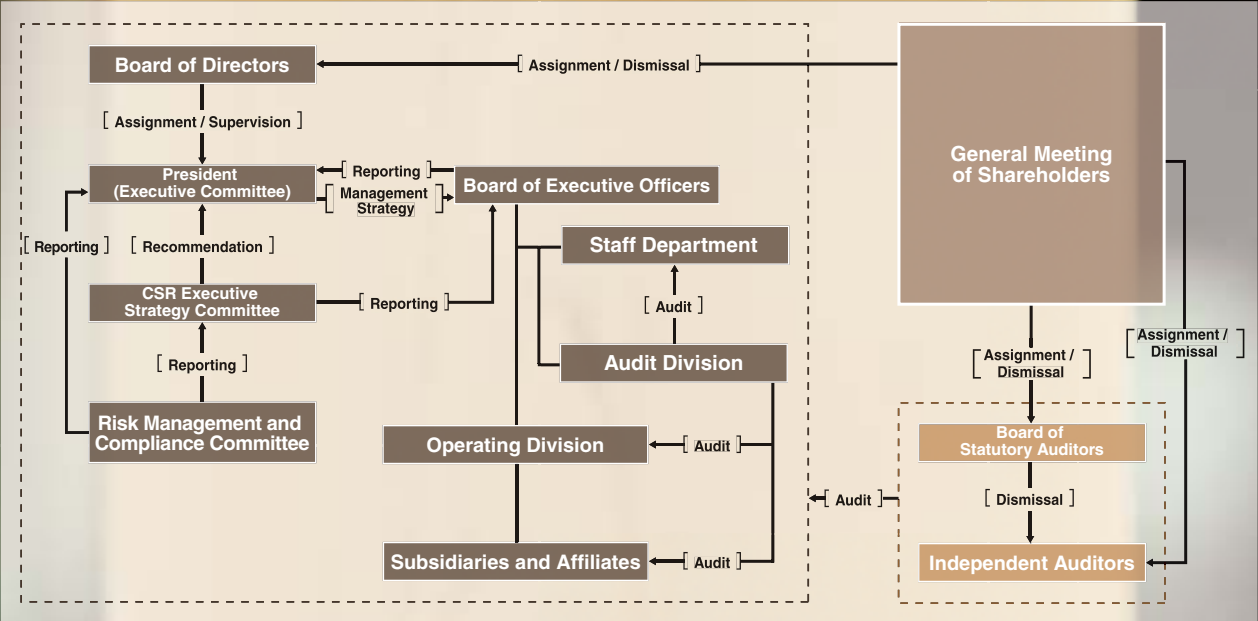


# Corporate Social Responsibility

## Business Execution and Management Supervision Mechanism



# Corporate Governance and Compliance

To ensure management transparency and prompt decision-making and business execution, we at Sumitomo Forestry have enhanced and strengthened our systems of corporate governance and compliance as one of our top priorities and are making continuous progress in this area.

---

## Corporate Governance

In June 2002, Sumitomo Forestry introduced the executive officer system and separated the decision-making and supervisory functions from business execution functions. By doing so, we have worked to speed up management, enhance supervisory functions, and clarify responsibilities.

At the same time, we reformed our management structure in order to promote prompt and flexible decision-making to address the rapidly changing management environment. Meeting once a month in principle, the Board of Directors makes decisions regarding important management matters and reviews business results. The Board also performs supervisory functions related to business execution. The Company's business strategies are determined by the Executive Committee, which also meets once a month in principle. The Board of Executive Officers reports on the status of operations.

Under our auditing system, there are currently four statutory auditors, including two outside statutory auditors. To contribute to healthy and sustainable management of the Company, the statutory auditors attend the Board of Directors and the Executive Committee meetings. They also hold a meeting once every three months to exchange views with the representative directors regarding a variety of issues associated with corporate governance. Internal audits are undertaken by the Audit Division. The Division works with the auditors to conduct internal audits of the entire Group regarding the appropriateness of ordinary business affairs. Furthermore, to enhance the functions of the auditors, we have

amended our Auditing Regulations for Statutory Auditors and Code of the Board of Statutory Auditors in accordance with the Code of Kansayaku Auditing Standards of the Japan Corporate Auditors Association, which was revised in February 2004. With these efforts, we are striving to further enhance the quality of our corporate governance system.

## Compliance and Risk Management

We believe that doing our utmost to meet the expectations of our various stakeholders is the fundamental basis on which we can build trust in society. As such, compliance is our priority management issue.

