



# *Environmental and Social Report*

# 2010

(March 2010)

# Contents

Editorial Policy for Environmental and Social Report 2010	... 4
---	-------

Our Top Commitment	..... 6
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Overview of Sumitomo Forestry Business Units and Messages from Directors in Charge	..... 9
--	---------

Sumitomo Forestry's CSR and Four Material Issues	..... 15
--	----------

Process for Formulating the Material Issues	..... 19
---	----------

## Sumitomo Forestry's Material Issues

- ▶ Providing Timber Products and Materials from Sustainable Forests ..... 21
- ▶ Providing Environmentally Friendly Homes ..... 34
- ▶ Promoting Global Warming Countermeasures through Our Business ..... 43
- ▶ Promoting Family-Centric Employee Lifestyles ... 50

Initiatives to Preserve Biodiversity	... 59
--------------------------------------	--------

Global Compact	..... 62
----------------	----------

Third Party Evaluation	..... 64
------------------------	----------

# Performance Data

## Management System

▶ Corporate Governance .....	67
Status of Corporate Governance and Internal Controls .....	67
▶ Compliance and Risk Management .....	69
Compliance and Risk Management .....	69

## Economic Report

Promotion of the Project SPEED .....	71
Long-Term Management Plan	
Financial Performance .....	71
Contributing to the Community by Improving Social Infrastructure .....	72

## Social Report

▶ Major Initiatives in Fiscal 2009 .....	73
Together with Our Customers .....	73
Together with Our Business Partners .....	74
Together with Our Shareholders .....	74
Together with Our Employees .....	75
Together with Society .....	75
▶ Together with Our Customers .....	76
Providing High-Quality Homes with Excellent All-Round Balance .....	76
Promoting Communication with Customers .....	83
Property Development Programs .....	85
Promoting Housing Distribution .....	86
▶ Together with Our Business Partners .....	87
Providing High-Quality Timber and Building Materials .....	87
Procuring Sustainable Raw Materials .....	87
Communication with Business Partners .....	89
▶ Together with Our Shareholders .....	92
Communication with Shareholders and Investors .....	92
Inclusion in Socially Responsible Investment Indexes .....	93
▶ Together with Our Employees .....	94
Creating a Workplace in which a Diverse Range of Employees Can Work Together with Enthusiasm .....	94
Creating a Safe and Healthy Workplace .....	101
Development of Sumitomo Forestry's Human Resources .....	103
▶ Together with Society .....	106
Ongoing Communications with Society .....	106
Evaluation by Society .....	107
Social Contribution through Core Business .....	108
Other Social Contribution Activities .....	112
Investment to Realize a Sustainable Society .....	113

## Environmental Report

▶ Environmental Vision .....	114
Environmental Philosophy and Environmental Policies .....	114
Implementing the Medium-Term Environmental Management Plan .....	115
▶ Fiscal 2009 Activity Plans and Results .....	119
Fiscal 2009 Activity Plans and Results .....	119
Initiatives at Group Companies: Sumitomo Forestry Landscaping Co., Ltd. ...	123
Fiscal 2009 Activity Plans and Results ...	124
▶ Balance of Input and Output .....	126
Environmental Impact of Business Activities .....	126
Life Cycle Assessments .....	127
Environmental Impact from the Construction of a New House .....	129
Contribution to Expanding Carbon Stocks ...	129
▶ Reducing CO <sub>2</sub> Emissions .....	130
Global Warming and Sumitomo Forestry's Role .....	130
Reducing the Effects of Business Operations on Global Warming .....	130
Reducing the Environmental Impact of Households .....	133
▶ Zero Emissions .....	138
Policy on Resources .....	138
Zero Emissions Initiatives .....	138
Proper Disposal of Demolition Waste .....	140
Resource Recycling .....	141
▶ Sustainability of Timber Resources .....	142
Conservation and Sustainable Use of Timber Resources .....	142
Conservation and Sustainable Use of Japanese Timber Resources .....	144
Preservation and Sustainable Use of Overseas Forest Resources .....	149
▶ Preserving Biodiversity .....	151
▶ Management of Hazardous Materials .....	154
▶ Efficient Use of Water Resources .....	158
▶ Environmental Management .....	159
Promoting Environmental Management ...	159
Promoting Environmental Education and Training .....	160
Environmental Risk Management .....	161
▶ Research & Development .....	163
R&D Policy .....	163
R&D for Sustainable Forest Management ...	163
R&D for Popularization of Environmentally Friendly Housing .....	164
▶ Promoting Environment-Related Businesses ...	166
▶ Environmental Activities in Offices .....	170

## Initiatives at Branch Offices and Plants

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- ▶ PT. Rimba Partikel Indonesia (RPI) ..... 171
- ▶ PT. AST Indonesia (ASTI) ..... 173

**G3 Content Index** ..... 176

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# Editorial Policy for Environmental and Social Report 2010

## Purpose of this Report

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

Sumitomo Forestry believes that it is essential to clarify the important issues it faces. Accordingly, the Company has formulated four material issues to address, based on the results of a survey given to its stakeholders in fiscal 2007. In fiscal 2008, Sumitomo Forestry gave priority to these four material issues in its initiatives, the results of which are presented in this report.



Stakeholder  
Comment

This section presents the views of internal and external stakeholders.

## Reliability of Report Content

The respective departments of Sumitomo Forestry have endeavored to ensure accuracy by using appropriate measurement and data collection methods for the initiatives and results reported herein. These methods are also disclosed when relevant. Sumitomo Forestry has solicited third-party opinions from external specialists to impartially assess the appropriateness of the report's content and the Company's CSR activities.

## Reference Guidelines

- *Sustainability Reporting Guidelines (Third Edition)*, Global Reporting Initiative (GRI)
- *Environmental Reporting Guidelines (2007 Edition)*, Japanese Ministry of the Environment

## Reporting Period

April 2009 to March 2010

(The period also includes some activities from April 2010 as well as future expectations.)

## Companies Covered in Report

Although this report focuses mainly on Sumitomo Forestry Co., Ltd., it also includes details on activities by the following Group companies, each of which has a significant impact on sustainability in its own right.

Sumitomo Forestry Residential Co., Ltd.; Sumitomo Forestry Crest Co., Ltd.<sup>1</sup>; Sumitomo Forestry Home Engineering Co., Ltd.; Sumitomo Forestry Home Service Co., Ltd.; Sumitomo Forestry Landscaping Co., Ltd.; Sumitomo Forestry Timberland Management Co., Ltd.; Sumitomo Forestry Home Tech Co., Ltd.; Sumitomo Forestry Arch Tecno Co., Ltd.<sup>2</sup>; Sumirin Agro-Products Co., Ltd.; Sumirin Life Assist Co., Ltd.; Sumirin Business Service Co., Ltd.; Kowa Lumber Co., Ltd.; Sumitomo Forestry Singapore Ltd.; PT. Kutai Timber Indonesia (KTI); Paragon Wood Product (Shanghai) Co., Ltd.; Fillcare Co., Ltd.; Sumitomo Forestry School of Professional Building Techniques; Alpine MDF Industries Pty Ltd.; Nelson Pine Industries Ltd. (NPIL); Open Bay Timber Ltd. (OBT); Kawasaki Biomass Electric Power Corporation; Limited Partnership Agreement for Investment in the Fund to Continue the Activities of Small and Medium-Scale Corporations in the Housing and Related Industries; PT. Rimba Partikel Indonesia (RPI); PT. AST Indonesia (ASTI); Henley Properties Group; and Home Eco Logistics Co., Ltd.

1 Includes information regarding the former Toyo Plywood Co., Ltd.

2 Includes information regarding the former Sumirin Base Techno Co., Ltd.

## Information Disclosure Method

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In fiscal 2010, the method of publication of the *Environmental and Social Report* was reviewed and it was decided to publish the report only on the website. Previously, this information was published and distributed as a brochure. PDFs of the report are publicly available for download and printing.

▶ PDF Download / Back Issues(<http://sfc.jp/english/information/kankyo/2010/download/index.html>)

## Publication Date

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August 2010  
(Previous: July 2009; Next: August 2011)

## Publication Team

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Corporate Communications Department, CSR Team  
Environmental Management Department

### What is Sustainability?

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



I would think that this report would not only give an account of my company's activities, but can also be expected to report on the impact that it has on the stakeholders that read the report and the changes in behavior that it encourages. I expect this report to convey stakeholders' wishes and what we would like to achieve together.  
(Company employee)



## Sumitomo Forestry's Mission: Living in Harmony with the Environment

Environmental issues such as global warming have become significant shared challenges for the people of the world. For Sumitomo Forestry, these environmental challenges are directly and inextricably linked to our Company, whose businesses have always been centered around natural resources—forests, trees, and wood—since its establishment. Protecting the natural environment is extremely critical, not only to preserving management resources and the foundation of our businesses, but also for the possibilities of leveraging our many years of experience gained through our core businesses to support solutions for a diverse range of environmental challenges. Wood is a natural resource familiar to all, having played a central role in human life for generations, and continuing to use wood resources appropriately is essential. We will continue our efforts to realize environmental symbiosis—living in harmony with the environment—as only Sumitomo Forestry can, as an enterprise that takes pride in our businesses that leverage wood, and that recognizes the unlimited business opportunities inherent in such activities.



**Ryu Yano**  
Chairman and Representative Director

## Preserving Biodiversity

Interest in biodiversity continues to increase in anticipation of the convening of the 10th meeting of the Conference of the Parties to the Convention on Biodiversity (COP 10) in Nagoya in October 2010. The targets set in 2002 of dramatically reducing by 2010 the speed with which biodiversity is lost have not been achieved, however, and the situation remains critically severe.

The Sumitomo Forestry Group owns vast areas of forest: veritable treasure houses of biodiversity. We believe that forest resources are infinitely sustainable resources born of abundant and diverse ecosystems and thus have always managed forests in biodiversity-friendly ways. From a global perspective, however, forests continue to be lost due to illegal logging and other activities. Even in Japan, many degraded forests can be found that are left alone and unmanaged. We believe we must redouble our efforts to bring back lost forests globally and proactively promote the use of timber and timber products that contribute to the revitalization of the forestry industry in Japan.

## Focusing on Four Material Issues to Realize a Sustainable Society



**Akira Ichikawa**  
President and Representative Director

The Sumitomo Forestry Group, aspiring to the realization of a sustainable society, set forth four material issues in 2007. Since that time, the Group has advanced specific initiatives in each of the four areas.

Sustainable procurement of timber is one area. Illegal logging in natural forests is an international problem. Sumitomo Forestry confirmed that absolutely no illegally logged timber is contained in the directly imported timber and timber products it handles, having completed compliance investigations of all its overseas suppliers of such products in fiscal 2009. We will expand use of timber and timber products made of wood harvested from sustainably managed forests and focus on plantation forestry to preserve natural forests and contribute to the revitalization of lost forests.

Another area is the provision of environmentally friendly homes. The need for excellent long-term housing—high-quality homes that can be passed down through generations—continues to rise. We will continue to create new ways to provide environmentally sound housing using a wide range of approaches, including the *Ryouonbou* design concept that uses the power of nature to enable lifestyles not dependent upon heating and cooling equipment, landscaping that promotes biodiversity, and expansion of the renovation business.

The third area is the prevention of global warming. In fiscal 2009, we launched the carbon offset initiative for all custom-built and spec homes, in which the CO<sub>2</sub> released by the timber used in principal structural members during its lifetime, from harvesting to construction is absorbed by plantation forests created on degraded forests in Indonesia. The full absorption of the CO<sub>2</sub> released by the timber used in these houses requires a ten-year commitment to management and cultivation, a commitment we have made and continue to honor. In addition, the Group set new targets to achieve by 2014, having revised the shared targets for reduction of CO<sub>2</sub> emissions across the Group.

The fourth area is promoting diversity in the workforce. We will not be able to implement the commitments discussed above, nor contribute to society and the global environment, without the dedicated efforts of healthy and happy employees. We are committed to empowering employees to achieve work-life balance, and to the creation of a workplace environment in which people from diverse backgrounds, regardless of age, country of citizenship, home environment, etc., can work energetically together in harmony, and take pride and have confidence in their work. We are focusing particularly on expanding opportunities for women in the workplace. We firmly believe this will lead to greater global competitiveness, enhance the vitality of the workforce, and create a new sense of values for all employees.

### Four Material Issues

- Providing Timber Products and Materials from Sustainable Forests
- Providing Environmentally Friendly Homes
- Promoting Global Warming Countermeasures through Our Business
- Promoting Family-Centered Employee Lifestyles

## Guided by the Sumitomo Spirit, Leading the Way to the Society of the Future

At the heart of our businesses is the Sumitomo Spirit, which tells us to “put weight on fairness and trust, and pursue business so as to benefit society” — principles that have guided the Company since its founding. We believe that living up to the Sumitomo Spirit—conducting our businesses in harmony with the global environment and society—has enabled the Company to continue to prosper.

In line with the globalization of our businesses, we signed the United Nations Global Compact in 2008. The Sumitomo Spirit will continue to guide us as we endeavor to fully embrace and implement the vision of the Global Compact, fulfilling our responsibilities and obligations to society as a globally expanding Company.

Looking ahead 50 and 100 years from now, we will continue to propose new concepts for housing, lifestyles, and society from a long-term perspective. In this way, we aspire to be a leader in the creation of a sustainable society.

This report introduces some of our Company's activities in pursuit of that goal. We hope you will read this report and share your opinions with us.

Ryu Yano  
Chairman and  
Representative Director



Akira Ichikawa  
President and  
Representative Director



Sumitomo Forestry Co., Ltd.



# Overview of Sumitomo Forestry Business Units and Messages from Directors in Charge

Sumitomo Forestry is engaged in a wide range of business involved with wood and housing. Sumitomo Forestry's role and fiscal 2009 results are reported herein.

## Forestry & Environment Division



Director,  
Managing Executive  
Officer,  
Divisional Manager,  
Forestry &  
Environment Division  
**Shigehiko Shiozaki**

### Expanding Sustainable Forests Under Management and Environmental Businesses

Sumitomo Forestry acquired 1,107 hectares of forests in Wakayama Prefecture and Hokkaido in fiscal 2009, bringing the total land area of Company-owned forests in Japan to 42,642 hectares, under the plan to increase forests under management. Expanding and managing forests in a sustainable manner is linked to contributing to the public good, including absorption of CO<sub>2</sub>. Monitoring surveys of biodiversity, which began in fiscal 2008, were conducted in Company-owned forests in Kyushu in fiscal 2009. Further, Sumitomo Forestry joined with Regional Forest Offices, which manage national forests in Shikoku, Kyushu, and Wakayama, and private-sector owners of large areas of forests, to build new work roads, etc., to facilitate efficient forest maintenance. Sumitomo Forestry also became the first private-sector company to sell CO<sub>2</sub> offset credits, having acquired credits for CO<sub>2</sub> absorbed by Company-owned forests under the Ministry of the Environment's J-VER system. We believe this system will provide new sources of revenue for Japan's forestry industry, contributing to the revitalization of the multi-faceted functions of the nation's forests, as well as forest maintenance.

In order to accelerate the development of a wide range of environmental businesses, we established the Environmental Business Department in April 2010. This department will oversee and support the Group's environmental businesses in Japan and overseas, while also aiming to create environmental businesses in new areas. The department will develop environmental solutions businesses matched to resources and the environment, based on the Company's unique expertise and knowledge in wood and forests.

Environmental issues facing the world today include global warming and preservation of biodiversity, which share a deep interrelationship centered around forests. As a Company involved with forests, we must contribute to solving these problems in all respects, and continue to lead the industry.

#### Fiscal 2010 Plans

1. Expansion of forests under management
2. Promotion of J-VER credits acquisition
3. Promotion of manufacturing and sales of pellets made from unused wood material biomass
4. Promotion of the Company's unique forestry businesses integrated with CSR activities

### Business Overview

Under the philosophy of sustainable forestry, an endless cycle of planting and harvesting forests, we will continue our core business of providing a stable supply of timber through the creation of forests. We will also continue to develop environmental businesses, including plantation forestry overseas and utilization of unused domestic wood materials.



#### Stakeholder Expectations

- Proactively use domestic timber, revitalize the forestry industry
- Advance global warming countermeasures through business activities
- Protect the world's forests through timber procurement





Representative Director,  
Senior Managing Executive Officer,  
General Manager,  
Timber & Building Materials Division  
**Hideyuki Kamiyama**

### Initiatives to Reduce CO<sub>2</sub> Emissions in the Distribution of Housing Building Materials

Under the action plan stipulated by the Timber Procurement Philosophy and Policy, we have implemented initiatives aimed at sustainable procurement of timber. To ensure we do not handle any timber from illegal logging, we confirmed in fiscal 2009 the legality of all directly imported timber and timber products handled by the Group through compliance investigations of all overseas suppliers of such products. Further, our efforts to promote timber procurement from sustainable forests were advanced through such activities as the start of sales in November 2009 of *KIKORIN-PLYWOOD*, an environmentally sound plywood product containing 50% or more raw materials made from timber from certified or plantation forests. We will continue to focus on expanding the use of timber and wood materials procured from certified, plantation, or domestic forests.

The Building Materials Department further expanded its lineup of environmentally sound products, including solar power generation systems and high-efficiency hot water supply systems. In fiscal 2010, we will provide consumers with the latest information related to the environment, strengthen our information-handling capabilities as a trading company, and expand the range of environmentally sound products including building materials and home equipment.

Home Eco-Logistics Co., Ltd., established in April 2010 as a distribution system operations management company, is engaged in initiatives to reduce CO<sub>2</sub> emissions in the distribution of housing building materials. This company will offer the entire industry access to an integrated distribution system based on the Company's national network of distribution centers used in its housing business, aiming to contribute to society through the promotion of environmental symbiosis, peaceful coexistence for mutual benefit, and contribution to local communities. Using the distribution centers, products from multiple manufacturers can be distributed more efficiently to construction sites, reducing the total number of trips required to deliver materials, with the result of rationalizing distribution and lowering costs of housing building materials, as well as realizing environmental benefits such as reduction of CO<sub>2</sub> emissions.

#### Fiscal 2010 Plans

1. Promote the use of timber from certified, plantation, and domestic forests in order to further expand procurement from sustainable forest resources.
2. Promote use of environmentally friendly building materials and housing equipment.
3. Promote transmission and sharing of environment-related information to partners.
4. Reduce CO<sub>2</sub> emissions through distribution systems management operations.

### Business Overview

Global procurement and sales of wood materials and distribution of building materials. Sumitomo Forestry is Japan's leading trading company for timber and building materials measured by turnover.



#### Stakeholder Expectations

- Supply wood products and materials from sustainable forests
- Proactively use domestic timber and revitalize the forestry industry
- Protect the world's forests through intelligent timber procurement



Representative Director,  
Senior Managing Executive Officer,  
Divisional Manager,  
Overseas Business Division  
**Mamoru Inoue**

## Expanding Plantation Forestry Operations Overseas

The Overseas Business Division is conducting plantation activities in Indonesia, Papua New Guinea, and New Zealand, aiming to expand plantation forestry overseas. We have launched “social forestry” in Indonesia through our local affiliates, KTI and RPI, by providing seedlings free-of-charge to local residents and buying back the trees they raise, thus contributing to the improvement of their lifestyles. Further, we launched plantation operations on degraded forests on the island of Kalimantan in fiscal 2009. This project has three phases and will ultimately expand to 280,000 hectares. The plantation operation uses leading-edge technologies including satellite intelligence and leverages the Company's expertise to support job creation in the local community while remaining environmentally sound. In Papua New Guinea, the Open Bay Timber Co., Ltd. (OBT) has received authorization from the government to plant an additional 8,000 hectares of plantation forests, bringing the total plantation forests under management to 20,000 hectares from 12,000 hectares previously. OBT received FSC Controlled Wood certification in fiscal 2008 and has begun preparation for FSC Forest Management certification.

In fiscal 2009, the decision was made to launch a particleboard manufacturing operation in Vietnam that uses plantation timber and waste wood from fruit trees as the raw materials. Construction of the facility is underway. Energy needed by the plant will be generated by a wood biomass power generation facility that uses waste wood as fuel, allowing the operation to be managed in an environmentally sound manner.

In fiscal 2009, we also acquired a 50% interest in Henley Properties Group, one of Australia's leading builders of environmentally sound and energy-efficient homes. As a result, we are currently constructing environmentally sound homes in Australia, in addition to North America.