In 1997, we established the Sumitomo Forestry Ethical Charter, as well as the Ethical Action Guidelines for promoting compliance. To improve awareness among all employees, the Ethical Charter is included in employee handbooks and we run a column on compliance-related issues in the Group's in-house monthly newsletter and on the intranet. In addition, we have established an internal reporting system, Compliance Counter, through which employees can anonymously provide information the General Manager of the General Administrative Division and a company lawyer regarding potentially illegal acts by the organization or its employees, and activities contrary to corporate ethics. Through such measures, we strive to detect and resolve issues promptly that are difficult to manage under normal business operations.

To deal with risk management issues, we have established a Risk Management and Compliance Committee headed by the General Manager of the General Administrative Division to examine new risks that arise as business environments change, and to draw up and give guidance on countermeasures for such risks. We have also set up a dedicated Emergency Hotline for all Group employees to enable them to act quickly and appropriately in emergency situations. In addition, we have set a rule that emergency situations must be reported to the president within two hours. Thus, we have created a system under which the top management takes the initiative in our efforts to manage risks.

## Activities Contributing to the Environment and Society



The history of the Sumitomo Forestry Group goes back to the 17th century when the Sumitomo family started the management of neighboring forestlands around the family-owned Besshi Copper Mine in Shikoku region. Timber was harvested to support mining operations that required wood for construction, piling, and fuel. For more than 300 years since then, Sumitomo Forestry has lived with, learned about, and appreciated the great qualities of wood and forests. Through such experiences, we have developed the practice of "sustainable forestry," in which we have continued to plant and produce timber on a permanent basis in order to respect the functions of forests that provide social benefit. This stance of prioritizing sustainability has been passed down to our present Group and is steadily upheld in our current business operations.

In order for the Group to demonstrate this stance clearly and continue to grow while coexisting with society, we will shift to a management that places corporate social responsibility (CSR) as its cornerstone. To this end, we established the CSR Promotion Office in April 2005 to implement a system under which the entire Group can work together on the issue of CSR. Going forward, we will place the concept of sustainability at the foundation of all of our corporate activities. While maintaining a balance between the economy, society, and the environment, we will develop our "total housing and living-related business" that will contribute to a fulfilling future. By reviewing our various businesses from the viewpoint of CSR, we will strive to improve our corporate value and brand image.

### Environmental Efforts through Our Business Environmental Management

#### Environmental Management System

Placing environmental efforts as one of our top management priorities, we at Sumitomo Forestry have been developing since fiscal 1996 an Environmental Management System (EMS) based on the ISO 14001 standard. We were the first to obtain this certification in the housing industry in 1997. Since then, we gradually upgraded our certification to cover all domestic business divisions, and in August 2002, we renewed it to a general certification for the whole Company. We have recently extended the scope of general certification to four of our domestic group companies as well. In addition, three overseas companies have received the ISO 14001 certification.

Furthermore, in order to incorporate our environmentally sound activities into our daily business operations so that these activities will be continued in a sustainable manner, we have built and put into operation since fiscal 2005 an environmental management system based on our budget control system. Since the Kyoto Protocol took effect, we will work in fiscal 2006 toward achieving the goal for the entire Group of reducing CO<sub>2</sub> emissions, the main cause of global warming.

#### Environmental Accounting

To promote even greater efficiency and effectiveness in the environmental conservation activities that are part of our business management, we are working to accurately grasp, in a quantitative manner, the costs associated with environmental protection and its effects. We began publicizing the results of our analysis in the 2001 Environmental Report. In fiscal 2005, costs related to the disclosure and operation of environmental information as well as green procurement increased, causing a drastic rise in the costs of our environmental management activities. However, costs in other areas have decreased.

### Sustainable Forest Management and Promoting the Use of Domestic Timber

In Japan, Sumitomo Forestry holds 40,497 hectares of forests (49% planted forests, 42% natural forests) covering one-thousandth of Japan's land area. We conduct sustain-

## Fiscal 2005 Environmental Accounting

Category		Conservation costs (Millions of yen)		Effects
		Cost	YoY change	
Business area	Global environmental conservation	552	-18	Amount of CO <sub>2</sub> absorbed by Group-owned forests: 231,605t-CO <sub>2</sub> , etc.
	Resource recycling	3,826	-37	Recycled volume of wood discarded from house construction work: 26,650t. Discarded wood recycled through the distribution business (expressed as volume of chips): 687,605m <sup>3</sup>
Management activity		406	+304	Rate of reuse and recycling of used PCs: 100%
Research and development		232	-73	Commercialization of "Big Frame Structural Method," etc.
Social contribution		70	-25	"Manabi no Mori" volunteer activities at Mt. Fuji: 160 participants (held 7 times) Forester House: 4,632 visitors (study groups held 3 times)
<b>Total</b>		<b>5,085</b>	<b>+150</b>	

able forest management in all these forests by keeping the annual yield volume below the volume of the annual growth, and preserving the various ecological functions of the soil, water, and other areas of the forest. We are also giving consideration to the local ecosystem by collecting only as much timber as is needed through selective cutting instead of clearing cutting.