### Fiscal 2010 Plans

1. Implement plantation operations in Indonesia and Papua New Guinea
2. Promotion of social contribution activities for local residents (plantation operations, free-of-charge distribution of seedlings to local residents)
3. Start construction of particleboard manufacturing facility in Vietnam
4. Promotion of construction of environmentally sound housing

## Business Overview

Manufacturing, processing, and distribution of wood boards and building materials, primarily in the Pacific Rim. Engaged in plantation forestry to secure sustainable supplies of raw materials in each region. Sales of wood construction homes in North America, Australia, South Korea, and China.



### Stakeholder Expectations

- Supply wood products and materials from sustainable forests
- Supply wood products that are safe and secure



Director,  
Managing Executive  
Officer,  
Divisional Manager,  
Housing Division  
**Hitoshi Hayano**

### Strengthen Development of Environmentally Sound Products and Achieve Even Greater Reduction of Environmental Impact

The Excellent Long-Term Housing Promotion Act was promulgated in June 2009 with the objective of securing the formation of high-quality housing stock. All of the standard specifications of Sumitomo Forestry's housing products meet the qualifications for excellent long-term housing and the Company aims to ensure that all the homes it builds can be certified.

We have created an owners support group to maintain the asset value of our customers' homes after they have occupied them. This allows us to fulfill the diverse needs of our customers, including the provision of counsel regarding appropriate maintenance and renovation.

We also began offsetting CO<sub>2</sub> emitted by principal structural members from harvesting timber to construction of housing through plantation forests in Indonesia.

In fiscal 2010, we will launch the new *Solabo* line of products that help reduce energy costs using such technologies as solar power generation and home-use fuel cells. This product may be used as is with the *Ryouonbou* design that is a hallmark of the *Sumitomo Ringyo no ie* (Sumitomo Forestry Home) houses brand, making use of natural energy from the wind, sun, and greenery, and greatly improving its contribution to the environment and household budgets. Going forward, we will continue efforts to reduce environmental impact over the life cycle of a home, and provide homes that exist in harmony with the environment—the kind of homes people expect from Sumitomo Forestry.

#### Fiscal 2010 Plans

1. Strengthen development of environmentally sound products
2. Strengthen environmental landscaping operations
3. Expand renovation operations

### Business Overview

As the top brand in wood construction custom-built detached homes, we provide houses and wood multi-unit residences that are symbiotic with the environment.



#### Stakeholder Expectations

- Provide homes that can be treasured from generation to generation
- Provide environmentally friendly housing
- Pass on technological expertise in wood construction and forest management to the next generation



Managing Executive Officer,  
Divisional Manager,  
Real Estate Business  
Division  
**Hideo Watabe**

### Promoting Environmentally Friendly Community Development that Respects “Connections between People and Nature”

In fiscal 2009, we redoubled our continuing efforts to promote the development of environmentally sound communities. When building spec housing, we endeavor to create communities that contribute even in a small way to reduction of external temperatures through exterior designs that make abundant use of greenery. In addition to using high-efficiency hot water supply systems, we have also implemented offsets for CO<sub>2</sub> generated during the construction of all housing, from the harvesting of the wood used in principal structural members to the actual construction activities. We employ spec condominium designs that make one feel the “connections between people and nature” through, for example, the planting of trees for each of the four seasons even along the roadsides. We conduct thorough soil contamination surveys when acquiring land, ensuring the safety of sub-divided land.

To promote the development of communities in which everyone from children to elders can live securely, we opened *Grand Forest Hikawadai*, a private-pay elderly care facility in Tokyo's Nerima Ward in fiscal 2009, leveraging the Company's accumulated expertise and knowledge of elderly care facility construction and management. *Grand Forest Hikawadai* is managed by Fill Care Co., Ltd., a Group company. In fiscal 2010, facilities in Kobe's Rokkomichi and Toshima Ward's Shiinamachi areas are scheduled to open.

The Company has participated in PFI<sup>1</sup> operations since fiscal 2007, aiming to leverage our expertise to build social infrastructure. In August 2010, construction began on the new Nagoya Port Authority building, which was developed on the site of the former grounds of the old Nagoya Port Authority.

<sup>1</sup> Private Finance Initiative: a method of using private-sector capital, expertise, and technology to construct, maintain, and operate public facilities.

#### Fiscal 2010 Plans

1. Promote creation of environmentally sound communities
2. Promote creation of communities for everyone from children to elders

### Business Overview

Effective use of real estate, community development (spec housing), real estate brokerage and intermediation, property management, etc. Real estate development including spec condominiums, commercial properties, and residential care facilities.



#### Stakeholder Expectations

- Lead the creation of communities that people can love and take pride in
- Contribute to coexistence with and economic development of local communities

## Head Office Departments



Director,  
Managing Executive  
Officer,  
(Responsible for  
Corporate Planning,  
General  
Administration,  
Environmental  
Management,  
Corporate  
Communications,  
Personnel, Finance,  
Information Systems,  
and Internal Audit)  
**Shigeru Sasabe**

### Creating a Safe and Comfortable Workplace for Employees

The roundtable discussion for parents was held in fiscal 2009, continuing on from the previous fiscal year. The number of male employees taking childcare leave continues to increase and we continue to be committed to the creation of a workplace environment that is supportive of child-rearing, where all employees, regardless of gender, feel free to use the childcare leave system. To promote work-life balance, we published a handbook on the subject to communicate this way of thinking to each and every employee. In fiscal 2010, we will endeavor to further improve work-life balance for a diversity of employees and establish the action committee (second phase) to reduce long working hours, aiming to realize the meaningful use of time.

To promote the employment of people with disabilities, a team to promote the establishment of a workplace for people with disabilities was established at corporate headquarters. The team studied job responsibilities matched to the characteristics of each type of disability, as well as types of employment. Going forward, training to create a comfortable working environment for people with disabilities is planned. Initiatives to secure the lives and safety of employees in the event of a disaster include the scheduled deployment of a Group-wide system to confirm the safety of each and every employee.

The Corporate Communications department was established within the corporate headquarters and we endeavored to realize the effective dissemination of information about the Group as a whole, as well as to ensure smooth communications through the unification of the point-

of-contact for all stakeholders.

New CO<sub>2</sub> reduction targets through fiscal 2014 were set in the Medium-Term Environmental Management Plan in December 2009. Going forward, we will monitor the government setting of targets for greenhouse gases as well as the status of international deliberations, and continue to examine the setting of long-term targets.

#### Fiscal 2010 Plans

1. Introduction of Group-wide system for confirming employee safety in the event of a disaster
2. Establishment of action committee (2nd phase) to reduce long working hours
3. Implement training for employees with disabilities



Kikorin Plaza, a space for  
employee communication

#### Stakeholder Expectations

- Broad dissemination of wood culture and the appeal of wood across society
- Creation of a corporate culture that is lively and where a diversity of people can achieve their goals
- Pursuit of work styles that allow employees to treasure their families



# Sumitomo Forestry's CSR and Four Material Issues

To fulfill its CSR (Corporate Social Responsibility), the Sumitomo Forestry Group has determined four material issues to be given priority in its initiatives.

## Sumitomo Forestry Group's History and Role

The history of Sumitomo Forestry dates back about 300 years. In Japan's Meiji era, Sumitomo carried out a large-scale reforestation plan to restore the mountain forests of Besshi in the Shikoku region after pollution from smelting and mining operations damaged the area. Planting as many as one million trees a year over several years, Sumitomo succeeded in returning the mountains back to their original lush conditions. The spirit behind this “preservation forestry” allowed resources to be continually utilized in a pattern of logging followed by planting, and eventually led to the concept of sustainable forestry. As a leading Company in sustainability, Sumitomo Forestry is harnessing this spirit in its current operations.

Society has significantly changed in recent years as a result of global environmental problems and social issues that have emerged. As a corporate Group that conducts forest management and provides timber and homes, Sumitomo Forestry Group believes that it can play a significant role in resolving these problems.



I am impressed that Sumitomo Forestry has been practicing sustainability for as long as 300 years! I expect it to take even stronger leadership in restoring the environment back to health. (Business partner)

## CSR Management Approach

The Sumitomo Forestry Group's corporate philosophy advocates utilizing timber as a renewable, healthy, and environmentally friendly natural resource, and contributing to a prosperous society through all types of housing-related services. In order to realize this philosophy and to develop corporate integrity deserving of the trust of society, it is imperative to achieve a balance among the three CSR aspects of economic, social contribution, and environmental activities. In this context, so that each and every employee can consider the significance of their own tasks, behavior, and interaction with society from a CSR perspective, as well as respond to the expectations of society, we have formulated a statement entitled “Our Work and CSR.” As a point of reference for Group employees in considering what should be held most important in relation to their actions, we formulated the statement, “Our Values and Ideals.”





## Corporate Philosophy

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

### Action Guidelines

Sumitomo Spirit	We conduct business that is beneficial to society based on the principles of integrity and sound management.
Respect for Humanity	We work to create an open and inclusive corporate culture that values diversity.
Environmental Responsibility	We are dedicated to effectively addressing environmental issues with the aim of achieving a sustainable society.
Putting Customers First	We are thoroughly committed to customer satisfaction through the provision of high-quality products and services.

## Our Work and CSR

By utilizing Sumitomo Forestry's unique timber and housing expertise, we intend to create “cycles of happiness,” based on the keywords of “utilization,” “development,” and “bringing together,” that will lead to the individual development of employees, customers, local communities and the earth's environment.

### Joy in Utilizing Sustainable Resources

#### 1. Utilize Timber

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

#### 2. Utilize the Forests

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

#### 3. Utilize Traditions

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

### Joy in Development

#### 1. Nurture Families

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

#### 2. Develop Homes

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

#### 3. Foster Communities

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

## Joy in Bringing People Together

### 1. Bring Employees Together

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

### 2. Bring Society Together

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

### 3. Bring the World Together

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

## Our Values and Ideals

### 1. Inspire Emotion

Great ideas are born when employees enjoy their work. Bringing together diverse individuals will generate a new power. Just as each individual tree makes an abundant forest, bringing together our individual strengths allows us to perform our work in a way that will inspire our customers.

- 1. Customer Satisfaction
- 2. Partnership
- 3. Independence and Support
- 4. Freedom and Vigor
- 5. Reflection and Learning

### 2. Blaze a Trail to the Future

We honor the traditions passed down by all who came before us. Work that leads to the happiness of our children, grandchildren and future generations is a wonderful thing. We will blaze a new trail to the future with this pride leading the way. We will do our utmost in the interest of a sustainable society and the global environment.

- 1. Sustainable Development
- 2. Respect for Families
- 3. Accumulation and Creation
- 4. Giving Back to the Community
- 5. Environmental Responsibility

### 3. Act with Dignity

We approach our work every day with pride and integrity. Our work gives us something to be proud of as citizens of the broader society. The trust that we have earned from society forms the basis of our work. We will behave with dignity, allowing Sumitomo's Business Spirit to guide all of our actions.

- 1. Passing on Sumitomo's Business Spirit
- 2. Legal Compliance
- 3. Information Handling
- 4. Respect for Human Rights and Diversity
- 5. Autonomous Actions

▶ Our Work and CSR([http://sfc.jp/english/information/csr\\_rinen/](http://sfc.jp/english/information/csr_rinen/))

▶ Our Values and Ideals(<http://sfc.jp/english/information/taikei/taisetsu.html>)

▶ Environmental Philosophy and Policies([http://sfc.jp/english/information/kankyo\\_rinen/](http://sfc.jp/english/information/kankyo_rinen/))

## Sumitomo Forestry Stakeholders

Sumitomo Forestry's business is founded on its relations with customers and its employees, business partners, local communities, and other stakeholders. The Company adopts a wide range of perspectives in its communications with stakeholders while striving to carry out business activities that meet the expectations of society.



I hope Sumitomo Forestry will seek a better path for the environment and society as a whole through dialogue with environmentally conscious companies and consumers. (Customer)

## CSR Management Based on Four Material Issues

As part of its efforts to realize a sustainable society, in fiscal 2007 Sumitomo Forestry determined four material issues to be given priority in its initiatives. The Company selected these issues after consulting with stakeholders to identify areas in which it is expected to play a major role.

Currently, Sumitomo Forestry gives priority to these four material issues in its programs and initiatives, and will continue to assimilate stakeholders' views as it pursues CSR management with the aim of creating a sustainable society.

▶ Process for Formulating the Four Material Issues(P.19)

## Process for Formulating the Material Issues

Sumitomo Forestry has sought the comments of stakeholders both inside and outside the company, and based on these comments has determined four material issues.



There are many social issues that need to be resolved in order to create a sustainable society. What are the issues which Sumitomo Forestry should focus on and work to help solve?

Sumitomo Forestry has determined four material issues to focus on, taking up issues that are particularly relevant to our Company. In determining these issues, we believed that it was important not only to focus on items that we find important, but that it was also essential to consider the expectations that society has for us as a Company. For this reason, we sought to gather the opinions of our stakeholders.

### Four Material Issues



Providing Timber Products and Materials from Sustainable Forests(P.21)



Providing Environmentally Friendly Homes(P.34)



Promoting Global Warming Countermeasures through Our Business(P.43)



Promoting Family-Centered Employee Lifestyles(P.50)



### Formulating the Material Issues

#### 1 Selection of candidate material issues

Based on discussions with specialist third parties, responses to previous *Environmental and Social Reports*, and opinions received through employee workshops, a total of 27 issues that Sumitomo Forestry should be working on were identified.



#### 2 Understanding the issues that are important to our stakeholders

A total of 143 questionnaires on the 27 candidate issues were completed by customers, business partners, analysts, investors, members of the press, employees, and relevant experts, allowing us to rank the various expectations held by stakeholders towards Sumitomo Forestry.



### 3 Consideration of importance from the perspective of business strategy

Priority levels in the context of Sumitomo Forestry's business activities were clarified based on management level discussions.

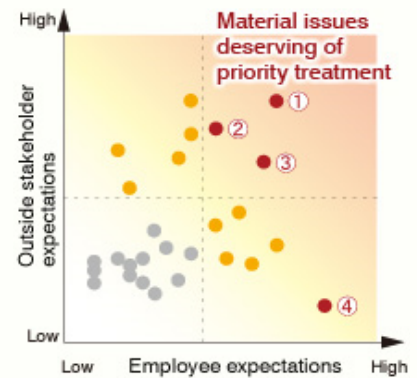


### 4 Determination of material issues

Sumitomo Forestry executive management determined the four material issues by selecting the three issues which had scored most highly in the stakeholder survey, and then adding an item which employees felt strongly about.

#### Four Material Issues

- (1) Providing Timber Products and Materials from Sustainable Forests
- (2) Providing Environmentally Friendly Homes
- (3) Promoting Global Warming Countermeasures through Our Business
- (4) Promoting Family-Centered Employee Lifestyles



Material  
Issues

## Providing Timber Products and Materials from Sustainable Forests



Sumitomo Forestry, as a leading company in the timber and building materials industry, promotes the sustainable use of wood resources.

Special Feature

Fiscal 2009 Results

### ○ *KIKORIN-PLYWOOD*: Giving birth to a sustainable cycle of timber resources

One of the few forested nations in the world, Indonesia is an important supply base for the raw materials used in Sumitomo Forestry's products. Illegal and excessive logging and huge forest fires, however, have caused a rapid decline of once abundant natural forests, and it is said that Indonesia is leaning in the direction of regulation of the use of natural forests by the timber industry.

Sumitomo Forestry set forth its Timber Procurement Philosophy and Policy in 2007 with the goal of preserving forests in Japan and the world through the use of sustainable timber resources. In order to continue production operations in Indonesia without reducing the natural forests, the Company began switching over to use of timber from forests certified as being managed in a sustainable manner (known as certified timber), and timber from plantation forests, for the products we manufacture. In 2008, Sumitomo Forestry set the goal of increasing the share of this kind of sustainable timber to 50% of all imported plywood products by 2011. To facilitate the use of certified timber, the Company acquired CoC certification<sup>1</sup> from FSC<sup>2</sup> and PEFC<sup>3</sup> and has been proactively promoting distribution of certified timber.



Plantation  
Forest

Aiming to further these efforts, in November 2009 the Company launched a new environmentally sound plywood named *KIKORIN-PLYWOOD*. This revolutionary product offers not only high quality as plywood, but also a comprehensive approach to environmental sensitivity. More than 50% of the timber used to manufacture *KIKORIN-PLYWOOD* comes from forests certified by FSC or PEFC, as well as from plantation forests that are sustainably managed. In Japan, where environmental consciousness is budding, we believe Sumitomo Forestry must assume leadership, introduce new environmentally sound products, and further increase environmental consciousness across the market.

### 🌿 *KIKORIN-PLYWOOD* : What is it?

- *KIKORIN-PLYWOOD* is plywood containing at least 50% timber harvested from forests certified by FSC or PEFC, or from plantation forests in Indonesia and other countries.



The mark of "Kikorin Quality"  
is printed on the product



Plantation timber presented a number of challenges because of its different nature than lauan timber, which was used previously. Compared with lauan, plantation timber has a lower specific gravity and also a smaller diameter, making it difficult to process using conventional manufacturing facilities. Plantation timber is also prone to warping due to higher moisture content. The production of high-quality plywood became commercially viable as a result of extensive research and development, as well as trial and error.

PT. Kutai Timber Indonesia (KTI)(<http://www.kti.co.id/>), a Sumitomo Forestry Group company, works in cooperation with local residents to cultivate plantation timber, including falcata (*Albizia falcataria*) using the social forestry<sup>4</sup> method, which contributes to the improvement of the lifestyles of local residents. KTI provides seedlings free of charge to local residents, who then plant them on their farmland or gardens. This enables a stable supply of plantation timber even on Java island, where it is difficult to secure large areas of land for plantation forestry. This secure supply makes it possible to clearly identify the percentage of *KIKORIN-PLYWOOD*'s content that comes from environmentally sound timber.

We believe that this environmentally sound plywood was made possible through the trust we've built over many years by treasuring relationships with our suppliers and customers, and by operating in ways that serve the people of local communities.

To maintain high quality, Sumitomo Forestry's local representatives and technology instructors conduct exhaustive quality control and production management during the manufacturing process at KTI and all Group-affiliated facilities.

*KIKORIN-PLYWOOD*, which is made from environmentally sound raw materials, is shipped with the mark of Kikorin Quality printed on the side. This marking indicates the product possesses Kikorin Quality, the level of quality for which the Sumitomo Forestry Group takes responsibility.



A portion of the revenues from *KIKORIN-PLYWOOD* is invested in plantation forestry operations. In this fiscal year, investments were made in plantation forestry operations in Indonesia, where Sumitomo Forestry is endeavoring to revitalize degraded forests and bring back the forests. When our customers buy *KIKORIN-PLYWOOD*, they are indirectly contributing to the protection and revitalization of forests, and the preservation of biodiversity.

Realizing the Company's philosophy of timber procurement from sustainable forests would not be possible without the cooperation of our customers, suppliers, and partners. Sumitomo Forestry will expand distribution of *KIKORIN-PLYWOOD*, enhancing the understanding and enthusiastic adoption of a product that embodies our philosophy, thus contributing to the creation of a cycle of sustainable use of timber resources.

- 1 Certifies the organization appropriately separates and marks forest products from certified forests during the storage, processing, and distribution processes.
- 2 The Forest Stewardship Council is a third-party organization that provides a global forest certification system. Its Forest Management (FM) certification authenticates forest management, while FSC Chain of Custody (CoC) certification confirms that forest products from certified forests are appropriately separated and marked in the storage, processing and distribution processes.
- 3 The Programme for the Endorsement of Forest Certification (PEFC) is a forest certification program that promotes sustainable forest management by offering certification from third parties independent of stakeholders.
- 4 Social forestry supports the economic independence of local residents by distributing profits gained from forestry management involving the local people.

## Comments from the Development Manager

*KIKORIN-PLYWOOD* is a product that represents our efforts to realize the Company's timber procurement philosophy. By expanding the handling of such products, I believe we can increase environmental consciousness in the timber industry and lead the entire industry in the direction of sustainability. I believe we have a duty to do so as a Company whose businesses are centered on wood, the irreplaceable natural resource.



## Comments from Customers



The launch of an environmentally sound plywood product like *KIKORIN-PLYWOOD* is a tremendously good thing. Even an “environmentally sound” product, however, doesn't make sense if the quality is poor. *KIKORIN-PLYWOOD* meets our standards for quality and delivery. While some homebuilders are working to use, and some building materials manufacturers to develop and manufacture, environmentally sound building materials, efforts to switch over to building materials made of raw materials from certified and plantation forests are still not adequate in the housing and building materials distribution industries overall. Also, people who buy houses are still basically unaware. I would like to see Sumitomo Forestry pursue top-quality products and stable supply, and at the same time, promote environmentally sound products like this, heightening environmental consciousness throughout society.

## Material Issues

# Providing Timber Products and Materials from Sustainable Forests



Sumitomo Forestry, as a leading company in the timber and building materials industry, promotes the sustainable use of wood resources.



## Special Feature

## Fiscal 2009 Results

### Fiscal 2009 Targets

Unit	FY 2009 Targets
Sumitomo Forestry Group (Group-wide) <sup>1</sup>	Confirm legal compliance of all timber handled
Building Materials Department of the Timber and Building Materials Division	Handle only legally imported solid wood building materials

<sup>1</sup> Excludes some products handled by the Building Materials Department

### Fiscal 2009 Results

#### Major Performance Data

	2007	2008	2009
Percentage of timber suppliers certified as legally compliant	71.4%	93.3%	100%
Overseas plantation land area <sup>1</sup>	3,077 ha	3,312 ha	4,313 ha
Company-owned forests in Japan, land area	40,567 ha	41,532 ha	42,642 ha

<sup>1</sup> Land area under plantation forestry management for each fiscal year

## Sustainable Timber Procurement

### Revised Action Plans Based on Timber Procurement Philosophy and Policy

The Sumitomo Forestry Group set forth its Timber Procurement Philosophy and Policy in fiscal 2007 and has been steadfastly executing the action plan for promoting procurement of sustainable timber. In fiscal 2009, having achieved targets broadly (with the exception of those items whose target completion was scheduled for fiscal 2010), the New Action Plan setting targets for fiscal 2010 and beyond was promulgated. Expanding the use of timber from certified, plantation, and domestic forests, and continuing to ensure 100% legal compliance of timber and timber products imported directly are two areas of priority focus for the Group as a whole.

# Sumitomo Forestry: Protecting the World's Forests, Handling Environmentally Friendly Timber.

## What are Sumitomo Forestry's priority initiatives?

### Expanding Environmentally Friendly Timber Around the World

Trees are one of the few truly renewable resources on the planet. Natural forests are being lost, however, to illegal logging, over-harvesting, and forest fires.

In order to continue using tree resources, shifting to the use of timber from appropriately managed natural forests or from plantation forests with an established cycle of “plantation - cultivation - harvest - plantation” is essential.

Thus, Sumitomo Forestry is expanding the use of timber from certified, plantation, and domestic forests, contributing to the sustainable use of forest resources and to the protection of the global environment.



Certified Timber

### Timber from Certified Forests

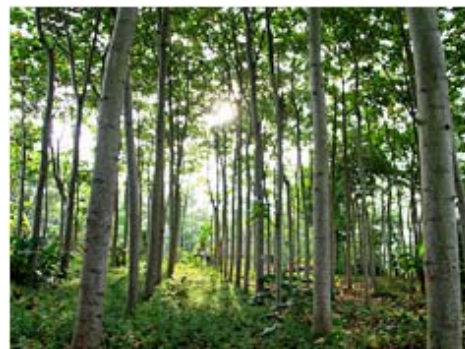
Timber from certified forests refers to timber harvested from forests certified to be properly managed by an independent non-profit, non-governmental body that conducts investigations of forest management and forestry operations. Timber from certified forests is certified to be not only legally compliant and from sustainable resources but also for the consideration given to the environment, including biodiversity, and the local community.



▶ Expanding the Handling of Timber from Certified Forests(P.30)

### Timber from Plantation Forests

Sumitomo Forestry defines timber from plantation forests as timber harvested from forests that have established a cycle of planting, cultivating, and harvesting trees, then starting the cycle over again with planting of more trees. The use of timber harvested from properly managed forests can be said to enable the use of trees without any permanent depletion of resources.



▶ Expanding Forestry Plantation Land Overseas(P.31)



## Timber from Forests in Japan

Sumitomo Forestry handles timber from forests in Japan that have been properly managed. Large-scale reforestation was conducted in post-war Japan but because Japanese timber was not competitive in many respects with imported timber, it was not used and, the forests came to be neglected.

The proactive use of Japanese timber enables the cycle of harvesting, reforestation, and maintenance such as thinning, leading to the revitalization of forests and preservation of national lands. Moreover, use of Japanese timber contributes to the prevention of global warming through absorption of CO<sub>2</sub>.

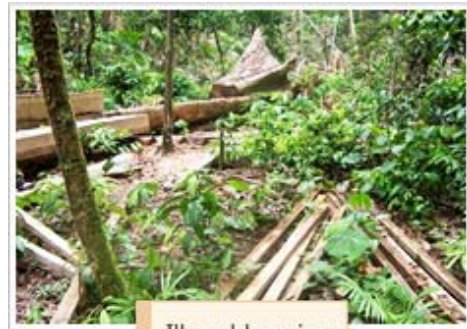
▶ Promoting Joint Operations for Efficient Forest Management(P.32)

▶ Conservation and Sustainable Use of Japanese Timber Resources(P.144)

## Using Only Legally Compliant Imported Timber and Timber Products, Never Illegally Logged Timber

Illegal logging of trees is a serious problem because it leads to destruction of forests, loss of natural resources, and disruption of ecosystems.

Sumitomo Forestry never uses illegally logged timber, of course, as a Company that handles timber. Timber is imported from many countries, each with its own distribution channels, making it difficult to investigate the procurement process of each.



Illegal logging

Sumitomo Forestry validates the traceability of all directly imported timber and timber products all the way back to the location of the logging, ensuring its legal compliance.

Protecting the world's forests from illegal logging is our duty and responsibility as a leading company deeply involved with timber and timber products. We will continue to ensure that 100% of the directly imported timber and timber products we handle is confirmed as legally compliant.

▶ Achieved 100% Use of Legally Compliant Timber and Timber Products(P.29)

■ New Action Plan for Timber Procurement

Segment	Division	Action Plan · FY2012 Target
Group-wide		With the objective of contributing to the global environment, expand use and handling of timber from forests certified as legally compliant and sustainable (FSC, PEFC, SGEC); use and handle timber from sustainable plantation forests; use and handle timber from forests in Japan to promote revitalization of the domestic forestry industry.
		Do not use, handle or purchase illegally logged timber. Continue handling 100% certified legally compliant directly imported timber and timber products.
Action Plan by Division		
Domestic Forestry Domestic Distribution	Forestry Department of Forestry and Environment Division	Continue 100% certification of Company-owned forests (SGEC certification). Preserve and protect biodiversity in Company-owned forests.
	Sumitomo Forestry Timberland Management Co., Ltd.	Promote handling of Japanese timber / Increase to 75% of volume used from FY2009.
Timber Distribution	Forest Products Trading Department of the Timber & Building Materials Division	Promote use and handling of timber from certified forests (FSC, PEFC, SGEC) and plantation forests. Increase to 70% of total volume handled (currently 64%).
Domestic Manufacturing	Sumitomo Forestry Crest Co., Ltd. (incl. former Toyo Plywood Co., Ltd. plants)	Promote use of timber from certified forests (FSC, PEFC, SGEC), plantation forests, and Japanese forests. Increase to 50% of total volume used (currently 17%).
Housing	Housing Division	Promote and expand use of timber produced in Japan. Continue 70% share of Japanese timber used in principal structural members.
		Expand use of timber from certified forests (FSC, PEFC, SGEC) and double the volume used compared with FY2009.

● Action Plan Progress Report

Segment	Division	Action	Goal		Evaluation	Progress
			FY	Target		
Group-wide <sup>1</sup>		Survey supply chain	2007	Finish confirming legality of timber from all suppliers	○	Completed survey of all direct suppliers
		Examine sustainability	2008	Formulate standards for sustainable forests	×	Discussions complete but standards were not set
		Examine legality of timber	2009	Confirm legality of all timber handled	○	Confirmed legality of all directly imported timber handled



Segment	Division	Action	Goal		Evaluation	Progress
			FY	Target		
Action Plans by Division						
Domestic Forestry Domestic Distribution	Forestry Department	Promote forestry certification	2007	Use 2,000 m <sup>3</sup> /year (log basis) of certified timber from Company-owned forests	○	FY2008: 3,659 m <sup>3</sup> /year (log basis) Supplied SGEC timber to Housing Division
		Promote forestry certification (SGEC)	Continuous	Maintain forestry certification of Company-owned forests and pursue continual improvement	○	Activity continues (received certification of new forests acquired)
	Sumitomo Forestry Timberland Management Co., Ltd.	Establish system for confirming legality of timber	2007	Acquire group certification to establish systems for confirming legal compliance	○	Acquired group certification in August 2008
		Promote handling of Japanese timber	2010	Handle 1,000,000 m <sup>3</sup> of Japanese timber annually	Continues	Handled 700,000 m <sup>3</sup> in FY2009
Building Materials Distribution	Building Materials Department of the Timber & Building Materials Division	Survey supply chain	2008	Finish survey of corporate initiatives of all suppliers	○	Completed surveys of primary suppliers in FY2007 and FY2008
		Examine the legality of imported solid wood building materials	2009	Handle only legal imported solid wood building materials	○	Confirmation of legality of all directly imported solid wood building materials completed
Domestic Manufacturing	Sumitomo Forestry Crest Co., Ltd.	Promote use of Japanese timber	2007	Use 8,000 m <sup>3</sup> /month of Japanese cedar for plywood (Komatsushima Plant)	○	Used 9,475 m <sup>3</sup> /month of Japanese cedar in FY2008
		Promote forestry certification	2007	Acquire SGEC Separation and Labeling certification	○	Acquired SGEC Separation and Labeling certification in December 2007
	Former Toyo Plywood Co., Ltd. (merged with Sumitomo Forestry Crest in April 2010)	Promote use of Japanese timber	2007	Develop and launch building materials made of Sakhalin fir	○	Started sales of <i>Totorop</i> in 2007
		Promote forestry certification	2007	Commence examination of SGEC Separation and Labeling certification	○	Began in FY2007. Acquired SGEC Separation and Labeling certification in March 2008

Segment	Division	Action	Goal		Evaluation	Progress
			FY	Target		
Housing	Housing Division	Promote forestry certification	2007	Begin use of certified timber for housing	○	Began use of SGEC-certified timber for detached homes of the Sapporo Branch
		Promote use of Japanese timber	2008	Raise usage rate of Japanese timber for principal structural members to 70%	○	Achieved target of 70% Japanese timber used in principal structural members in FY2008

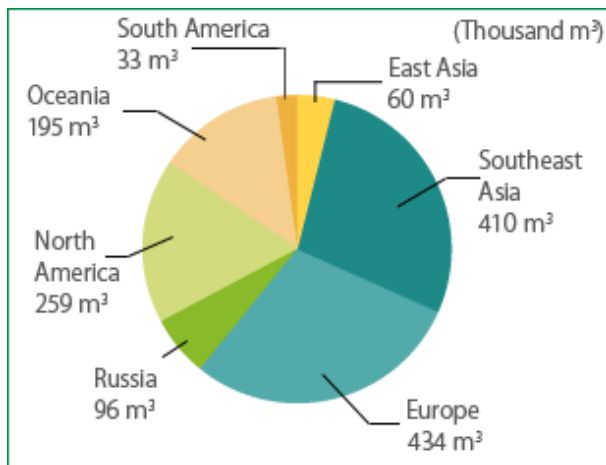
1 Excludes certain products handled by Building Materials Department

## Achieved 100% Use of Legally Compliant Timber and Timber Products<sup>1</sup>

Illegal logging is linked to destruction of forests and is thus a significant social problem. To ensure no illegally logged timber is handled, Sumitomo Forestry conducts investigations to confirm the legality of all overseas suppliers of logs, timber, and wood products. As necessary, local representatives and responsible managers from Sumitomo Forestry visit the forests and logging operations, seeking to increase the reliability of the investigations. In fiscal 2009 and continuing from fiscal 2008, all 163 overseas suppliers were confirmed to be in compliance. For the three years since fiscal 2007, the Company's directly imported timber and timber products were confirmed to be 100% legally compliant.

1 Includes imported solid wood building materials

■ Sources of Imported Timber and Timber Products  
(Based on figures provided to the Japan Lumber Importers' Association)



### Confirmation of Legality

(1) Request supplier conducting logging to submit documentation certifying legal compliance.

- \* Logging License
- \* Certification of Origin
- \* Export Permits
- \* Log Inspection Table
- \* On-Site Inspection Report (as necessary)



(2) Sumitomo Forestry's timber procurement examination subcommittee verifies the documents submitted by the suppliers



▶ Procuring Sustainable Raw Materials(P.87)

▶ Promoting the Use of Timber from Sustainable Forests(P.149)



- As the industry leader, I hope you can correct the misperception that selling timber equals destruction of the environment. (Business Partner)
- I hope to see integrated activities, from plantation forestry to use of waste material to eco-education (or eco-tourism). (Research/Education Institution)

## Setting Sustainable Forestry Standards

In fiscal 2008, Sumitomo Forestry began an examination to clarify the standards by which we define sustainable forestry. In order to set the standards, discussions were held with not only relevant departments within the Company, but also with third parties such as non-governmental organizations (NGO) involved with the environment and the Forestry Agency of Japan. The standards set forth in the United Nations Conference on Environment and Development's Declaration of Forest Principles and the Montreal Process were also studied.

Timber from plantation and certified forests is generally considered to be from “sustainable forests,” but the natural regeneration of North American broadleaf trees can also be said to be sustainable. At the present time, it is extremely difficult to set clear standards.

Sumitomo Forestry will continue to pursue sustainable procurement of timber with the initial target of expanding our use of timber from compliance-certified plantation forests and certified forests.

## Maintaining Forestry Certification of Company-Owned Forests and Continuous Improvement

Sumitomo Forestry's Company-owned forests located in Hokkaido, Shikoku, Kyushu and Wakayama cover a total area of 42,642 hectares (about 1/900 of Japan's land area). These forests are managed in an environmentally sound and sustainable manner.

Sumitomo Forestry-owned forests acquired certification from Japan's Sustainable Green Ecosystem Council (SGEC<sup>1</sup>) in September 2006, meaning that a third party has verified that the forests are properly managed. In fiscal 2009, the forests were inspected for the third time since earning forestry certification, and it was determined that Sumitomo Forestry has taken appropriate measures to preserve biodiversity, among other issues. In addition, 973.5 hectares of forests acquired in Kyushu and Shikoku through April 2009 were also certified by the SGEC.

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

 [Preserving of Biodiversity\(P.151\)](#)

 [Management of Company-Owned Forests\(P.144\)](#)

## Expanding the Handling of Timber from Certified Forests

To promote distribution of timber from certified forests, the Forest Product Trading Department and Building Materials Department of the Timber & Building Materials Division acquired CoC certification from FSC<sup>1</sup> in fiscal 2006 and CoC certification from PEFC<sup>2</sup> in September 2008.

KTI formed a reforestation cooperative with local farmers in December 2008 and acquired FSC-FM (Forest Management) certification for 152 hectares of plantation forests. Further, KTI, with the agreement of the local farmers, received an expanded examination on an additional 179 hectares of plantation forests at the same time the previously certified plantation forests were re-examined for renewal of the certification in May 2010.

## Major Forestry Certifications

Type of Forestry Certification		Name of Certified Division or Company
SGEC	Forestry certification	Forestry Department, Forestry & Environment Division (Company-owned forests)
	Comprehensive separation and labeling certification <sup>3</sup>	Forest Products Trading Department, Timber & Building Materials Division (pre-cut materials), Housing Division (pre-cut materials)
	Separation and labeling certification	Sumitomo Forestry Timberland Management Co., Ltd., Daiichisansho Co., Ltd., and Sumitomo Forestry Crest Co., Ltd.
FSC	FM certification	KTI (reforestation cooperative)
	CoC certification	Forest Products Trading Department and Building Materials Department, Timber & Building Materials Division; Kowa Lumber Co., Ltd.; Alpine MDF Industries Pty. Ltd.; PT. Kutai Timber Indonesia; Sumitomo Forestry (Singapore)
PEFC	CoC certification	Forest Products Trading Department and Building Materials Department, Timber & Building Materials Division

- 1 The Forest Stewardship Council is a third-party organization that provides a global forest certification system. Its Forest Management (FM) certification authenticates forest management, while FSC Chain of Custody (CoC) certification confirms that forest products from certified forests are appropriately separated and marked in the storage, processing and distribution processes.
- 2 The Programme for the Endorsement of Forest Certification (PEFC) is a forest certification program that promotes sustainable forest management by offering certification from third parties independent of stakeholders.
- 3 A system for certifying appropriate separation and labeling by operators during storage, processing and distribution of timber from forests accredited by the SGEC.

## Expanding Forestry Plantation Land Overseas

Sumitomo Forestry's Group companies outside Japan are increasing their use of plantation timber and promoting plantation forestry operations to ensure stable supply of raw materials while protecting the environment. In fiscal 2009, the Group planted 4,313 hectares.

In fiscal 2009, Sumitomo Forestry jointly launched a large-scale commercial forest plantation business in cooperation with ALAS Kusuma Group, a company involved in the forestry and plywood manufacturing businesses in Indonesia. This operation contributes to not only preservation of biodiversity and reduction of greenhouse gas emissions, but also contributes to the economic development of the local community by providing employment for local residents in commercial forest plantation operations.

This initiative classified Indonesia's lowland forests and peat-swamp forests, which have been degraded by illegal logging and slash-and-burn farming, into three areas: (1) forests preservation zones, (2) buffer zones, and (3) forestation zones. By further classifying plantation areas by environmental factors such as soil composition and moisture content, the initiative is able to optimize forestation operations to local environmental conditions. Forestation program planning utilizes leading-edge satellite information technology acquired through joint research with the Japan Aerospace Exploration Agency (JAXA)'s Space Open Lab system.

The aim is to enable sustainable commercial plantation forestry that contributes to the preservation of biodiversity through appropriate designation of forest preservation zones, mosaic planting wherein forestation is undertaken only in designated areas suited for that purpose, and the aggressive introduction of indigenous species. An experimental plantation was launched in October 2009, and full plantation operations will begin in 2010. The plan calls for 40,000 hectares to start with, rising ultimately to 280,000 hectares.

### Trees Planted in FY 2009

Group Company	Reforested Area
KTI (Indonesia)	1,979 ha
RPI (Indonesia)	1,007 ha
NPIL (New Zealand)	167 ha
OBT (Papua New Guinea)	1,160 ha

## Promoting the Use of Japanese Timber

### Promoting Joint Operations for Efficient Forest Management

To maximize the functionality of forests, proper maintenance of forests—clearing away of underbrush, pruning, and thinning—is vital, but in Japan, the large number of owners holding small parcels of land makes it difficult to do so efficiently.

As a result, maintenance of forests and usage of domestic timber are delayed, diminishing the vitality of forests and creating a significant problem. To break through this problem, increasing efficiency of forest maintenance through joint operations between owners of forests in Japan is necessary.

Aiming for a revitalization of forestry in Japan, Sumitomo Forestry signed an agreement to promote forest maintenance between owners of national, private, and public forests and also began joint forest maintenance operations with Oji Paper Co., Ltd. in fiscal 2009, the first joint operation of its kind in Japan between two corporations holding large-scale forest assets.

▶ Effective Use of Company-Owned Forests through Joint Operations(P.145)

### Expanding Use of Domestic Timber

Sumitomo Forestry Timberland Management Co., Ltd., which procures and sells domestic timber, is actively promoting the use of Japanese timber.

In order to increase demand for Japanese timber, it is necessary to provide products with consistent quality, not just quantity. In fiscal 2009, the Company began selling Japanese timber products using a Company-developed standard, the *FS (Forest Service) Grade*. The other Company-developed standard is *MIZDAS*<sup>1</sup>, but *FS Grade* was specifically developed for widespread and popular adoption to promote the expanded sales of Japanese timber products on a national scale.

In addition, the Company endeavored to utilize wood left over from logging, and to realize low-cost forestry by transporting logs directly from intermediate bases in mountains and by scaling up of joint operations. Going forward, the Company will focus on increasing sales of *FS Grade* products, as well as through continued operations such as these to advance sustainable forestry and forest management, thereby expanding the volume of Japanese timber handled.