In Japan, the forestry industry is unable to maintain cost-competitiveness due to high labor costs and delays in mechanization. While the Japanese forestry market is the second largest in the world, imported timber meets most of the domestic demand. As a result, the conditions in domestic forests are deteriorating, and there is a need to revitalize the forestry business from both environmental and economic perspectives. For all our housing products other than regional products, we use Japanese cypress for posts and foundations, and have raised the ratio of domestically grown timber to 41%. We also contribute to the advancement of the Japanese forestry business by actively using timber from our Group-owned forests such as larch from the Hokkaido region or cypress from the Shikoku or Kyushu regions.

### Environmentally-Friendly Products

#### Effective Use of Timber Resources

Through technology to improve durability and precision, we are actively making use of resources such as thinned or unused wood that only had limited use in the past. For example, end pieces or thinned wood discarded during lumbering can be used to create Lattice Panels, which are standard materials used as bases for walls in Sumitomo

Forestry's Homes. They are highly durable and air permeable, and they allow for effective use of timber resources and improved housing quality.

We are putting forth efforts to use resources effectively not only in terms of our individual products, but also in our overall manufacturing systems. For example, Nelson Pine Industries Ltd. (NPIL) of New Zealand only uses Radiata Pine trees that have been planted according to developed plans. Parts that are relatively thick and straight are used to produce Laminated Veneer Lumber (LVL) and other parts are processed to manufacture Medium-Density Fiberboards (MDF). The bark and the waste material discarded during the manufacturing process are used as fuel. Through this process every part of the tree is used.

In the domestic arena, a timber-drying system, MIZ-DAS, was developed by Sumitomo Forestry's Tsukuba Research Institute. Japanese cedar is high in moisture content and difficult to dry. However, this system has made it possible to dry cedar in a short period of time while creating very little cracking. As a result, we have succeeded in lowering the amount of energy used for drying, and we are effectively using timber resources by reducing the volume of nonstandard products.

#### Energy-Saving Homes

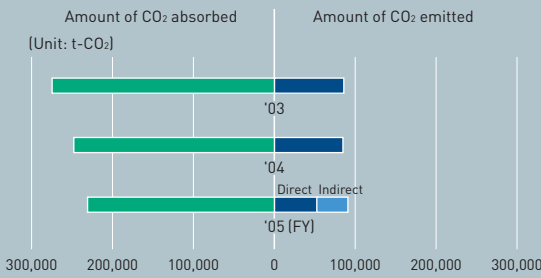
In addition to reducing the burden on our environment by addressing the issues regarding building materials, we at Sumitomo Forestry strive to raise the energy efficiency of the houses we build. We use insulating agents and construction methods for external ventilation in order to reduce energy consumption and CO<sub>2</sub> emission. Through

### Environmentally-Friendly Building Materials

Product	Timber used	Characteristics
Wall lining "Lattice Panel"	Thinned wood from Japanese forests	Combines cedar pieces, etc. in a lattice pattern to create high durability and air permeability.
Glued-laminated cypress timber "Super Cypress"	Thinned wood from Japanese forests	Can achieve better durability and precision than solid materials while maintaining the positive features of cypress.
Glued-laminated larch timber	Larch from Group-owned forests	Drying technique developed for larch, which usually warps easily and is difficult to use, is used for laminated wood.
Particleboard	Waste wood from plywood plants	Waste material is broken down into flakes, mixed with a bonding agent, and formed into panels. Highly versatile.
Plywood made of domestically-grown timber	Japanese cedar	The latest equipment is used to manufacture plywood using Japanese cedar, which is normally difficult to dry.



**CO<sub>2</sub> Absorption by Group-Owned Forests vs. CO<sub>2</sub> Emissions by Group Businesses**



Tree planting in Indonesia



Students who received scholarships from the KTI Educational Foundation



these methods, we have been successful in reducing heat loss by up to 60%, compared to the base standard of the Government Housing Loan Corporation.

**Green Procurement**

To reduce the burden on the global environment caused by the housing construction business, Sumitomo Forestry created its own Green Procurement Guidelines. These guidelines have been put into use during resource procurement since March 2004. They were reviewed in fiscal 2005, in line with the revision of the JIS standard and Procurement Standard based on the Law on Promoting Green Purchasing. With the cooperation of partner companies, 80% of our business partners' and 96% of our products now meet these evaluation standards.

**Reduction of Greenhouse Gases and Waste Material**

CO<sub>2</sub> is the main cause of global warming. Thus, in order to reduce such emissions, we are studying the volume emitted through our business activities, as well as the absorption rate by our domestic Group-owned forests. In fiscal 2005, the emission rate for the entire Group was 90,433 tons. Of this amount, 62.3% was from housing production and construction operations, while 21.6% was from manufacturing and processing of structural members and materials.

The absorption rate of CO<sub>2</sub> by our domestic Group-owned forests was 231,605 tons, approximately 2.5 times more than the amount we emitted.

As part of our effort to reduce waste material, we have established our own wood chip (construction waste material) recycling system. Our wood chip recycling rate for fiscal 2005 was 84% for new construction sites, and 89% for demolition sites. We aim to reach a rate of 95% for demolition sites by 2005, five years earlier than the goal set by the government. Furthermore, we have nearly reached the precut rate of 100% for main construction material, thereby working to reduce and appropriately dispose of waste material discarded in the construction of new houses. In the future, we will also establish methods for recycling roof tiles, plasterboards, and other compounds that are removed during demolitions.

**Efforts as a Corporate Citizen**

The Sumitomo Forestry Group takes part in activities that contribute to our regional society by utilizing our knowledge and experience as forestry experts. Our main activities include afforestation and other ecological restoration efforts, as well as the provision of educational assistance to mainly elementary school aged children.

**Main Social Contribution Activities**

Activities	Location	Description
Afforestation/ Reforestation	National forest, south of Mt. Fuji	Afforestation of species naturally grown at the foot of Mt. Fuji since April 1998. Total number of planted trees: 332,950,000. Also, the inhabitation of plants, birds, and animals in the area are being monitored.
Reforestation volunteer activity at Mt. Fuji "Manabi no Mori"	East Kalimantan, Indonesia	Duration: 1991 to March 2004 (13 years). Restored approximately 277ha of forest. (Total planted area: 503ha; total number of trees planted: 738,000)
Tropical rainforest regeneration project	Besshi Mountain, Ehime Prefecture	Exhibition and experience-based workshops to offer information on forests and forestry.
Education	Besshi Mountain, Ehime Prefecture	Forest development aiming at creating a new type of forest management. Provided opportunity for experience-based workshops by opening the Forester House and Group-owned forests to the general public.
Forester House	Besshi Mountain, Ehime Prefecture	Forest development aiming at creating a new type of forest management. Provided opportunity for experience-based workshops by opening the Forester House and Group-owned forests to the general public.
Sumitomo no Mori Ecosystem	Besshi Mountain, Ehime Prefecture	Forest development aiming at creating a new type of forest management. Provided opportunity for experience-based workshops by opening the Forester House and Group-owned forests to the general public.
KTI Educational Foundation	Indonesia	Established in 2000 for the purpose of providing scholarships to elementary and junior high school students who are unable to receive education due to financial difficulties. In 2004, scholarships were given to 74 elementary and 29 junior high school students.

## Board of Directors, Auditors, and Executive Officers



Hideyuki Kamiyama  
Managing Executive Officer

Shoichi Takahashi  
Senior Executive Officer

Kazuo Kai  
Senior Executive Officer

Hideki Nose  
Managing Executive Officer

Akihiro Ueda  
Vice President and Executive Officer

Ryu Yano  
President and Chief Executive Officer

Kanji Sugano  
Vice President and Executive Officer

### Directors

Ryu Yano\*  
Kanji Sugano\*  
Akihiro Ueda\*  
Kazuo Kai  
Shoichi Takahashi  
Hideki Nose  
Hideyuki Kamiyama  
(\*Representative Director)