1 A system that is incorporated into timber drying equipment to automatically control temperature and humidity via computer.

### Production of Housing Materials and Furniture Using Japanese Timber

Sumitomo Forestry developed and started sales of the *Monbetsu no Mori* line of furniture that makes effective use of thinnings of broadleaf trees harvested from Company-owned forests primarily in Monbetsu, Hokkaido.

The Company is actively involved in the use of domestic timber in the houses it builds, and has increased to 70% the ratio of domestic timber used in principal structural members. In addition to structural members, aiming to proactively use domestic timber in furniture, the Company launched the *Monbetsu no Mori* project with 11 member companies, which advances the development of furniture that leverages the best qualities of domestic timber and the best qualities of wood.

Thinnings, which are curved, and wood left over from logging are difficult to process into timber products and have conventionally been used primarily as raw materials for pulp, or as fuel in the form of firewood—or disposed of unused. The *Monbetsu no Mori* brand of interior furniture is the result of investigation into the effective use of thinnings from broadleaf and other trees. The thinnings from broadleaf trees used as raw materials for the *Monbetsu no Mori* brand come from SGEC<sup>1</sup>-certified forests. Going forward, the products will be marketed carrying the SGEC label.

By promoting the supply of thinned timber from broadleaf and other trees to companies that support and endorse these types of projects, the Company is encouraging the proactive use of domestic timber and supporting the revitalization of domestic forests and protecting the environment, thus contributing to the achievement of the government's goal of 50% self-sufficiency in timber.



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



Furniture products made with thinnings of broadleaf trees from forests in Monbetsu

Sumitomo Forestry Landscaping Co., Ltd. began selling *Original Deck Hinoki* brand of wooden decks that use thinnings from Japanese cypress in the floorboards. Japanese cypress is a conifer that possesses beautiful grain and superior durability, and, as such, has traditionally been used in shrines and altars. Using the Sumitomo Forestry Group's domestic network to procure thinnings from Japanese cypress, which has not been used very much until now, and the Group's proprietary technologies to effectively utilize it as a product, the Company promotes the use of domestic timber, and contributes to the healthy development of domestic forests.



Original Deck Hinoki

▶ Promoting the Use of Japanese Timber(P.146)



Since many problems remain in domestic forest management such as lack of workers, I hope to see the Company proactively lead in use of Japanese timber and preservation of mountains linked to local communities. (White-Collar Employee)

## Increasing the share of Japanese timber in principal structural members used in housing

▶ Increasing the Share of Domestic Timber Used(P.40)

## Future Plans

▶ New Action Plan for Timber Procurement(P.27)

Material  
Issues

## Providing Environmentally Friendly Homes



Sumitomo Forestry builds 10,000 homes a year and is playing a major role in the reduction of the environmental impact of housing construction on people's lifestyles.



Special Feature

Fiscal 2009 Results

### ○ Sumitomo Forestry: Building Homes, Creating Forests

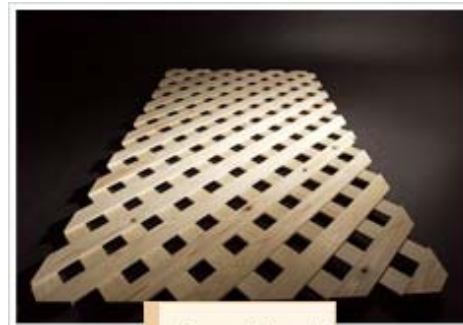
Sumitomo Forestry effectively uses Japan's forest resources to promote both vibrant forests and revitalized local communities. About 70% of the principal structural members used in the homes Sumitomo Forestry builds come from domestic timber, including *Super Cypress* laminated engineered wood for posts and foundations made from Japanese cypress, *Kizure Panels* for durable facings using thinned timber from Japanese cedar and other trees, and other products. As part of its efforts to utilize domestic timber, the Company is also promoting the use of local timber in the communities where the timber was harvested, including Hokkaido, Nagano, Ehime, Nara, and Yamaguchi. In Nagano prefecture, for example, the majority of principal structural members used in houses built in Nagano are made from timber harvested locally, including Shinshu Japanese larch.



About 70% of the principal structural members used to build *Sumitomo Ringyo no Ie* (Sumitomo Forestry Home) house brand homes are made of domestic timber.



*Super Cypress*



*Kizure Panels*

Nagano prefecture possesses abundant timber resources as forests cover about 80% of the land area of the prefecture. The area was planted with Japanese larch, which thrives even in areas with little rainfall, in the post-war period and the area is rich in natural resources. Output of timber in the region has fallen to one-sixth of its peak 40 years ago, however, due to prices remaining stagnant for decades, inadequate logging roads, and lack of forestry workers.

When there is no demand for mature trees, forests are neglected, and thinning and other required maintenance are postponed. As a result, the forests deteriorate and lose the beneficial functions that serve the public good such as preservation of national lands and cultivation of water resources, as well as losing the ability to absorb and store CO<sub>2</sub>, the cause of global warming.

Sumitomo Forestry contributes to revitalization of Japan's forests and their multi-faceted benefits by proactively using timber grown in Nagano prefecture, stimulating interest in forestry among owners of forests, promoting proper management, and repeating the cycle of harvesting mature trees, then replanting in plantation forests.

Use of locally grown timber also serves to stimulate forestry and the economy of the area.

Mr. Koaizawa, secretary of the Toshin Timber Center Cooperative Federation, the timber supply base for eastern Nagano prefecture, commented on the need to build infrastructure and the potential effects thereof, saying, "Nagano prefecture is proud to be number two in Japan for the quantity of Japanese larch stocks behind only Hokkaido, but the output of timber from Nagano in fiscal 2008 was equivalent to only 0.3% of the total available. This shows that while Nagano prefecture possesses abundant timber resources, they are not being used effectively. If, hypothetically, that number could be tripled to 1.0% of the total, the contribution to local employment and the economy would be significant. I believe that, with construction of logging roads and installation of high-performance equipment, this number is definitely achievable."

Mr. Saito, president of Saito Wood Industry Co., Ltd., a Nagano-based manufacturer of principal structural members made from Shinshu Japanese larch for use in Sumitomo Forestry Home houses, commented on the stimulating effect of increased logging on the local economy, saying, "If more homebuilders were to actively use locally grown timber, demand for local timber would grow, resulting in more logs being harvested from the mountains. In turn, I would need to quickly invest in plant and equipment at the factory and also hire more workers to handle the increased production volumes."

Local customers often say they would like to use timber grown in local forests in the area they were born and raised in the homes they plan to live in for rest of their lives. Fulfilling the wishes of local residents who want to use trees grown in the region contributes to local economic development through the cycle of harvesting, replanting, and managing healthy plantation forests.

Building homes begins with creating forests. Sumitomo Forestry building homes is linked to creating forests in Japan. Sumitomo Forestry, as a builder of 10,000 wood construction homes annually, continues the creation of healthy forests in Japan and supports the livelihood of the people involved with forests.

## Comments from Business Partners

To realize the government's target of 50% or higher self-sufficiency in timber in Japan in ten years' time, as set forth in the Plan to Revitalize Forests and Forestry, it is necessary to create sales and distribution channels matched to upstream, midstream, and downstream industries through consolidation of forest management, and to aim for the creation of a steady flow of transactions less affected by swings in demand. From the perspective of one who is dealing with timber transactions every day, I believe it is necessary for companies like Sumitomo Forestry, who are fully integrated businesses from upstream to downstream, to take the initiative to drive results.

Further, I would like to see Sumitomo Forestry, as a leading homebuilder, appeal to the general public broadly and in an easy-to-understand manner about the importance of proactively using domestic timber and the necessity of creating systems to do so. That would have a significant impact going forward on the improvement of Japan's self-sufficiency in timber.





Hiroshi Saito  
President  
Saito Wood Industry Co., Ltd.

Since the promulgation of the Kyoto Protocol in 1997, concern over global warming has risen every year. Corporate efforts to reduce greenhouse gases and the role of forests in absorbing CO<sub>2</sub> are at the center of attention. I look to Sumitomo Forestry to make even greater contributions toward the realization of a low-carbon, recycling-centric, environmentally symbiotic society through the construction of wooden houses that proactively use domestic timber, including locally grown timber.

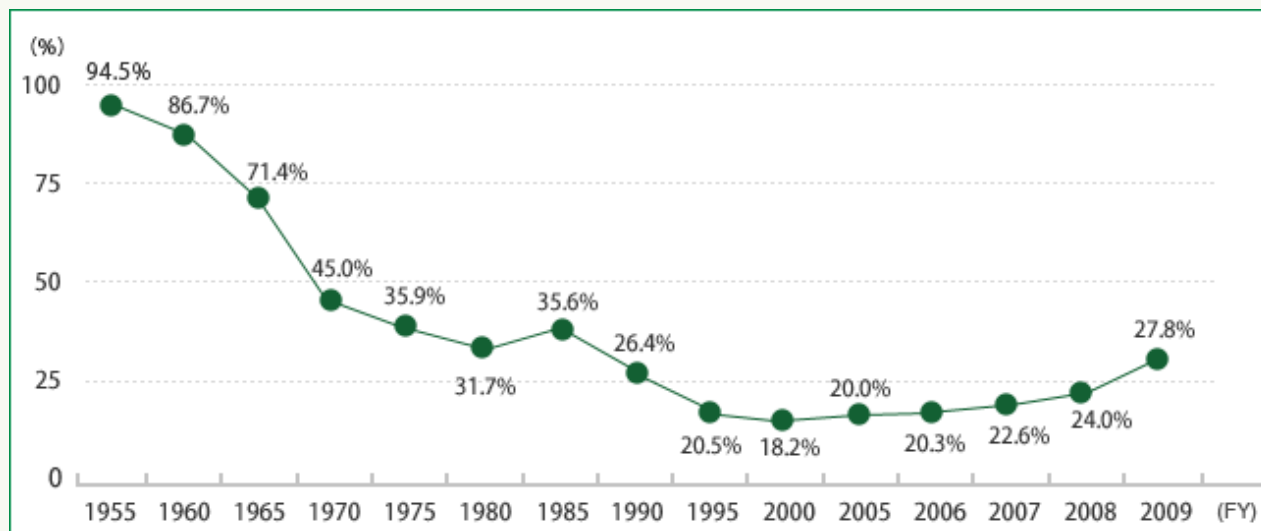
## Current State of Japan's Forests

Japan is a country blessed with abundant forest resources. Forests cover approximately 70% of Japan's land area. And approximately 40% of those forests are artificial forests, planted and cultivated by man.<sup>1</sup> The pressing problem in Japan today is the neglect and subsequent deterioration of these artificial forests.

To meet demand for timber during the post-war period, trees such as Japanese cedar and Japanese cypress, which are well-suited for use as construction materials, were planted on mountains across Japan. Given the long time required for the saplings to grow into mature trees that can be used in construction materials, however, it became necessary to rely on imports to meet the demand for timber. Imported timber could be ordered in large quantities at cheap prices, resulting in a sudden spike in domestic consumption of timber. At the same time, however, domestic trees ready for harvest were not price competitive and the domestic forestry became unprofitable. As a result, owners of forests lost interest in forestry, and many of the plantation forests were neglected.

<sup>1</sup> Source: Municipal Governments, Forests as % of Land Area / Man-made Forests as % of Total (as of March 31, 2007)

■ Timber Self-Sufficiency in Japan (%)<sup>2</sup>



<sup>2</sup> Source: "Timber Demand Tables (Construction Materials)," Forestry Agency. Supply volume of construction materials (timber used in processed wood products, plywood, pulp, chips) converted into log equivalents.

## Role of Forests

Healthy forests serve the public good through accumulation of water resources and other benefits. Not only do forests provide wood resources, as the trees grow they also absorb and store CO<sub>2</sub>, a cause of global warming, and provide habitats for plants and animals.



## Reasons to Use Domestic Timber

While extensive plantation forests were planted in post-war Japan, Japanese timber was not competitive against imports for a variety of reasons. Use of domestic timber declined, and Japan's forests were neglected. Lack of maintenance led to deterioration of the forests, and slow growth of root systems that protect the soil, leading to landslides during times of heavy precipitation. Also, as trees mature their growth slows and CO<sub>2</sub> absorption via photosynthesis decreases. Proactive use of domestic timber promotes the cycle of harvesting, planting, and maintenance that supports the development of healthy forests, contributing to revitalization of forests, protection of national lands, and reduction of global warming.



Un-maintained forest



Properly maintained forest



**Material Issues**

## Providing Environmentally Friendly Homes



Sumitomo Forestry builds 10,000 homes a year and is playing a major role in the reduction of the environmental impact of housing construction on people's lifestyles.



Special Feature

Fiscal 2009 Results

### Fiscal 2009 Targets

- Provide excellent long-term houses
- Offset carbon released during house construction
- Promote home renovation business
- Continue appropriate disposal of waste from new housing construction

### Fiscal 2009 Results

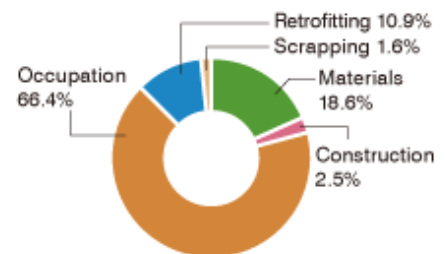
#### Key Performance Indicators

	2007	2008	2009
Domestic timber as % of principal structural members	51%	70%	70%
Number of native trees planted	-	-	17,753

### Life Cycle Assessment for Housing

Sumitomo Forestry carries out life cycle assessments (LCA) to evaluate the environmental impact of a home throughout its life cycle, from the procurement of raw materials to the house's construction, occupancy and demolition. According to LCA, a home's environmental impact comes primarily from energy consumption during occupancy, accounting for 70-80% of its total energy consumption. This inspired Sumitomo Forestry to propose the *Ryouonbou* design concept, which cuts energy consumption during occupancy, as well as solar power systems and solar hot water systems, in order to lower a home's environmental impact.

Life Cycle Assessment of MyForest (Fiscal 2005 estimate)



▶ Balance of Input and Output(P.126)

## Excellent Long-Term Housing

### Providing Excellent Long-Term Housing

Compared to houses in European countries, which last an average of about 100 years, houses in Japan typically have a life span of only about 30 years, and consequently, continuous rebuilding has a serious environmental impact.

Sumitomo Forestry believes that popularizing excellent long-term houses that become social assets is vital for creating a prosperous society. As such, the Company is promoting the following four policies to extend the life of houses:

- Make houses more reliable by improving their basic functions
- Create comfortable living environments
- Increase future options for layout to accommodate changes in lifestyles
- Enhance maintenance programs to support long-term upkeep

The Japanese government implemented the Excellent Long-Term Housing Promotion Act in June 2009, issuing clear guidelines emphasizing the importance of excellent houses and their maintenance for long-term occupancy. Building houses certified as “excellent long-term houses” not only reduces the costs incurred with repeated rebuilding, but also reduces waste generation and environmental impact. In the long-term, such houses foster more prosperous lives.



*MyForest-BF-SI, exterior view  
(illustration)*

As part of these measures, the Ministry of Land, Infrastructure, Transport and Tourism (MLIT) is promoting its Ultra-Long-Life House Leading Model Project. Sumitomo Forestry submitted its houses to the first model project and succeeded in having three of its ultra-long-life models chosen for the project. In fiscal 2009, three Sumitomo Forestry housing designs were selected as Excellent Long-Term House Leading Model Projects by the MLIT, continuing a trend started in fiscal 2008 when three designs were also selected as the first leading model projects. The *MyForest-Taiju*, *MyForest-BF-SI*, and *MyForest-Hokkaido* (all Excellent Long-Term Housing Model Project 21 series) were recognized for basic functionality, proactive use of domestic timber, structural frameworks that increase seismic resistance and improve durability, and extensive maintenance programs.

## Reducing Environmental Impact of Housing Construction

### Carbon Offsets for Housing Construction

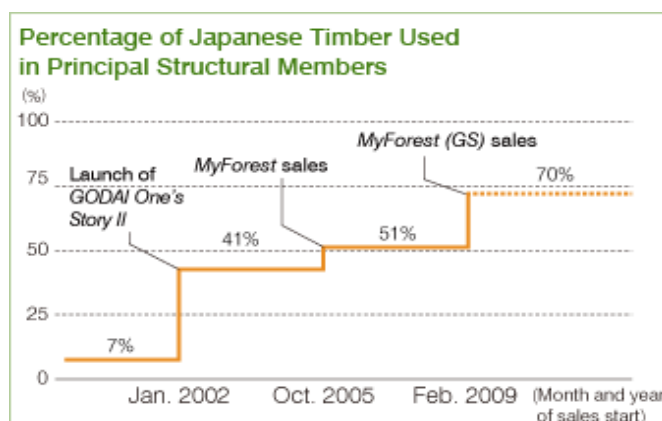
Sumitomo Forestry uses plantations to absorb the CO<sub>2</sub> emitted over the lifetime of principal structural members, from the harvesting of timber to the construction of housing. In order to offset the CO<sub>2</sub> emitted by all the custom-built and spec homes we will sell in the five years beginning with fiscal 2009, we plan to plant approximately 2,000,000 trees on 1,500 hectares of land in the five-year period, then manage and cultivate the trees for another ten years. In fiscal 2009, we conducted environmental reforestation on 60 hectares of protected forests in Indonesia's Bromo Tengger Semeru National Park.

▶ Promoting Global Warming Countermeasures through Our Businesses(P.43)

### Increasing the Share of Domestic Timber Used

To promote the use of Japanese timber and revitalize the Japanese timber industry, Sumitomo Forestry has been working to achieve its goal of raising the percentage of Japanese timber used in principal structural members for houses to about 70%. This goal was achieved in fiscal 2008.

Advances are also being made in “local production for local consumption,” where timber is harvested and used locally in areas such as Hokkaido, Nagano, and Ehime.



▶ Promoting the Use of Japanese Timber(P.146)

▶ Providing Environmentally Friendly Homes(P.34)

### Continue Appropriate Disposal of Waste from New Construction

Sumitomo Forestry is aiming to achieve “zero emissions” from construction of new homes. In fiscal 2009, 80% of waste materials generated from new construction was recycled.

Sumitomo Forestry deployed industrial waste traceability systems in ten offices in Japan. The system applies IC tags to industrial waste, which is separated and picked up separately, and sends back information in an electronic manifest, allowing for tracking of the movements of the waste. This system will enable the accurate measurement of the volume of waste generated, as well as contribute greatly to the elimination of illegal dumping.

▶ Waste Reduction at New Housing Construction Sites(P.139)

## Reducing Environmental Impact During Occupancy

### The *Ryouonbou* Design Method

Sumitomo Forestry uses the *Ryouonbou* design method as a technology for passive reduction of environmental impact. *Ryouonbou* leverages the wisdom and techniques that characterize traditional Japanese houses in skillfully using natural forces to create a comfortable living environment without reliance upon cooling and heating equipment. During summer, “Wind Design” blocks out the sun's rays and creates a path along which air can flow, creating a cooling sensation. During winter, “Sun Design” captures the heat of the sun, not allowing it to escape. “Green Design” uses greenery as a natural air conditioning unit. *Ryouonbou* combines elements of each design direction to create a naturally comfortable and comforting home.

Through the introduction of *Ryouonbou* design, test calculations using model plans demonstrate the potential to reduce CO<sub>2</sub> emissions during occupancy by up to 40% compared with houses built to the new energy efficiency standards.



I think a home that is cool in summer and warm in winter is a comfortable house and economical, too. I think it would be great if this could be applied to not only houses, but to retail stores, offices, and schools, too.  
(Customer)

### Utilization of Solar Power

Sumitomo Forestry is utilizing solar power as an active technology to reduce environmental impact. Its *MyForest-Solabo* CO<sub>2</sub>-conserving promotion model boasts a double solar system combining a solar power generation and a solar hot water system. This reduces CO<sub>2</sub> emissions by about 65%<sup>1</sup> compared to a house built to meet 1992 energy conservation standards.

The solar hot water system uses medium-heat antifreeze that absorbs heat circulating in a roof-mounted solar thermal energy panel. The antifreeze heats up water stored in a tank, and a gas heater adjusts the water temperature to appropriate levels for home use. This system ensures a stable hot water supply, and also makes significant contributions in reducing CO<sub>2</sub> emissions during occupancy, given that hot water systems account for about 30% of an ordinary household's energy consumption, and the use of solar energy as heat in its original form ensures efficient energy use.

<sup>1</sup> This estimate is based on a two-floor house with a total floor area of 130.83 m<sup>2</sup> and occupied by a family of four in Tsukuba City, Ibaraki Prefecture. It is also based on certain assumptions in Sumitomo Forestry's model plan, and could differ from reality.

▶ Growing Use of Solar Energy in Houses(P.136)

## Residential Landscaping that Contributes to Conservation of Biodiversity— “*Mou Hitotsu no Mori-zukuri™*”

In consideration of global warming and biodiversity, Sumitomo Forestry Landscaping Co., Ltd. launched the “*Mou Hitotsu no Mori-zukuri™*” (Making Another Forest) project for the greenification of towns and residences to create new green spaces equivalent to the land area of Company-owned forests, which comprise approximately 1/900th of the total area of Japan. Through the landscaping business, we have been encouraging the planting of native species, and currently, aiming for promotion of biodiversity, we have clearly classified the trees and plants used in landscaping from the perspective of biodiversity.



Sumitomo Forestry Shinjuku model home whose exterior and landscaping were designed under the concept of “creating a forest visited by small birds in Shinjuku.” The selected trees and plants are species indigenous to Japan and the planted trees are species favored by small birds. The garden is design to blend harmoniously with local nature.

▶ Residential Landscaping that Contributes to Conservation of Biodiversity(P.60)

## Promote Home Renovation Business

Sumitomo Forestry Home Tech Co., Ltd. offers renovation services that enable customers to continue living comfortably in their homes for generations.

It is said that 40% of the existing homes lack adequate seismic resistance, making seismic reinforcement essential to continue living in the structure with peace of mind. Sumitomo Forestry Home Tech works in conjunction with the Tsukuba Research Institute to develop proprietary technologies to increase seismic resistance, including the Sumirin-JEM Construction Method.

The Company also renovates traditional Japanese homes, leveraging the expertise refined through decades of experience in wood construction housing. To pass on homes that have seen history made to the next generations is also vital from the perspective of preserving valuable social assets. In fiscal 2009, the Company renovated approximately 200 homes built in or before 1950.

▶ Promoting Renovation Projects(P.80)

## Future Plans

- Strengthen Development of Environmentally Sound Products
- Strengthen Environmental Landscaping Business
- Expand Renovation Business



Material Issues

# Promoting Global Warming Countermeasures through Our Business



Contributing to the prevention of global warming through forestry management and the reduction of CO<sub>2</sub> emissions in our housing business.

Special Feature

Fiscal 2009 Results

## Plantation Forest Operations to Offset CO<sub>2</sub> Emitted by Principal Structural Members from Harvesting of Timber to Construction of Housing

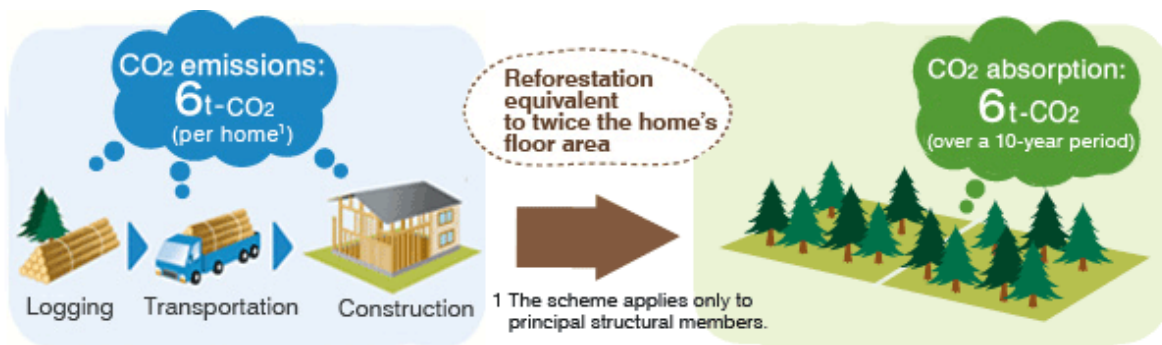
From April 2009, Sumitomo Forestry began a program of using plantations to absorb the CO<sub>2</sub> emitted over the lifetime of principal structural members, from the harvesting of timber to the construction of housing. The principal structural members used in housing generate approximately six tons of CO<sub>2</sub> per unit, from the cutting down of timber to actual construction. It is possible to offset this by planting trees on land area equivalent to two times the floorspace of the house and cultivating these trees for ten years. In order to offset the CO<sub>2</sub> emitted by all the custom-built and spec homes sold during the five-year period beginning with fiscal 2009, we plan to plant approximately 2,000,000 trees on 1,500 hectares of land during the five years, then manage and cultivate the trees for another ten years.



The forests of Mt. Bromo National Park became grasslands as a result of logging and forest fires.

There are two methods of tree plantation, “Environmental reforestation,” whereby timber is not cut down, and “Industrial reforestation”, where mature trees are cut down and used as raw materials for processed wood products.

How Carbon Offsets Work





Plantation operations together with local people

In fiscal 2009, we conducted environmental reforestation on 60 hectares of protected forests in Indonesia's Bromo Tengger Semeru National Park. In this park, located on expansive highlands at an altitude of 1700 to 2500 meters, the majority of the park was grasslands, having been degraded by repeated forest fires and sulfurous acid gas released by Mount Bromo. Here, aspiring to recreate a verdant forest environment, we planted trees native to the soil, including *Casuarina junghuhniana* Miq. and *Schima walichii*.

Further, we have begun monitoring animals, insects, and plant life, in conjunction with Indonesian universities and research institutions, in order to survey the impact of plantation activity upon biodiversity. These surveys are investigating the effects of plantation forestry upon the remaining natural forests in the national park, as well as the impact upon the surrounding environment as forests recover as a result of plantation activity. Surveys to date have shown mammalian species such as old world monkeys (*cercopithecidae*), and avian species are inhabiting both the natural and plantation forests. We will continue the surveys to shed further light upon the relationship between plantation activity and biodiversity.



Surveying biodiversity

From fiscal 2010, we are working in cooperation with local residents to conduct sustainable industrial reforestation in areas outside of the protected forests in the above-mentioned national park. The local residents will share in the profits when the timber is harvested in several years, with the remainder allocated to cover the costs of reforestation and cultivation of forests, creating a new source of income for the people of the region. We are committed to plantation forestry that contributes to the local community through the realization of sustainable forestry management.

To communicate the progress of these efforts to people who have actually purchased a home, we publish regular updates on *club forest* - a dedicated website for owners of Sumitomo Forestry homes. We will continue to advance our efforts with carbon offsets and raise awareness of the value of prevention of global warming and preservation of Indonesian forests amongst our customers.



Plantation updates on club forest



- I expect big things from the implementation of carbon offsets through plantation activities. (Student)
- I think revitalizing the world's deforested lands through plantation forestry and creating new employment in local communities are vital to the global economy. (Student)
- With the advent of the eco-point system for housing, I expect environmentally sound housing will grow. If the number of homes like these expands across Japan, perhaps the Earth has a future. (Consumer)

## Voices from the Marketing Strategy Department



Chiaki Yoshimoto,  
Marketing Strategy Department,  
Housing Division

As environmental legislation concerning housing grows, including the new system for buying back electricity generated by solar power generation and Eco-Points for houses, the number of customers who make environmental consideration a factor in selecting the partner who will build their home continues to rise.

At Sumitomo Forestry, we promote environmentally sound housing through proposing energy-saving equipment such as solar power generation and Ene-Farm technology; through intelligent use of the power of nature, our *Ryounbou* design concept, which enables lifestyles not dependent upon heating and cooling systems; and through proactive use of Japanese timber. Moreover, we believe we must provide not only the fundamental functionality of a home, but even more value to our customers.

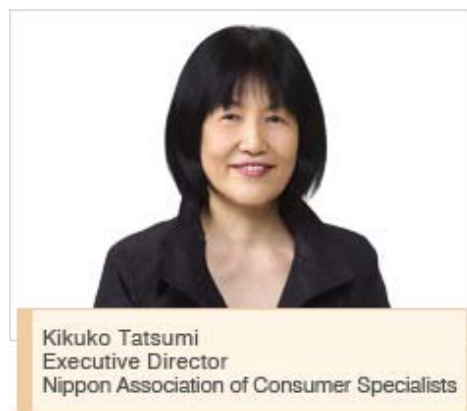
Carbon Offset Home Building is one such initiative, using plantations to absorb the CO<sub>2</sub> emitted over the lifetime of principal structural members, from harvesting of timber to construction of homes. We are the first homebuilder to offer this approach, leveraging our long experience with creating forests and contributing to the environment through home building. We believe this corporate stance is linked to increasing customers' trust in our Company and their peace of mind.

In the Marketing Strategy Department, we publish information and provide training for our sales people regarding the environmental activities of *Sumitomo Ringyo no Ie* (Sumitomo Forestry Home) houses, including carbon offset home building. We also provide this information to our customers through publication of catalogs and pamphlets. We will continue to proactively provide information about our activities.

## Comments from an Expert Authority

Everyone wants to have both a sustainable lifestyle and peace of mind. That's not something given, however, it is something that we must earn through living life intelligently. Consumers can play an important role by selecting products and services that consider the environment.

One's home is the foundation of one's life and it's a lifelong relationship. That's why it's so important to make intelligent choices. And only homebuilders can help reduce the environmental impact of housing during two stages of its life cycle: procurement of resources and during construction. Sumitomo Forestry's system for carbon offsets is a new concept, and one that is very impressive.



Kikuko Tatsumi  
Executive Director  
Nippon Association of Consumer Specialists

I was curious as to how this story was being told so I visited a model home. While the salesperson answered my questions about CO<sub>2</sub> offsets in detail when asked, I think it would be even better if the salesperson proactively volunteered to tell this story at their own initiative and in a way that excites and inspires customers—because it's such a great system. If consumers don't know about it, they can't imagine it, which is why telling this story is also CSR.



## Promoting Global Warming Countermeasures through Our Business

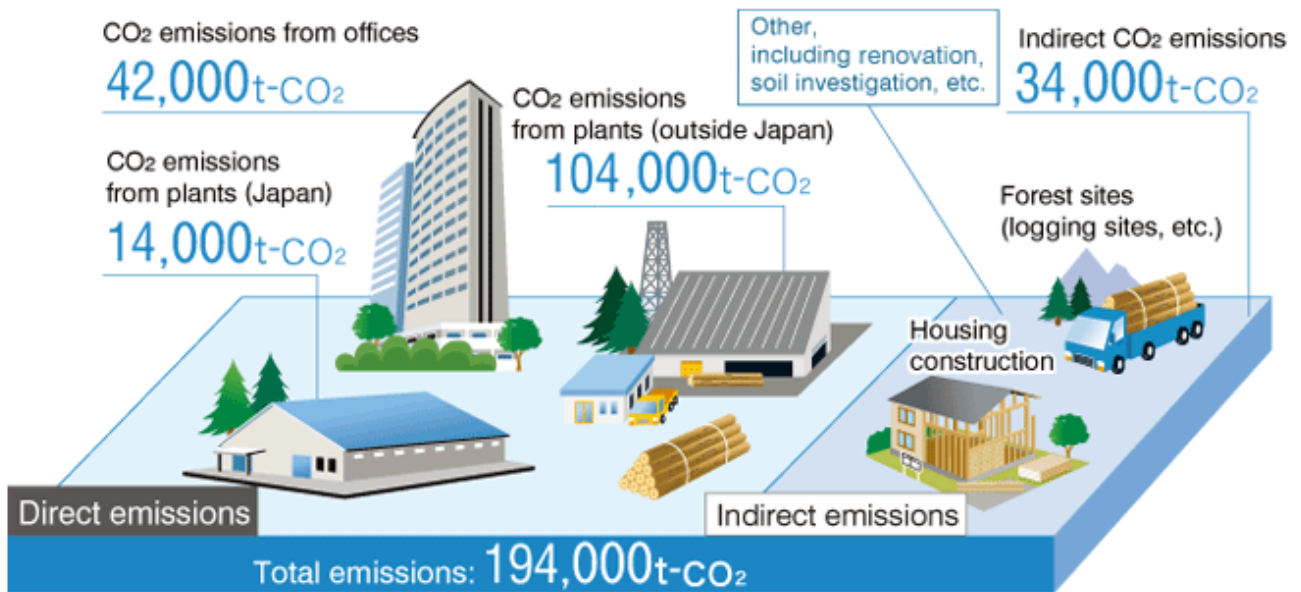


Contributing to the prevention of global warming through forestry management and the reduction of CO<sub>2</sub> emissions in our housing business.

Special Feature

Fiscal 2009 Results

### Sumitomo Forestry Group: FY2009 CO<sub>2</sub> Emission Volume



### Fiscal 2009 Targets

- Establish total targets for CO<sub>2</sub> emissions for plants in and outside Japan
- Promote activities to offset CO<sub>2</sub> emissions during housing construction

## Setting of New Targets for Reduction of CO<sub>2</sub> Emissions at Plants in Japan and Overseas

Sumitomo Forestry has endeavored to reduce CO<sub>2</sub> emissions, based on the Medium-Term Environmental Management Policy, by setting five-year targets for fiscal years 2006 to 2010 in three areas of operation: offices, plants in Japan, and plants outside Japan.

In December 2009, however, the Group revised the CO<sub>2</sub> reduction targets in the environmental management mid-term plan due to the difficulty of determining the actual status of CO<sub>2</sub> reduction activities per sales unit shared by plants in Japan and overseas, which is easily impacted by economic downturns.

The new targets for plants in Japan have been set using appropriate base units for each plant, resulting in indicators that enable much easier management of reduction efforts at the production stage. Further, targets and management indicators for total emissions, emissions per sales unit, and/or other measures as appropriate to each plant have been set in consideration of local laws and regulations.

At the current time, the mid-term targets are set for fiscal 2014. We will continue to consider setting of long-term targets in consideration of the Japanese government's movement to set targets for reduction of greenhouse gases, as well as deliberations at the global level.

### Medium-Term Environmental Management Plan New Targets for Reducing CO<sub>2</sub> Emissions

- Offices : By FY2010, achieve a 12% reduction in overall emissions compared with FY2006, and maintain this level to 2014.
- Plants in Japan : By FY2014, achieve an 8% reduction in base units<sup>1</sup> compared with FY2006.
- Plants outside Japan : Set targets for each plant in consideration of local laws and regulations, including overall emissions, emissions per unit sold, and/or other targets as appropriate to each plant.

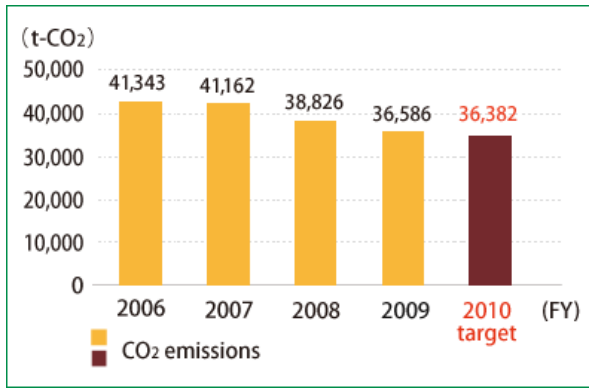
<sup>1</sup> Base units are set appropriately for each product line at each plant.

### Medium-Term Environmental Management Policy Old Targets for Reducing CO<sub>2</sub> Emissions

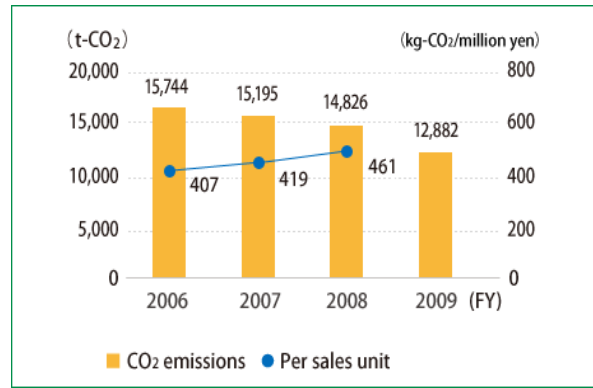
- Offices : 12% reduction of total emissions by FY2010 from 2006 levels
- Plants in Japan : 5% reduction of emissions per sales unit by FY2010 from 2006 levels
- Plants outside Japan : 20% reduction of emissions per sales unit by FY2010 from 2006 levels



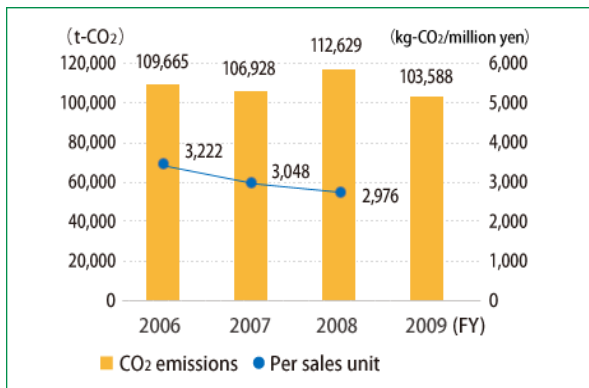
■ Offices



■ Plants in Japan



■ Plants outside Japan



The results of fiscal 2009 shows only CO<sub>2</sub> emissions, since the company revised reduction targets in the environmental management mid-term plan in December 2009.

▶ Reducing the Effects of Business Operations on Global Warming(P.130)

## Activities at Plants and Offices

### Displaying Carbon Footprints

Sumitomo Forestry Crest Co., Ltd. began displaying carbon footprints<sup>1</sup> on plywood made of Japanese timber in May 2009 at its Komatsushima Plant. This program to display carbon footprints on wood products is a first in Japan. Going forward, we will research all carbon footprints of the products which are manufactured at this plant.

From October 2009, PT. Rimba Partikel Indonesia (RPI) began displaying the carbon footprint on the particleboard products they manufacture and sell. This marks the first time that an Indonesian company has labeled timber products. RPI particleboard products make effective use of resources, using wood leftover from logging, sawdust, and timber from Company-owned plantations. Further, the company's products are manufactured using low carbon emission methods, including the use of electricity from a wood biomass power generation facility.



1 Greenhouse gases emitted during the entire life cycle of the product and service, from procurement of raw materials to disposal and recycling, are converted to CO<sub>2</sub> to present the data in a more understandable manner.

▶ Life Cycle Assessments(P.127)

## CDM Business Using Wood Biomass for Power Generation

At PT. Rimba Partikel Indonesia (RPI), a four-megawatt wood biomass power facility that primarily burns lumber mill-ends and sawdust was approved as a CDM project by the United Nation's CDM Executive Board and registered as such on May 23, 2008. This was the first wood biomass power station in Indonesia to be registered as a CDM business. By replacing its existing diesel generators with wood biomass generators, RPI expects to reduce its CO<sub>2</sub> emissions by about 15,000 tons a year.

The facility began full operations from June 2008 and RPI's 2009 CO<sub>2</sub> emissions were 4,859 tons, a reduction from 10,033 tons in fiscal 2007 before operations began. In fiscal 2010, the estimated CO<sub>2</sub> output will be 4,385 tons.

## Reducing CO<sub>2</sub> Emissions from Offices

In order to reduce the CO<sub>2</sub> generated by offices, the Sumitomo Forestry Group sets common targets across all Group companies and continues to advance its efforts in its offices to the greatest possible extent.

At the Company's model homes and showrooms across Japan, we began from fiscal 2008 to switch over to environmentally sound lighting systems. In fiscal 2009, we began turning off the daytime lighting (on second floors) when customers are not present in model homes across the nation.

From fiscal 2009, in order to reduce CO<sub>2</sub> output from offices, we specifically focused on activities to reduce the amount of electricity and gasoline used in daily business.

 Energy Conservation in Offices(P.170)

## Reducing CO<sub>2</sub> During Construction and Occupancy

### Promotion of Carbon Offsets during Housing Construction

 Promoting Global Warming Countermeasures through Our Business(P.43)

### Reducing CO<sub>2</sub> Output during Occupancy

 Providing Environmentally Friendly Homes(P.34)

## Future Plans

### Medium-Term Environmental Management Plan

#### New CO<sub>2</sub> Emission Volume Reduction Targets

Offices : By FY2010, achieve a 12% reduction in overall emissions compared with FY2006, and maintain this level to 2014.