### Statutory Auditors

Shuji Kitamura  
Toshio Kohigashi  
Hiroshi Miki  
Satohiko Sasaki

### Executive Officers

**President and Chief Executive Officer**  
Ryu Yano

**Vice Presidents and Executive Officers**  
Kanji Sugano  
Akihiro Ueda

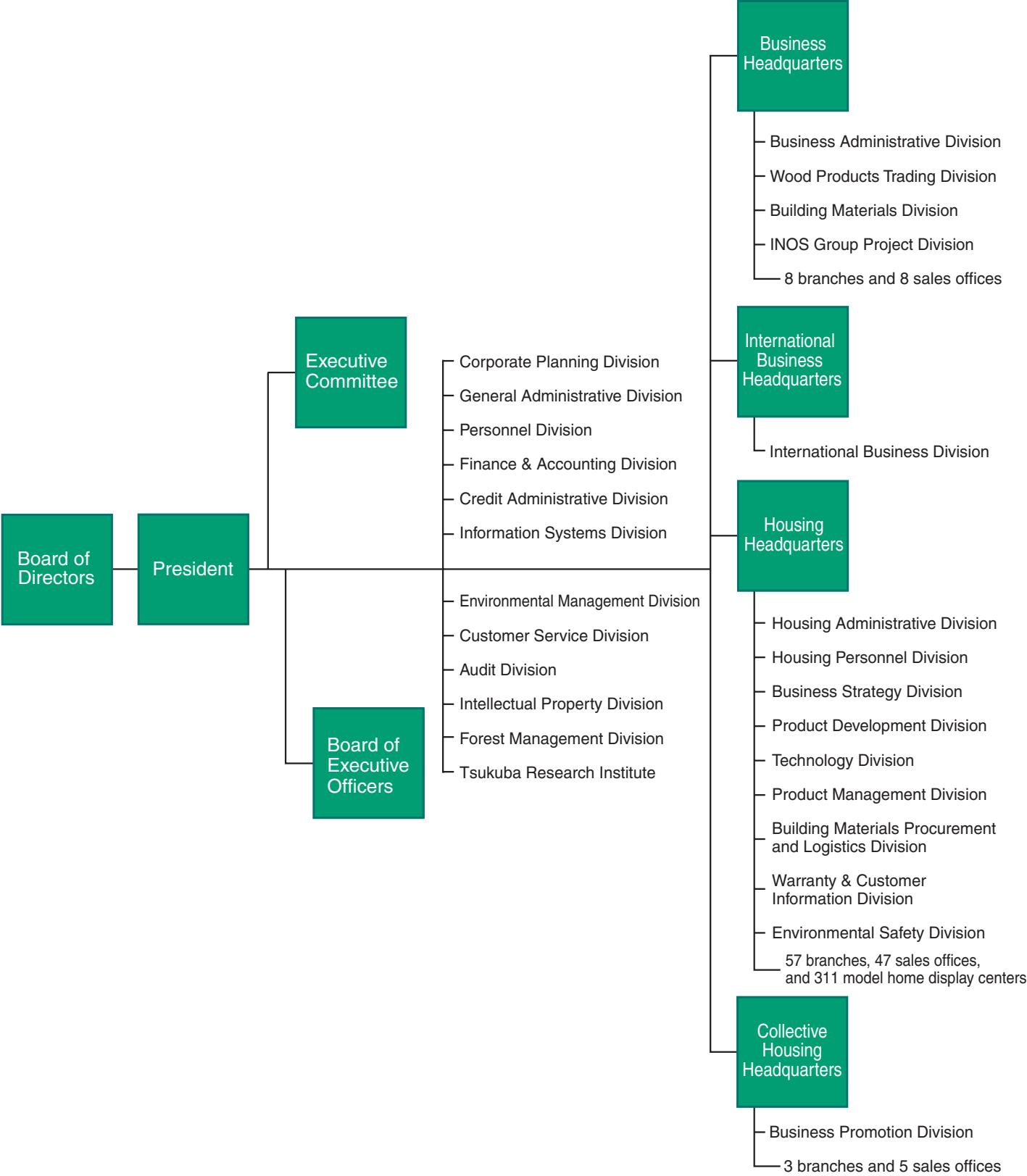
**Senior Executive Officers**  
Kazuo Kai  
Shoichi Takahashi

**Managing Executive Officers**  
Hideki Nose  
Hideyuki Kamiyama  
Hideo Kanai

**Executive Officers**  
Ryuichi Takayama  
Shinichi Miyake  
Mamoru Inoue  
Yasuyoshi Ishiwatari  
Masahiro Nishimura  
Josuke Toyoda  
Shigehiko Shiozaki  
Hitoshi Hayano

(As of June 29, 2005)