Plants in Japan : By FY2014, achieve an 8% reduction in base units<sup>1</sup> compared with FY2006.

Plants outside Japan : Set targets for each plant in consideration of local laws and regulations, including overall emissions, emissions per unit sold, and/or other targets as appropriate to each plant.

<sup>1</sup> Base units are set appropriately for each product line at each plant.

Material  
Issues

## Promoting Family-Centric Employee Lifestyles



For employees to find success in their jobs, it is important that they enjoy their work. Accordingly, Sumitomo Forestry strives to create a workplace that enables a diverse range of employees to tailor their work styles to their lifestyles.



Special Feature

Fiscal 2009 Results

### ○ Expanding Opportunities for People with Disabilities to Improve Corporate Value

What challenges do people with disabilities encounter working in companies? What ways of working lead to increased corporate value? Employees with disabilities and personnel managers came together to discuss these and other questions. Joining the discussion was Mr. Makoto Hata, who has been involved for many years with promoting the employment of people with disabilities under the philosophy, “The experience and ideas of employees with disabilities are linked to improving corporate value.”





**Makoto Hata**  
 Director  
 Employment Support Center for People with  
 Disabilities (Non-Profit Organization)



**Tomio Harada**  
 (Hearing Challenged)  
 Design Group / Design Support / Architect, 2<sup>nd</sup>  
 Class  
 Tama Branch, Housing Division



**Terumi Shintani** (Visually Challenged)  
 Osaka Customer Support Center / Administration  
 Quality Control & Customer Information  
 Department  
 Housing Division



**Kenji Nemoto**  
 (Upper Body Challenged) (upper limbs & trunk)  
 Saitama Operations Department / Administration  
 Sumitomo Forestry Home Engineering Co., Ltd.



**Yasushi Seharada**  
 (Hearing Challenged)  
 Toshin Center / CAD Operations / Architect, 2<sup>nd</sup>  
 Class  
 Sumitomo Forestry Archi Techno Co., Ltd.



**Koichi Shimizu**  
 General Manager, Personnel Department



**Haruhiko Nakamaru**  
 (Manager of Facility with Employees with  
 Disabilities)  
 Manager, Toshin Center  
 Sumitomo Forestry Archi Techno Co., Ltd.



**Tatsumi Kawata**  
 (Manager, Employment of People with Disabilities)  
 Planning / Work Life Group, Personnel Department



**Michiyo Tanaka**  
 (Hemiplegically Challenged, Vocally Challenged)  
 Design Group / Designer  
 Shonan Branch, Housing Division

## Communication in the Workplace

### What sorts of things do you feel in the course of your daily work?



**Nemoto:** I joined the company in December, a busy time for everyone. At first, I had trouble communicating well with people, but when someone asked me if I wanted to join them in playing sports, something outside of work, well, that broke the ice and I've been able to get along well with everyone.





**Tanaka:** On my first day of work, there was a person who wouldn't look me in the eyes and I felt a little hurt. I heard later that person was just surprised because they hadn't heard that a person with disabilities was coming to work. On the other hand, there were people who said, "May I ask you about your disability?" which made me feel grateful. In order to avoid misunderstandings, it's really important that the people around you understand the nature of the disability.



**Mr. Hata:** The understanding of the people around you is really important, isn't it? When communication doesn't go well, people may lose their confidence, build up stress, and become unable to continue working. If you write up the nature of your disability and how others can help, passing out a single A4 sheet of paper goes a long way toward increasing understanding of the people around you. I recommend that you don't be shy and appeal to the people around you.



**Nakamaru:** I grew up in a family with a hearing-challenged person so I know, but even when the non-challenged person feels "I'm communicating," the hearing-challenged person probably has many frustrations. It's really hard to understand the subtle nuances in conversations or jokes, just through sign language or in writing. And if we aren't facing hearing-challenged people directly, there's no way we can catch what they are saying. I think it would be good to have training specifically for how to communicate with hearing-challenged people.



**Kawata:** For each employee with a disability, we arrange for the individual to meet with the people in the department where they'll be working so they can have a better understanding of the nature of the disability, but it seems we need to do more, doesn't it?



**Seharada:** Even though I have a hearing disability, I am able to do my work because the members of our team write a summary of meetings and telephone calls for me. People who aren't on the team or who are from other departments don't know about that kind of detailed support.



**Harada:** There are people who mistakenly believe, "If I speak in a loud voice, a person with a hearing disability can hear me." And often the written notes are too brief and it feels like they're giving orders. When I ask "why?" or "how?" people will make more detailed memos or send me an e-mail summarizing the morning briefing, for which I am very grateful.



**Shintani:** Before I joined the Company, I worked for 13 years as a telephone switchboard operator at a department store. I was proud of that and so, in the beginning, I deliberately didn't explain about my disability. I wanted to be recognized as a "person we can use" by showing people I could do each and every job. As a result, there were many difficulties and, looking back, I'm not so sure that approach was a good one. But now, there are times when my colleagues rely on me and I feel validated by the people around me.



**Shimizu:** I think it's extremely important for the diversity of employees to communicate with each other and create a place where it's easy for them to work together. As a company providing services related to housing and lifestyles, we must embrace employee diversity and stand in each other's shoes to foster greater understanding because that will help us to understand our customers better.





**Mr. Hata:** I heard a story from an apparel company where 8% of the employees are people with disabilities. In their experience, the care that employees with no disabilities show toward employees with disabilities manifests itself as consideration for customers. By working together every day, by learning on a daily basis, the sense of consideration for others naturally becomes part of that person and this is reflected in their behavior. People have a tendency to generalize that hiring people with disabilities will lower work efficiency, but there are many cases where it's turned out to be a plus.

## Leveraging Disabilities to Improve Corporate Value

**As a homebuilder, our Company is deeply involved in people's lives. How can we best utilize our people with disabilities to further increase corporate value?**



**Shintani:** I asked a few friends for their opinions since I would be participating in this discussion. Visually and physically challenged people have many requests for architectural designs that consider the needs of people with their type of disabilities. I think it's vital that we listen and respond to those needs.



**Seharada:** If we had a system that leverages of the experience of employees with disabilities, where they could give advice to the project managers during the design phase, I think we could respond to the needs of customers with disabilities in very concrete ways.



**Harada:** When a friend who is hearing challenged visited the showroom of a homebuilder, he lost interest because there was no advice or explanation regarding features or fittings designed for people with disabilities. If we could say “we can do this” and offer ideas matched to the person's disability, then I'm certain they would say, “If that's the case, let's build a home with this company.”



**Tanaka:** I'm a Certified Housing Environment Coordinator for Elderly and Disabled People. I would like to be of service to our customers who have disabilities, using not only my functional knowledge of facilities for people with disabilities, but also incorporate the opinions of the people who use them. It's unfortunate that I haven't been able to do so. I'd be delighted to use my personal experience and certification in creating a catalog for elders and people with disabilities, or be involved in the planning of a model house for people with disabilities.



**Seharada:** I'd love to visit a model home designed specifically for elders and people with disabilities.



**Mr. Hata:** There is a hotel chain that had an employee with disabilities test the usability of their hotels, asking the person to speak frankly about the problems they encountered and what they would like, and reflecting this in a manual. No matter how hard a person without disabilities tries to imagine, there are things that only people with disabilities can understand.



I've visited many model rooms and showrooms, both our own and those of our competitors. Sometimes, there isn't sufficient understanding that people can have different disabilities and also varying degrees of severity of a given disability. There may be times when they feel the salesperson is finding it difficult or troublesome to deal with them. People with disabilities are sensitized to the reactions of people around them and just the expression on the salesperson's face can make them feel discriminated against. In that instant, they'll decide, "I'm not working with this homebuilder." I think it's important to provide information about disabilities, to establish standards for interacting with people with disabilities, and not just make catalogs.



**Harada:** I heard a story about a hearing-challenged customer who built a house who said, "I really wanted to make more detailed requests but communication with the project manager took time and I wasn't able to say everything I wanted to because I didn't want to cause him any more inconvenience." If I could be involved in the architectural planning for customers with disabilities, I think I could be of help with not just the technical aspects but also with ensuring smooth communications during meetings from the perspective of the customer.



**Seharada:** I think customers with disabilities should feel we want them to live in a house they'll be totally satisfied with.



**Mr. Hata:** Everyone's insights are extremely valuable, even from a management perspective. If you can reflect the things you feel every day in your work, then you'll make a huge contribution to the Company.



**Nakamaru:** I think it's such a missed opportunity that we aren't utilizing the knowledge of employees with disabilities. Perhaps it is necessary for the Company to proactively consider how we can efficiently leverage this knowledge.



**Mr. Hata:** If one could search for this knowledge by type of disability, you could share insights matched to specific needs. As a first step, perhaps you could start by collecting and collating the voices of all employees with disabilities? Listening to you all, I'm delighted with everyone's high enthusiasm and desire to help. When people hear "employ people with disabilities," it's easy to think, "What kind of support will each disability require?" But what is important is to first consider how to leverage the person's individuality and their talents. In so doing, the difficulties and struggles people have experienced will be resolved.



**Nakamaru:** I think the people who have gathered here today are the kind of people who never give up and keep striving even if they have a disability. But I know there must be those who find it difficult to keep going. As a person who doesn't have a disability, I was reminded of my mission and role in determining what should be done next.

## Response to the Discussion

We have learned a lot by listening to everyone speak today. We realize with regret that we weren't doing enough to help with the struggles and difficulties employees with disabilities experience. We want to implement the ideas expressed in the discussion today, ideas that enhance the identity of people with disabilities, starting from the ones that can be done right away.

There was a time when it was thought best to hire people with the same types of disability and put them in one department. Clearly, however, today's discussion has re-emphasized that we should aspire to a workplace where people with disabilities and people without disabilities can work together side-by-side, build mutually supportive relationships, and learn from each other.

The Group plans to increase the number of people with disabilities we employ. Together with all of you, we will continue to strive to create a workplace where all employees, regardless of whether or not they have a disability, can work with enthusiasm and achieve great things.



**Koichi Shimizu**



**Tatsumi Kawata**

Material  
Issues

## Promoting Family-Centric Employee Lifestyles



For employees to find success in their jobs, it is important that they enjoy their work. Accordingly, Sumitomo Forestry strives to create a workplace that enables a diverse range of employees to tailor their work styles to their lifestyles.



Special Feature

Fiscal 2009 Results

### Targets in FY2009

- Begin management of the Refresh Vacation plan for employees
- Encourage employees to take substitute holidays and compensatory leave
- Promote the hiring of people with disabilities
- Encourage male employees to take childcare leave and prepare childcare pamphlets
- Promote the career support desk

### Fiscal 2009 Results

#### Performance Highlights

	2007	2008	2009
Utilization of Refresh Vacation Program	52%	45%	61%
Utilization of Childcare Leave (women who gave birth)	100%	100%	100%
Ratio of Disabled Employees	1.67%	1.54%	1.82%

## Promoting Work-Life Balance and Diversity in the Workplace

Sumitomo Forestry, as a company involved with housing and lifestyles, strives to create a workplace where employees can treasure their families and create a rich family life. The Company is committed to continuous improvement of a system that supports both work and private life, as well as ensuring that all employees take advantage of the system. From fiscal 2008, in recognition of the diversity of workstyles, the Company re-organized the Positive Action Group as the Work & Life Group to promote the creation of a workplace that is easy to work in.

▶ Helping Employees Achieve Work-Life Balance(P.96)

### Start of Refresh Vacation Utilization Management

Established with the objective of 100% utilization of Refresh Vacations by all employees, the Company launched the Refresh Vacation Utilization Management program in January 2009. As a result, the average utilization of Refresh Vacations increased to 61%, an improvement over the 45% recorded in fiscal 2008.

## Promoting the Employment of People with Disabilities

Sumitomo Forestry is committed to the employment of people with disabilities. Until now, the employment of people with disabilities was centered on the branch offices of the Housing Division. To expand employment of people with disabilities at headquarters, a special team was created to promote the establishment of a workplace for people with disabilities. Comprised of members selected from each department, the team considered such issues as work content matched to the nature of the disability, the structure and form of employment, preparing the workplace, and on-the-job training aiming to develop skills and careers.

### ■ Employment of People with Disabilities

	2007	2008	2009
Ratio of Disabled Employees	1.67%	1.54%	1.82%

### Employees with Disabilities, by type of Disability (as of March 31, 2010)

Type of Disability	No. of People	Degree of Severity	No. of People
Visually Challenged	8	Profound, Severe	32
Hearing Challenged	15	Moderate, Mild	29
Physically Challenged	26	Total	61
Medically Challenged	12		
Total	61		

▶ Expanding Opportunities for People with Disabilities to Improve Corporate Value(P.50)

## Promotion of Male Employees Taking Childcare Leave

As part of Sumitomo Forestry's efforts to value families, the Company encourages male employees to take childcare leave. Surveys are taken of male employees whose spouses have given birth to a child and childcare leave guides are distributed to male employees. The Company intranet is also used to publicize the status of employees taking childcare leave, as well as stories from employees who have taken childcare leave. In fiscal 2009, the number of male employees taking childcare leave increased to 17.

In fiscal 2009, the Company hosted the fifth annual conference for employees who are taking childcare leave, including two male employees. The participants held a lively discussion with the Company president on how to increase acceptance of continuing to work while raising children. This year marked the first time that the employees' supervisors and peers participated in the program. Based on the contents of these discussions, Sumitomo Forestry published and distributed a Work-Life Balance pamphlet to all employees in April 2010.



I'm very interested in your childcare leave program for male employees. I'd like to know the specifics because a program in name only, where no one actually participates, is meaningless. (Shareholder/Investor)

## Enhancement of Family Care Leave and Family illness/Injury Care Leave

In order to allow more employees to take leave to care for family members, the system was revised in fiscal 2010 to allow employees to take the equivalent of ten days a year in one-hour increments to care for their family.



## Launching the Telework Program


To realize a diversity of workstyles, following two monitoring surveys conducted in fiscal 2008, Sumitomo Forestry formally launched the telework program in fiscal 2009, in which employees may work at home or other location remotely. Accordingly, Sumitomo Forestry revised its information technology and security measures to establish the systems for the treatment, working environment and health management of telework employees. Eight employees are participating in the program—employees who have needs for childcare or family care—as well as those whose commute times were especially long.

## Enhancement of Career Support

### Enhancement of Career Support Desk

The Career Support Desk opened in April 2007 to provide individual support to employees in managing their careers. Specialized career advisers provide expert career advice for individual employees. In fiscal 2009, 31 people made use of this service.

Sumitomo Forestry launched the mentoring program in fiscal 2008, creating a one-to-one relationship between the mentor and the employee. The mentor provides counsel to the employee and supports his or her long-term career development. The mentoring program is designed to create a corporate climate in which employees can support each other's growth freely and continuously. In fiscal 2009, three pairs participated in the program for the full year.

 Together with Our Employees(P.94)

## Future Plans

- Support the Development of the Next Generation: Setting the 4th Action Plan
- Establishment of a Workplace Environment Supportive of Employees Raising Children / Encouraging Male Employees to Take Childcare Leave
- Establishment of the Action Committee to Reduce Long Work Hours
- Promotion of Utilization of Paid Holidays
- Implementation of Training for Employees with Disabilities



Biodiversity is an essential condition that forms the very foundation for supporting human life. Currently, however, biodiversity is being lost at a rapid pace around the world due to human activity. As a Company with a deep relationship with forests, Sumitomo Forestry focuses its resources on the preservation and sustainable use of biodiversity.

## Biodiversity and Sumitomo Forestry's Operations

Wood has been the axis of Sumitomo Forestry's businesses since our founding centuries ago. While many companies are indirectly involved with biodiversity through their supply chains, at Sumitomo Forestry, planting trees and cultivating forests that support biodiversity is directly and inextricably our business—we are passionately cognizant of the critical importance of, and our responsibility for, biodiversity. Moreover, wood is one of the blessings we receive from biodiversity. If biodiversity is lost, we risk losing the foundation of our business, thus it is imperative that we are proactively and aggressively involved with preserving and encouraging biodiversity to an even greater degree than other companies.



Stakeholder  
Comment

Because you're in an industry that handles timber, I expect Sumitomo Forestry to continue its proactive efforts to preserve biodiversity and engage in sustainable forestry. (Company Employee)

▶ Preserving Biodiversity(P.151)

## Policy and Plans for Biodiversity Preservation

Sumitomo Forestry declared its commitment to preserve biodiversity when it revised its environmental philosophy and set forth its timber procurement philosophy and policy in fiscal 2007. The Company has endeavored to preserve biodiversity through such initiatives as promulgating its policy on biodiversity preservation in Company-owned forests in Japan, monitoring animal life, preserving riparian forests, and publishing the Red Data Book listing all endangered species that may be living in Company-owned forests.



Stakeholder  
Comment

I firmly believe that Sumitomo Forestry will be recognized as a company that contributes to the Earth, a company that protects the forests that nurture life, through the implementation of policies that consider the generations to come. (Research/Education)

## Assessments and evaluations of the linkage between our businesses and biodiversity

In fiscal 2009, to identify the impact of our businesses on biodiversity, we conducted assessments and evaluations—from the perspective of biodiversity—of our operations, particularly in those business domains where it is thought our activities impact biodiversity. Based on the results, each division is engaged in specific activities. We seek out third-party perspectives from experts and specialists from NGOs and NPOs to ensure objectivity, and actively advance our activities in an effective manner.

■ How Our Businesses are Linked to Biodiversity

Business Domain	Activities to Preserve Biodiversity
Forestry / Environment Operations	<ul style="list-style-type: none"> <li>• Preservation of natural forests</li> <li>• Biodiversity-friendly operations in Company-owned forests</li> <li>• Protection of rare animal and plant species</li> </ul>
Timber and Building Materials Distribution / Building Materials Manufacturing	<ul style="list-style-type: none"> <li>• Procurement of timber from forests where sustainable forestry is practiced</li> <li>• Manufacture and handling of products using certified timber and plantation timber</li> <li>• Greenification of land where plants are located</li> </ul>
Housing / Real Estate / Landscaping	<ul style="list-style-type: none"> <li>• Landscaping using native / indigenous plant species</li> <li>• Proactive use of Japanese timber</li> </ul>
Overseas Operations	<ul style="list-style-type: none"> <li>• Switchover to plantation timber as raw materials</li> <li>• Plantation operations that consider zoning and coexistence with the local community.</li> </ul>
Research and Development	<ul style="list-style-type: none"> <li>• Conservation of precious germ-plasm stocks</li> </ul>
Social Contribution Activities	<ul style="list-style-type: none"> <li>• Regeneration of tropical rain forests</li> <li>• Restoration of native forests at the Mt. Fuji <i>Manabi no Mori</i></li> <li>• Environmental education activities at the Mt. Fuji <i>Manabi no Mori</i></li> </ul>

 Major Activities in Fiscal 2009

 Residential Landscaping that Contributes to Conservation of Biodiversity— “*Mou Hitotsu no Mori-zukuri*™”

In consideration of global warming and biodiversity, Sumitomo Forestry Landscaping Co., Ltd. launched the “*Mou Hitotsu no Mori-zukuri*™” (Making Another Forest) project for the greenification of towns and residences to create new green spaces equivalent to the land area of Company-owned forests, which comprise approximately 1/900th of the total area of Japan. Through the landscaping business, we have been encouraging the planting of native species, and currently, aiming for promotion of biodiversity, we have clearly classified the trees and plants used in landscaping from the perspective of biodiversity.

We have made it possible to select plants and trees that are appropriate to four types of areas—Protected Area, Conservation Area, *Satoyama* Area<sup>1</sup>, City Area—which have been classified in consideration of the degree of conservation for the area to be landscaped. The classification system considers ecosystem invasiveness and the risk of disruption of the genetic systems of the region for the plants and trees used in landscaping. For example, in City Areas where landscaping of residential gardens is undertaken, plants used in landscaping are selected from “a range of species to be planted that are primarily native to the region, including cultivatable species, as well as species determined to be non-invasive.”

We have named such biodiversity-friendly plants and trees to be used in landscaping, “Harmonic Plants™” and actively encourage customer consideration through the use of pamphlets and other communication tools.



Sumitomo Forestry Shinjuku model home whose exterior and landscaping were designed under the concept of “creating a forest visited by small birds in Shinjuku.” The selected trees and plants are species indigenous to Japan and the planted trees are species favored by small birds. The garden is designed to blend harmoniously with local nature.