# Organization Chart



(As of April 1, 2005)

## Overseas Offices and Subsidiaries

**1. Seattle Office/Sumitomo Forestry Seattle, Inc.**  
11235 SE 6th Street, Suite 120,  
Bellevue, Washington 98004, U.S.A.  
Tel: 1-425-454-2355  
Fax: 1-425-454-1106  
E-mail: sfs@sumiforsea.com

**2. Vancouver Office**  
460, 1140 West Pender Street,  
Vancouver, British Columbia,  
Canada, V6E 4G1  
Tel: 1-604-681-8184  
Fax: 1-604-681-6568  
E-mail: sfc1@sfcvcr.com

**3. Amsterdam Office**  
Rivierstaete Building, 3rd Floor  
No. 22, Amsteldijk 166 1079LH,  
Amsterdam, The Netherlands  
Tel: 31-20-646-4140  
Fax: 31-20-646-5372  
E-mail: sfc3@smtforams.nl

**4. Jakarta Office**  
Summitmas II, 8th Floor, Jl. Jend.  
Sudirman Kav. 61-62, Jakarta 12190,  
Indonesia  
Tel: 62-21-5200268  
Fax: 62-21-5202069  
E-mail: sfcjkt@cbn.net.id

**5. Singapore Office/Sumitomo Forestry (Singapore) Ltd.**  
6 Raffles Quay #14-04/05,  
John Hancock Tower,  
Singapore 048580  
Tel: 65-6435-0150  
Fax: 65-6435-0151  
E-mail: adm@sfspsore.com.sg

**6. Khabarovsk Office**  
"PARUS HOTEL" 208,  
5, Shevchenko Street,  
Khabarovsk 680000, Russia  
Tel: 7-4212-32-68-58  
Fax: 7-4212-32-83-61  
E-mail: sfc@inter.global-one.ru

**7. Dalian Office**  
Senmao Building, 11th Floor,  
147 Zhongshan Road,  
Xigang District, Dalian, 116011, PRC  
Tel: 86-411-8367-8060  
Fax: 86-411-8367-8061  
E-mail: dalian@sfc-cn.com

**8. Tawau Office**  
P. O. Box 946, 91008, Tawau,  
Sabah, Malaysia  
Tel: 60-89-772979  
Fax: 60-89-761060

**9. Kota Kinabalu Office**  
Lot 1-5-E4, 5th Floor,  
Centre Point Sabah, No. 1,  
Jalan Centre Point, 88000,  
Kota Kinabalu, Sabah, Malaysia  
Tel: 60-88-242031  
Fax: 60-88-268031  
E-mail: sfcctu@tm.net.my

**10. Miri Office**  
P. O. Box. 493, 98007, Lot 231  
No.15, Hokkien Road, Miri,  
Sarawak, Malaysia  
Tel: 60-85-413459  
Fax: 60-85-413598  
E-mail: sfcmiri@tm.net.my

**11. Sibiu Office**  
P. O. Box. 1563, 96008, No. 11,  
2nd Floor, Lane 1, Jalan Rakyat,  
Sibu, Sarawak, Malaysia  
Tel: 60-84-312777  
Fax: 60-84-317635

**12. Auckland Office/Sumitomo Forestry NZ Limited**  
P. O. Box. 91219, Auckland Mail  
Centre, Level 11, Westpac Tower,  
120 Albert Street, Auckland,  
New Zealand  
Tel: 64-9-309-0012  
Fax: 64-9-309-0014  
E-mail: sfnz@xtra.co.nz/

**13. Nelson Pine Industries Limited**  
P. O. Box. 3049, Lower Queen Street,  
Richmond, Nelson, New Zealand  
Tel: 64-3543-8800  
Fax: 64-3543-8890  
E-mail: sfc@nelsonpine.co.nz

**14. PT. Kutai Timber Indonesia**  
P. O. Box. 6913/JKSST,  
Summitmas II, 8th Floor,  
Jl. Jend. Sudirman Kav. 61-62,  
Jakarta 12190, Indonesia  
Tel: 62-21-2521260  
Fax: 62-21-5200313  
E-mail: ktijkt@cbn.net.id

**15. Probolinggo Factory**  
P. O. Box. 101 Probolinggo,  
Jl. Tanjung Tembaga Baru, Pelabuhan,  
Probolinggo, Jawa Timur, Indonesia  
Tel: 62-335-42-2412  
Fax: 62-335-42-1669  
E-mail: pr@kti.co.id

**16. Surabaya Branch**  
P. O. Box. 306, Surabaya, Jl. Kusuma  
Bangsa No. 19, Surabaya 60272,  
Jawa Timur, Indonesia  
Tel: 62-31-5343835  
Fax: 62-31-5343838  
E-mail: ktisby@kti.co.id

**17. Samarinda Branch**  
Jl. Manggis Mo. 48/40  
Samarinda 75123,  
Kalimantan Timur, Indonesia  
Tel: 62-541-741966/737926/748116  
Fax: 62-541-741967

**18. Alpine MDF Industries Pty Ltd.**  
Lot-1 Crosher Lane, Wangaratta  
VIC 3677, Australia  
Tel: 61-3-5721-3522  
Fax: 61-3-5721-3588  
Email: enquiries@alpinemdf.com.au

**19. Pacific Wood Products L.L.C.**  
16310 NE 85th Street, Suite 100,  
Redmond, Washington 98052, U.S.A.  
Tel: 1-425-885-1777  
Fax: 1-425-885-0057  
E-mail: sfs@sumiforsea.com

## Affiliates

**20. PT. Rimba Partikel Indonesia**  
P. O. Box. 127 KENDAL  
Desa. Mororejo, Kaliwungu, Kendal,  
Jawa Tengah, Indonesia  
Tel: 62-24-8662990  
Fax: 62-24-8662988/8662993  
E-mail: rpisrg@indosat.net.id

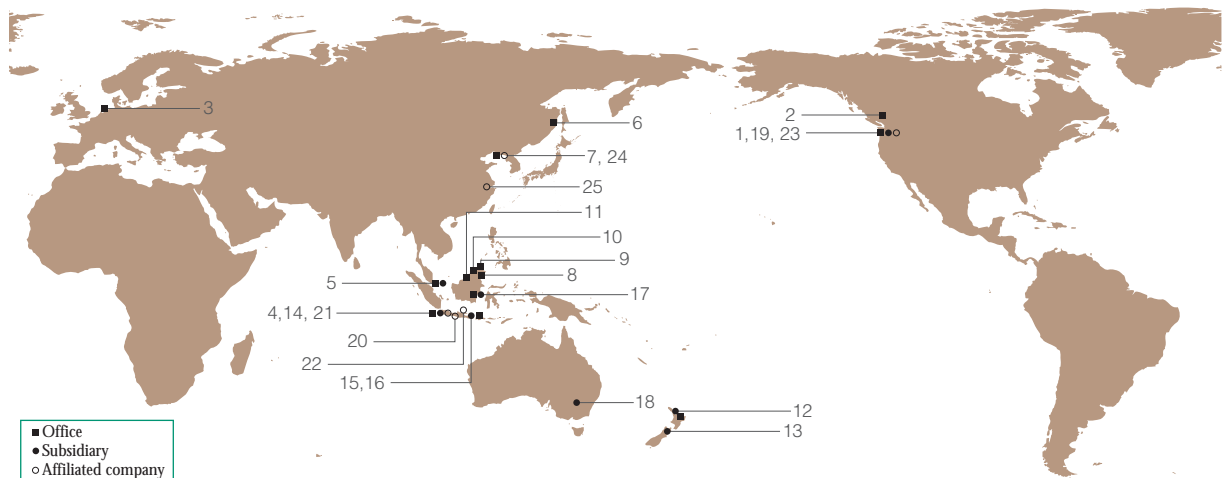
**21. Jakarta Office**  
Gedung Idola Tunngal Slipi,  
Jl. Letjen S.Parmar Kav.67,  
Jakarta 11410, Indonesia  
Tel: 62-21-5321637  
Fax: 62-21-5301313  
E-mail: rimbajkt@cbn.net.id

**22. PT. AST Indonesia**  
KITW Technopark Blok A-01,  
Jl. Raya Semarang-Kendal Km. 12,  
Semarang, Indonesia  
Tel: 62-24-8664800  
Fax: 62-24-8664801  
E-mail: asti@ast.co.id

**23. Bennett-SFS L.L.C.**  
c/o Sumitomo Forestry Seattle, Inc.  
11235 SE 6th Street, Suite 120,  
Bellevue, Washington 98004, U.S.A.  
Tel: 1-425-454-2355  
Fax: 1-425-454-1106  
E-mail: sfs@sumiforsea.com

**24. Paragon Wood Product (Dalian) Co., Ltd.**  
15E Shum Yip Building, #2 Gangwan  
Street, Zhongshan District, Dalian,  
116001, PRC  
Tel: 86-411-82720838  
Fax: 86-411-82720698  
E-mail: paragonkenji@aol.com