1 Traditional Japanese countryside landscape

## Biodiversity Activities at Plants

Sumitomo Forestry Crest Co., Ltd., in commemoration of the merger with the former Toyo Plywood Co., Ltd., is planning biodiversity conservation activities optimized for the local communities where its seven production facilities are located, under the shared objective of “providing habitats for local species and rest areas through conservation of plant life indigenous to the local community.”

For example, at the Kashima plant, we are planning the cultivation of the endangered plant species, beach silvertop (*Glehnia littoralis*), which is native to the sandy beaches of Kashima. As a first step, we have begun cultivation in planter boxes of seeds received from Kamisu City.

At the No.2 Kyushu plant, in order to preserve native bird species, we are scheduled to conduct survey assessments of the status of bird species, and cultivation of trees that are appropriate for each target bird species. We intend to initiate biodiversity conservation programs at each of our other plants.



Cultivation of seedlings in planters.

## Activities Going Forward

We will continue to promote conservation of biodiversity in not only residential landscaping and biodiversity activities at plants, but also across our business operations.

The United Nations has designated 2010 as the “International Year of Biodiversity,” and in October, the tenth meeting of the Conference of the Parties (COP10) convention on biological diversity will be convened in Nagoya, Aichi Prefecture. We will continue to contribute to the preservation of biodiversity through the technologies we've developed, while raising awareness of the importance of biodiversity by dissemination of information at a variety of opportunities.

# Global Compact

In December 2008, we formally signed the United Nations Global Compact to declare our support for its principles.

The Global Compact is a United Nations initiative started at the suggestion of former UN Secretary-General Kofi Annan in 1999. The participating companies from around the world support and pursue ten principles in the four areas of human rights, labor, the environment and anti-corruption to resolve a wide range of problems stemming from the globalization of the world's economy and to create a sustainable society.

## The Ten Principles of the UN Global Compact

### Human Rights

- Principle 1: Businesses should support and respect the protection of internationally proclaimed human rights; and  
Principle 2: make sure that they are not complicit in human rights abuses.

### Labour Standards

- Principle 3: Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;  
Principle 4: the elimination of all forms of forced and compulsory labour;  
Principle 5: the effective abolition of child labour; and  
Principle 6: the elimination of discrimination in respect of employment and occupation.

### Environment

- Principle 7: Businesses should support a precautionary approach to environmental challenges;  
Principle 8: undertake initiatives to promote greater environmental responsibility; and  
Principle 9: encourage the development and diffusion of environmentally friendly technologies.

### Anti-Corruption

- Principle 10: Businesses should work against corruption in all its forms, including extortion and bribery.





■ Global Compact Content Index

Area	Principle		Location
Human Rights	Principle 1:	The support and respect of the protection of international human rights;	<ul style="list-style-type: none"> <li>▶ Our Values and Ideals(P.17)</li> <li>▶ Communication with Business Partners(P.89)</li> <li>▶ Human Rights Programs(P.99)</li> <li>▶ Creating a Safe and Healthy Workplace(P.101)</li> </ul>
	Principle 2:	The refusal to participate or condone human rights abuses.	▶ Our Values and Ideals(P.17)
Labour	Principle 3:	The support of freedom of association and the recognition of the right to collective bargaining;	▶ Relations with the Labor Union(P.100)
	Principle 4:	The abolition of compulsory labour;	▶ Prevention of Child Labor and Forced Labor(P.101)
	Principle 5:	The abolition of child labour;	▶ Prevention of Child Labor and Forced Labor(P.101)
	Principle 6:	The elimination of discrimination in employment and occupation.	<ul style="list-style-type: none"> <li>▶ Human Rights Programs(P.99)</li> <li>▶ Promoting Affirmative Action(P.98)</li> </ul>
Environment	Principle 7:	The implementation of a precautionary and effective program to environmental issues;	▶ Environmental Report(P.114)
	Principle 8:	Initiatives that demonstrate environmental responsibility;	▶ Environmental Report(P.114)
	Principle 9:	The promotion of the diffusion of environmentally friendly technologies.	▶ Environmental Report(P.115)
Anti-Corruption	Principle 10:	The promotion and adoption of initiatives to counter all forms of corruption, including extortion and bribery.	▶ Our Values and Ideals(P.17)

## Third Party Evaluation

We asked environmental journalist Yuko Sakita to comment on this report.



**Yuko Sakita**  
Environmental Journalist

### ■ Introduction

The Company's history of cultivating trees on the land and using them for housing spans more than 300 years, a testament to the foresight of management. In the Commitment section, the Company declares, “We will continue our efforts to realize environmental symbiosis—living in harmony with the environment—as only Sumitomo Forestry can, as an enterprise that takes pride in our businesses that leverage wood and that recognizes the unlimited business opportunities inherent in such activities.”

The United Nations has declared 2010 to be the international year of biological diversity and Japan will host the 10th Meeting of the Conference of the Parties to the Convention on Biological Diversity (COP 10). I applaud Sumitomo Forestry for aspiring to live in harmony with the environment, counter global warming, and create a culture of recycling so as to realize a sustainable society from a global perspective that is firmly rooted in local communities and as a company whose businesses are directly related to the environment.

### ■ Visit to the Tsukuba Research Institute

I visited the Tsukuba Research Institute for the first time to prepare to write this third party evaluation of the Environmental and Social Report. I was impressed with the consideration being given to preservation of local ecosystems through planting of native species during landscaping of homes, environmental reforestation in Indonesia, commercial reforestation operations that purchase timber cultivated by local residents to stimulate local economies, and the passion of the researchers as they worked to protect biodiversity while utilizing forests.

I was able to observe the breadth of research being conducted, including development of technologies to make timber products from thinnings while utilizing as much Japanese timber as possible during construction of housing.

I was especially impressed with the research into housing and lifestyles, particularly the *Ryounbou* concept of using nature such as the sun and wind, rather than air conditioning, to create a comfortable living environment.

The government of Japan is also focused on the creation of a sustainable society and has set mid- to long-term targets for CO<sub>2</sub> reduction: 25% reduction compared to 1990 levels by the year 2020; 80% reduction by 2050. Even as targets are being aggressively set, however, CO<sub>2</sub> released from homes and workplaces has actually risen 34% since 1990, making finding solutions to reduce CO<sub>2</sub> output from people's lives a critical factor in reducing global warming. A big part of the solution will be “low-carbon homes and lifestyles,” and the *Ryounbou* design approach is a powerful and concrete measure that can be taken now. The creation of “net zero energy” homes through the use of new technologies in insulation, energy-efficient equipment, and solar power combined synergistically with the use of natural winds that flow through rooms and shade from trees will enable the creation of comfortable living the environments and lifestyles.

I would like to see technology and nature combined to create comfortable places to live that are “just right, not too hot, not too cold,” and this can be done not just in new houses but also in renovation.

## ■ Overall Impression

The defining characteristic of this Environmental and Social Report 2010 is its focus on defining the most important ways Sumitomo Forestry can contribute to the creation of a sustainable society. Reflecting the voices of employees and its many stakeholders, the Company has distilled its mission into four focus areas, created road maps, declared its intentions, and comprehensively implemented initiatives in its businesses.

- Providing Timber Products and Materials from Sustainable Forests
- Providing Environmentally Friendly Homes
- Promoting Global Warming Countermeasures through Our Businesses
- Promoting Family-Centered Employee Lifestyles

These four items simply and clearly express the Company's posture, and this strong message is an asset for a global company with operations in manufacturing, distribution, home building and sales around the world. I expect Sumitomo Forestry to continue developing its businesses in ways that are beneficial for both employees and the environment, honoring its responsibilities to society—as befits a Company that became a signatory to the United Nations Global Compact in 2008—and committing to upholding the principles of human rights, labor rights, environmental protection, and anti-corruption.

## ■ Setting Environmental Targets

Reviewing the primary targets of the Medium-Term Environmental Management Plan, it's clear the Company is making efforts to reduce CO<sub>2</sub> generated from offices, plants in Japan, and plants overseas. The CO<sub>2</sub> reduction targets for domestic and overseas plants were previously based upon a per unit of revenue calculation, which can be greatly influenced by global economic recession—total CO<sub>2</sub> emissions are down but CO<sub>2</sub> per unit of revenue is up. The Company is re-evaluating the targets by individual plant and I would like to see the Company redouble its efforts to materially reduce CO<sub>2</sub> emissions. As governments continue to fundamentally strengthen measures to counter global warming, I would like to see Sumitomo Forestry take the lead when it sets new long-term targets.

Setting targets for recyclable resources and industrial waste, the Company aims to achieve zero emissions in 2012 through elimination of industrial waste disposal by simple incineration or landfill. I would also like to see even greater efforts from the design stage, using environmentally sound design principles for example, to create zero emission houses designed to last generations and also to be easily recycled.

## ■ Conclusion

This year, Sumitomo Forestry will stop printing this Environmental and Social Report on paper and will shift to online-only distribution. This is a very meaningful response to the increased volume of information required by full disclosure and as a measure to conserve paper resources. I would suggest, however, that a simplified version could be useful for people considering a custom-built home and the Company's individual investors, including many seniors, since they may be less familiar with computer technology. A simplified version would be useful in building relationships of trust in a face-to-face setting.

Further, I would like to see the Company publish this information in multiple languages on the Internet to share it with the employees of each office and the residents of local communities around the world, earning the trust of people across the globe and growing the Company through the creation of a “virtuous cycle of environment and economics.”



Visiting the experimental environmentally symbiotic house and tropical greenhouse at the Tsukuba Research Institute

## Reply to Third Party Evaluation

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We asked Ms. Yuko Sakita to share her opinions as this year's third-party evaluator. To help Ms. Sakita to understand the timber and wood products, housing, and overseas businesses of the Company, as well as our CSR initiatives in each area of operation, we invited her to visit the Tsukuba Research Institute, where she observed firsthand the experimental environmentally symbiotic house and the development of plantation technology for fast-growing tropical trees.

We take to heart Ms. Sakita's advice that a global company must have a strong message that clearly expresses its corporate posture. We will continue to focus on the four material issues and, going forward, redouble our efforts in corporate social responsibility in each country, community, and area, always keeping our Corporate Philosophy, Action Guidelines, and Our Values and Ideals top of mind.

Eita Muto  
General Manager, Corporate Communications Department

## Corporate Governance

Sumitomo Forestry is working to enhance and reinforce its corporate governance to improve the transparency of its corporate activities and ensure sound and reliable management.

### ● Status of Corporate Governance and Internal Controls

Sumitomo Forestry introduced an executive officer system in 2002 with the aim of expediting the decision-making process by separating the management and executive functions. In principle, the Board of Directors meets once per month and the Executive Committee meets twice per month, or when necessary to address any sudden changes in the business environment. The Board of Directors makes decisions on important issues affecting management, and also supervises the execution of duties. The Executive Committee determines the direction of important policies and strategies concerning operational performance. Sumitomo Forestry has also established a Board of Statutory Auditors, consisting of two internal and three external auditors for a total of five members. The total amount of compensation for directors and internal and external auditors for each fiscal year is disclosed in business reports, in accordance with relevant laws.

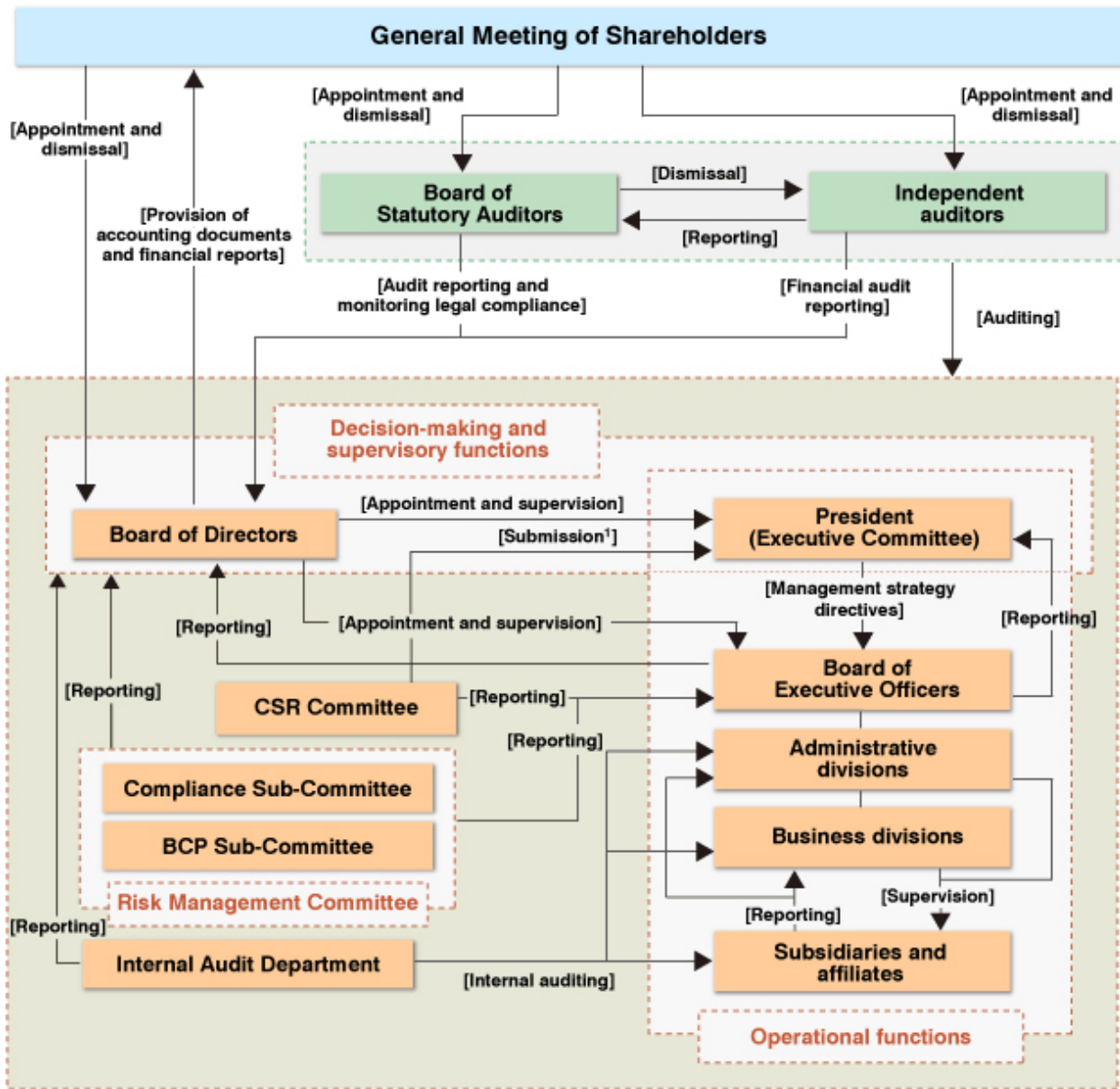
In addition, the Company revised its basic policy for the System to Ensure Appropriate Operations, which addresses internal controls, in May 2009.

Sumitomo Forestry established a Company-wide compliance and risk management system to enhance its ability to take remedial action and reinforce its internal control functions. With the aim of carrying out more finely tuned activities, in fiscal 2008 the Risk Management Committee was created from the reorganization of a previous committee, with two subcommittees established under its umbrella: the Compliance Sub-committee and the BCP (Business Continuity Plan) Sub-committee. The Risk Management Committee monitors progress in responding to potential risks, and reports regularly to the Board of Directors and the Board of Auditors. In April 2009, the CSR Strategy Committee was reorganized as the CSR Committee to strengthen cooperation between divisions and enhance activities at job sites.

Sumitomo Forestry prepares documents on the standardization of regulations and operational procedures to ensure that its financial accounting documents and related information are appropriate. Reviews of main divisions are carried out to determine the suitability of the financial reporting process and the effectiveness of the internal control system. The Internal Audit Department then carries out an evaluation of these results. The Company strives to make qualitative improvements to its internal control operations related to the suitability of its financial reporting on an ongoing basis.



■ Corporate Governance Structure (as of June 30, 2010)



1 Important matters requiring management decision are submitted to the Executive Committee. (decision by committee)



I would like Sumitomo Forestry to work toward ensuring that its management is transparent and fair. (Management-related CSR Expert)

## Compliance and Risk Management

Sumitomo Forestry is committed to proactive compliance management, aspiring to always be worthy of society's trust by following social rules and strictly complying with the law. Sumitomo Forestry also continuously enhances internal control and risk management to ensure the Company can effectively deal with changes in the operating environment as well as a diversity of risks.

### ○ Compliance and Risk Management

The Sumitomo Forestry Group has set compliance management as one of its most important issues and has established internal controls based on the basic policy on risk management set forth by the Board of Directors as stipulated under the Companies Act to respond to foreseeable risks across the Group. In March 2009, the Group revised the corporate regulations, establishing Risk Management Regulations and Crisis Management Rules. Compliance Risk and Disaster Risk have been assigned priority and are being addressed through subcommittees comprised of working-level managers under the auspices of the Risk Management Committee.

### Compliance Risk

The Compliance Subcommittee is the primary organization accountable for identification of issues, using a shared tool to check compliance status with relevant laws and ordinances closely related to our business, such as the Construction Industry Act and Licensed Architect Act, and for elevating the Group's compliance level through continuous improvement activity using the PDCA cycle.

In order to maintain and develop good relationships with business partners in consideration of the economic conditions of recent years, the Group sponsors seminars for the compliance managers of all Group companies led by external specialist instructors. In fiscal 2009, the Group sponsored seminars on such topics as promoting appropriate transactions with subcontractors and the revised anti-monopoly act.

### Disaster Risk

As the organization primarily accountable for disaster risk, the Business Continuity Plan (BCP) sub-committee developed business continuity plans for risks that are beyond the control of the Company and are likely to significantly impact the headquarters function. In November 2008, the sub-committee promulgated BCPs for a major seismic event with an epicenter in the Capital area and also for novel influenza, and was active based on these plans in fiscal 2009.

#### ① BCP for Earthquake with Epicenter in the Capital Area

In the first half of the year, initiatives centered on securing an alternate location for the headquarters function, selection of members of the disaster response team, and establishment of the mobile PC infrastructure. In the second half, training was held for every level and layer. Specifically, the sub-committee conducted drills for communication between management and the crisis response team immediately after a major seismic event, accounting for the 3,000 employees based in the Capital Area, and transfer of the crisis response team and critical operations to the alternate headquarters, and participated in evacuation drills conducted by Chiyoda Ward, Tokyo, where the Company is headquartered.

In fiscal 2010, a common system for accounting for each of the 12,000 employees in Japan will be deployed across the Group, aiming to secure the lives and safety of employees during a disaster.

#### ② BCP for Novel Influenza

In fiscal 2009, the Group prepared response manuals, established the necessary infrastructure for working at home, distributed hygienic goods, and set due diligence policy and rules for reporting infections. While the novel influenza outbreak in summer 2009 caused great concern, the variant turned out to be a comparatively mild form of novel influenza, and the Group monitored the infection rate among employees on a weekly basis. Although the crisis had subsided by the beginning of the year, fears of an outbreak of a more toxic variant of novel influenza remain, and the Group continues its preparations based on the original assumption of a deadly variant.

## **Compliance Counter**

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The number of incidents reported to the compliance counter (internal reporting system) dropped dramatically to four cases in fiscal 2009 from 20 cases in the previous year. This is attributable to the proactive efforts of the Compliance Sub-committee to identify and improve compliance issues. The Group will continue its education activities aiming for continuous operation of an appropriate system.

## **Traffic Safety**

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Sumitomo Forestry uses 2,217 vehicles (Company-leased and those owned by employees) in the course of its business. To eliminate traffic accidents and violations of traffic laws, the Group has introduced a Safe Driving Management System that manages information related to driver's license renewals, violations of traffic laws and ordinances, vehicle inspection and certification, and insurance. Further, all employees who drive vehicles during their work or for commuting to and from work are required to obtain and submit their Certified Driving Record on an annual basis. All employees who have accumulated points from violations receive cautions, education, and training in safe driving. Going forward, the Safe Driving Management System will be standardized and deployed across all Group companies.