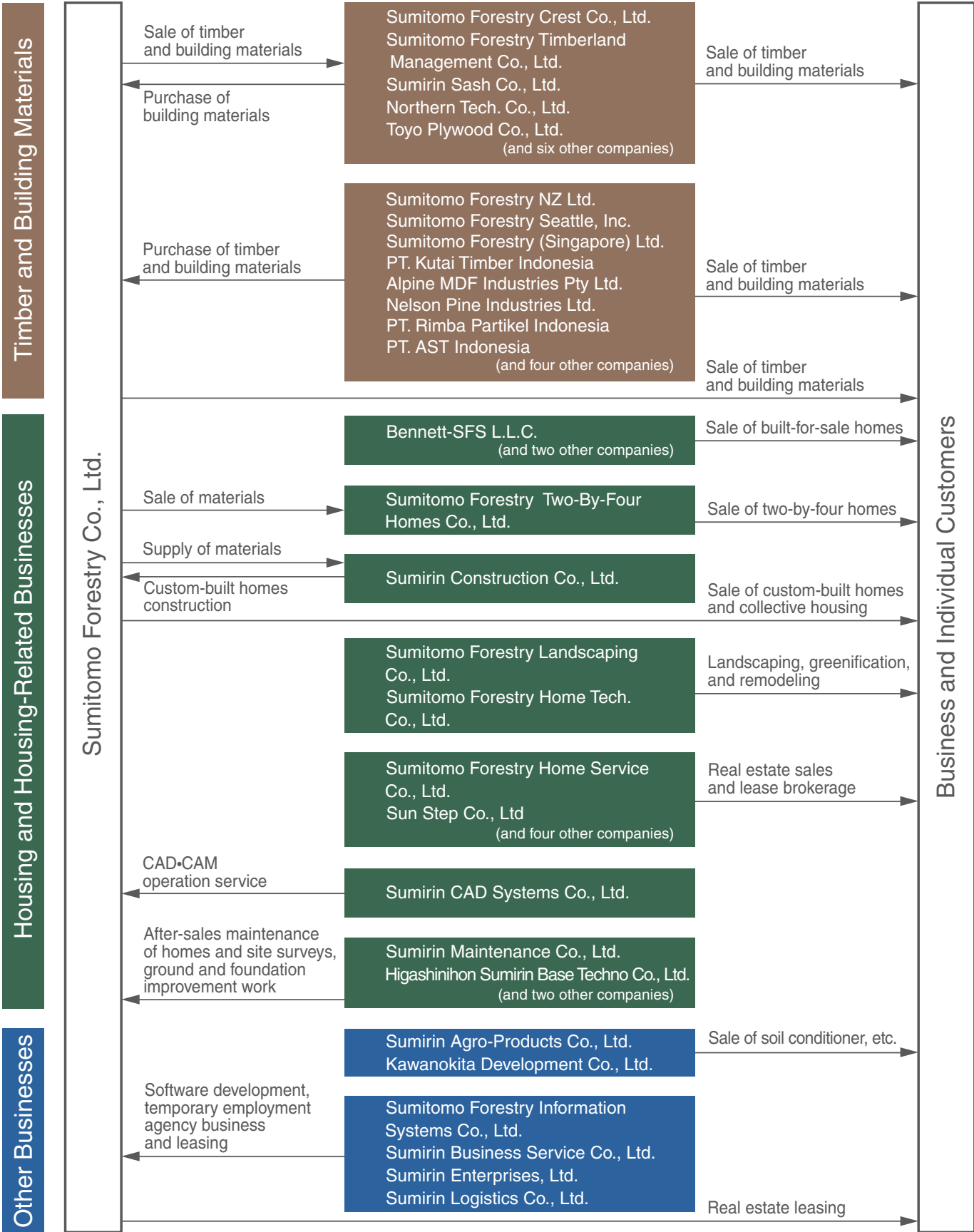
**25. Paragon Wood Product (Shanghai) Co., Ltd.**  
1st Floor, Building No.5, Lane 415,  
Gulang Road, Shanghai, 200331, PRC  
Tel: 86-21-52842871  
Fax: 86-21-52842853  
E-mail: paragonkenji@aol.com



(As of August 1, 2005)



# Subsidiaries and Affiliates



Consolidated subsidiary  
Equity-method affiliate

(As of August 1, 2005)