## **Rejection of Influence from Anti-Social Elements**

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Sumitomo Forestry set forth in 2007 the new Ethics and Behavior Code, "Our Values and Ideals," institutionalizing the long-held principle of "Influence from anti-social elements will be met with a resolute attitude and no compromises will be tolerated." This stance has been communicated widely both within and outside the Group. In fiscal 2009, this principle was incorporated into the construction contracts we conclude with customers, further ensuring the soundness of our contractual relationships.

# Economic Report

## Promotion of Project SPEED, Long-Term Management Plan

In fiscal 2007, the Sumitomo Forestry Group established Project SPEED, a long-term management plan designed to provide direction for pursuing and developing business activities.

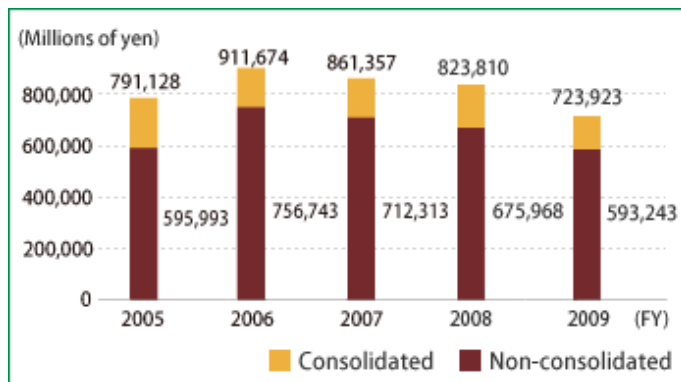
The name “SPEED” not only refers to the rapidity with which the Group will implement the plan, but also stands for “Strong Passion Enables us to become an Excellent company by implementing Detailed strategies.”

The Sumitomo Forestry Group has passed down its sustainable business practices from generation to generation, as it plants and grows trees, uses the timber to produce building materials, and finally builds houses. The aim of this long-term management plan is to expand the Company's business by promoting a new mindset among employees and transforming the revenue structure. With a strong commitment to sustainable business practices, the plan designates forests as having a central role in enriching people's lives and contributing to the community.

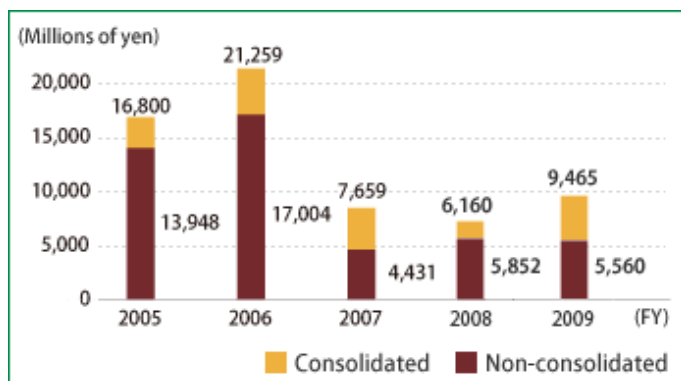
For the purpose of achieving a more balanced business portfolio, overseas operations, real estate operations, and home renovation operations have been given focused attention as priority growth businesses, in addition to the timber and building materials business and housing business, which are currently at the core of the Company's revenue structure.

## Financial Performance

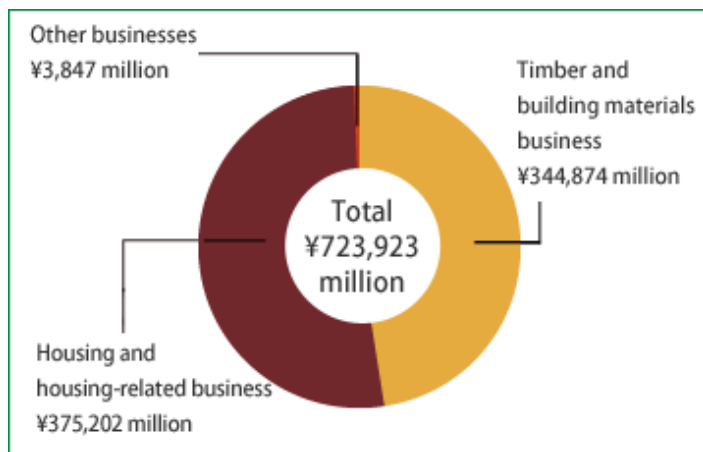
### Net Sales



### Recurring Income



■ Consolidated Net Sales by Segment (Fiscal 2009)



## ● Contributing to the Community by Improving Social Infrastructure

As environmental consciousness continues to grow around the world, securing sustainable timber resources is a major issue.

Sumitomo Forestry plants trees and produces timber products in countries outside Japan. When starting new businesses or expanding its overseas business sites, the Company's policy is to consider the environment, revitalize local economies and promote employment, with the aim of contributing to sustainable local development through its operations.

Open Bay Timber Ltd. (OBT) is a Group company engaged in plantation forestry in Papua New Guinea. OBT started plantation forestry operations in 1984 and has made significant contributions to the economic development of the local community. OBT became a member of the Sumitomo Forestry Group in April 2007 and continues to develop plantation timber resources in a responsible manner and to use those resources effectively.

In the Open Bay region where OBT is located, government-provided social infrastructure such as roads, schools and hospitals are inadequate so OBT operates a hospital, kindergarten and supermarket for employees and children. OBT also provides means of transportation for the local residents, including emergency transportation of critically ill patients to hospitals and shuttling of residents to and from marketplaces.

In fiscal 2009, OBT launched a social contribution program that sends promising young people from among the local tribes and employees to OISCA agricultural training. OISCA is a Japanese non-governmental organization that provides agricultural direction in developing economies and is also engaged in plantation forestry activities. OISCA provides training in agricultural techniques such as rice farming, vegetable farming, and breeding of domesticated animals—activities that are not destructive like slash-and-burn farming, which is a cause of destruction of forests. The first four students sent from OBT all graduated in October 2009.



OISCA trainees and local Sumitomo Forestry representative



## Major Initiatives in Fiscal 2009

Each division of Sumitomo Forestry sets priority areas and annual targets. Plans and results for major activities are detailed below.

### Together with Our Customers

Priority Areas	CSR Initiatives	FY2009 Results	FY2010 Plan	Division
Provision of high-quality houses with excellent overall balance	Build long-lasting homes	<i>MyForest Tajju</i> (excellent long-term housing model project 21), <i>MyForest-BF-SI</i> (excellent long-term housing model project 21), and <i>MyForest-Hokkaido</i> (excellent long-term housing model project 21) were selected by the Ministry of Land, Infrastructure, Transport and Tourism (MLIT)'s Excellent Long-Term House Leading Model Project.(P.76)	Promote excellent long-term houses	Housing Division
	Ensure sustainability of timber used in houses	Achieved a rate of 70% for Japanese timber used in principal structural members.(P.79)	Continue activity	Housing Division
	Promote renovation projects	<ul style="list-style-type: none"> <li>▪ Selected by MLIT as Excellent Long-Term House Leading Model Project (Renovation of Existing Homes)(P.80)</li> <li>▪ Received award for excellence at Housing Renovation Contest(P.80)</li> <li>▪ Received award for excellence at Interior Coordination Contest 2010(P.80)</li> <li>▪ Renovated 200 houses built in or before 1950 (excludes minor repairs) (P.80)</li> </ul>	Provide long-term, high-quality houses by expanding the renovation business	Housing Division and Sumitomo Forestry Home Tech
Communication with customers	Respond to opinions and inquiries	Reduced repair-related costs about 9% year-on-year by reflecting the voice of the customer in improving operations and products by synthesizing customer survey results.(P.84)	Reduce repair-related costs to less than previous fiscal year	Customer Service Department / Housing Division

## ● Together with Our Business Partners

Priority Areas	CSR Initiatives	FY2009 Results	FY2010 Plan	Division
Procurement of sustainable raw materials	Ensure traceability of timber	Achieved 100% compliance for all timber imported directly from overseas(P.88)	Continue	Timber & Building Materials Division
	Support the Precut Forum 21, a study forum for precut factories	Reduced plant costs / Supported improvement of skills for design and sales staff(P.89)	Implement training for system of displaying housing functionality for wooden houses	Timber & Building Materials Division
	Enhance communication with building contractors	Conducted surveys related to Production Systems and CSR(P.90)	Reflect survey results in collaborative relationships in FY2010 and beyond  Continue to conduct surveys	Housing Division

## ● Together with Our Shareholders

Priority Areas	CSR Initiatives	FY2009 Results	FY2010 Plan	Division
Communication with shareholders and investors	Improve information disclosure	Held 214 individual meetings with investors(P.92)	Continue individual investor meetings	Corporate Communications Department

## Together with Our Employees

Priority Areas	CSR Initiatives	FY2009 Results	FY2010 Plan	Division
Fostering a workplace environment where a diverse range of employees can work energetically together	Promote work styles that facilitate work-life balance	Eight employees participated in telework program(P.98)	<ul style="list-style-type: none"> <li>• Distribution of Work-Life Balance pamphlets</li> <li>• Expand telework program participants to 15 employees</li> <li>• Enhance childcare / elderly parent care-related programs</li> </ul>	Personnel Department
	Promote programs in line with the Law for Measures to Support the Development of the Next Generation	<ul style="list-style-type: none"> <li>• 17 male employees took childcare leave(P.98)</li> <li>• Established new system for health management for pregnant employees(P.98)</li> </ul>	Achieve 13 or more male employees taking childcare leave	
	Promote affirmative action	Achieved 22% share for women among newly hired graduates(P.98)	Implement training to promote female achievement in the workplace	
Creation of a workplace that is safe and healthy	Reduce long working hours	—	Implement Labor-Management Committee	
	Implement an anti-smoking program	Eliminated all smoking-allowed areas at headquarters(P.102)	Implement total no-smoking system during work hours	
Human resources development	Provide employee career consultation and support	<ul style="list-style-type: none"> <li>• Implemented career consultations based on competency evaluations(P.103)</li> <li>• Implemented 2nd Annual Mentoring Program(P.103)</li> </ul>	<ul style="list-style-type: none"> <li>• Train career counselors</li> <li>• Implement 3rd Annual Mentoring Program</li> </ul>	

## Together with Society

Priority Areas	CSR Initiatives	FY2009 Results	FY2010 Plan	Division
Social contribution activities utilizing core businesses	Mt. Fuji <i>Manabi no Mori</i> Project	A total of 573 children and students participated in environmental education programs(P.108)	Continue implementation	Corporate Communications Department
	Conduct reforestation project in Bromo Tengger Semeru National Park, East Java, Indonesia	Completed reforestation of 171 ha in protected forests and neighboring devastated areas(P.111)	Obtain United Nations accreditation as a Clean Development Mechanism (CDM) project	Environmental Solution Department of the Forestry & Environment Division
Social contribution activities outside core businesses	KTI Educational Foundation	Provided scholarships for 51 recipients(P.112)	Continue implementation	Overseas Business Division
	Contribute to public policy	Supported High-Quality Housing Stock Association(P.113)	Continue implementation	Housing Division
Investment to create a sustainable society	Target socially responsible investment (SRI) through the corporate pension fund	Invested corporate pension fund assets in SRI funds(P.113)	Continue investment in SRI funds	Corporate Pension Funds

## Together with Our Customers

Houses have a significant influence on our lives, providing a means for living and a source of personal comfort. Sumitomo Forestry is helping to build a better society by providing homes where people can live for a long time with peace of mind.

### ● Providing High-Quality Homes with Excellent All-Round Balance

#### Building Long-Lasting Homes

In Japan, in light of the growing severity of environmental problems in recent years, along with the country's declining birth rate and aging society, homes have come to be regarded as social assets that should be used by subsequent generations. Compared to houses in European countries, which last an average of about 100 years, houses in Japan typically have a life span of only about 30 years, and consequently, the continuous rebuilding has a serious environmental impact.

Sumitomo Forestry believes that popularizing excellent long-term houses that become social assets is vital for creating a prosperous society. As such, the Company is promoting the following four policies to extend the life of houses:

- Make houses more reliable by improving their basic functions
- Create comfortable living environments
- Increase future options for layout to accommodate changes in lifestyles
- Enhance maintenance programs to support long-term upkeep

The Japanese government implemented the Excellent Long-term Housing Promotion Act in June 2009, issuing clear guidelines emphasizing the importance of excellent houses and their maintenance for long-term occupancy. Building houses certified as “excellent long-term houses” not only reduces the costs incurred with repeated rebuilding, but also reduces waste generation and environmental impact. In the long-term, such houses foster more prosperous lives.

As part of these measures, the Ministry of Land, Infrastructure, Transport and Tourism (MLIT) is promoting its Ultra-Long-Life House Leading Model Project. Sumitomo Forestry submitted its houses to the first model project and succeeded in having three of its ultra-long-life models chosen for the project. In fiscal 2009, the *MyForest Taiju* (excellent long-term housing model project 21), *MyForest-BF-SI* (excellent long-term housing model project 21), and *MyForest-Hokkaido* specification (excellent long-term housing model project 21) were selected as Excellent Long-Term House Leading Model Projects, and as such are eligible for subsidies to cover part of the construction costs.



- I would like to see Sumitomo Forestry contribute to reforms in housing assessment practices, including the implementation of a tax system similar to that in the United States, so that prime housing stock becomes a social asset in Japan as well. (NGO)
- I expect Sumitomo Forestry to promote the introduction of natural energy as well as long-lasting houses with reduced chemical substances and improved earthquake resistance. (Citizen)

#### Improving Durability

Sumitomo Forestry has set a minimum expected service life<sup>1</sup> of 75 years for principal structural members to ensure that the houses it builds are highly durable and can be passed down over three generations. Standard specifications for the structural framework are set at Level 3—the highest level—for evaluations based on the Japanese Housing Performance Indication System with respect to Alleviated Deterioration.

<sup>1</sup> The number of years a material or component is expected to function as originally intended, assuming a certain level of maintenance (including regular inspections) as envisaged by Sumitomo Forestry.



- I would like to see Sumitomo Forestry design houses that last a long time. (Consumer behavior analyst)

#### Disaster Preparedness

A home's resistance to earthquakes, wind and fire is an important element in protecting its residents and their property in the event of a fire or natural disaster such as an earthquake or destructive typhoon.

Sumitomo Forestry uses the following three construction methods to ensure a strong structural framework.

- Multi-Balance Construction Method, incorporating a post-and-beam framework with integrated panels to minimize deformation and torsion of the structure due to a major earthquake or typhoon.
- Big Frame construction method, providing superior seismic and wind resistance by connecting big columns and beams using high-strength BF metal joints.
- Two-by-Four Construction Method, in which the structure is built using diaphragm components—frames constructed from structural materials faced with structural plywood—resulting in an excellent balance of resistance to earthquakes and strong wind.

In terms of a fire-resistant structure, standard specifications for Sumitomo Forestry houses include an external wall structure that can withstand fire for 30 minutes. This can be increased to 45 or 60 minutes depending on the building size, regulations governing the specific building location, and customer preference. In October 2009, structures using the Multi-Balance and the Big Frame construction method were certified as Government Regulated Semi-Fireproof Construction houses by the Japan Housing Finance Agency. All of the Company's housing product lines, including the previously certified Two-by-Four construction method comply with this fire resistance standard. In fiscal 2009, approximately 2,300 houses were built to these specifications, which employ a "fire stop" structure that strengthens the ceiling's fire prevention shield and prevents the rapid spread of fire within rooms. Thus, it is now possible to enjoy both increased fire resistance and the advantages of wood construction houses with traditional Japanese walls, posts, and beams.

To prepare for an earthquake, flood or other natural disaster, disaster response teams are stationed at local Sumitomo Forestry branches to rapidly repair affected houses and take other measures of support to respond to customers' concerns.

## Houses Designed to Prevent Crime

In its scrupulous attention to the details of its custom-built houses, Sumitomo Forestry proposes crime prevention measures from the site survey and design stage.

## Enhancement of the Long-Term Support System

In order to help our customers live comfortably in their houses for as long as possible, Sumitomo Forestry offers its Long-Term Support System, providing maintenance support for 60 years after a house is handed over to its owner.

### Long-Term Support System

- The expected service life of principal structural members is at least 75 years
- The service life for each material is determined and houses are designed to facilitate inspection, repair and replacement
- Regular inspections are carried out over 60 years
- Maintenance programs including renovations are proposed and maintenance records kept
- Proposals from the design stage are offered to allow for future changes in the life stages of the occupants
- Customer Support Center and Call Center: Available 24 hours/day, 365 days/year.

The Long-Term Support System offers a standard 10-Year Warranty, which can be extended up to 20 or 30 years on the structural frame and waterproofing, as long as fee-based maintenance work judged necessary by the Company, such as anti-pest treatment in the 10th year, is performed.

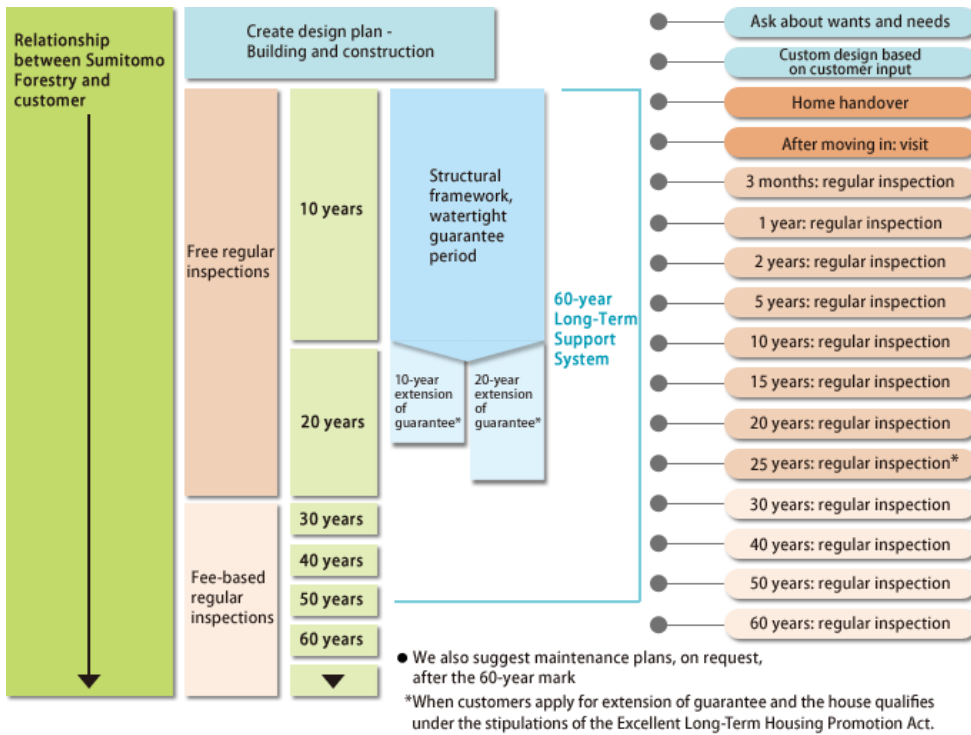
The optional LS20 excellent long-term Model house offers a 20-year warranty for water resistance because highly durable materials are used for the external walls, veranda, flat roof, etc., at the time of construction, making fee-based maintenance in the 10th year unnecessary in most cases. In fiscal 2009, when Excellent Long-Term Housing Promotion Act came into effect we introduced a 30-year warranty, the LS30 excellent long-term Model house.



I want Sumitomo Forestry to use its position as a housing manufacturer and builder to continue making attractive houses as the years go by, and also expand its service business to provide more comfortable living environments. (NGO)



## ■ Long-Term Support System



## Pursuing Universal Design

Sumitomo Forestry offers houses that integrate universal design as the foundation for safe, comfortable and enjoyable living for all family members.

Spatial configuration and traffic-flow planning are tailored to the family's lifestyle, dimensional planning is designed to enable smooth and strain-free movement and positions, while handrails and other materials are intended to prevent accidents. These improvements are constantly refined by test results from human lifestyle engineering work at the Tsukuba Research Institute in Japan.

Sumitomo Forestry has organized internal Universal Design Working Groups since 2003, and carries out research at the Universal Design House in the Tsukuba Research Institute. In addition, the Company raises awareness of the universal design concept among employees by having them stay at the Universal Design House and encouraging them to apply what they learn from this experience in their daily work.

In fiscal 2009, two renovations carried out by Sumitomo Forestry Home Tech Co., Ltd. won awards in the Fourth Annual Housing Barrier-Free Competition, sponsored by the Tokyo Metropolitan Housing Barrier-Free Promotion Council. These renovations, which drew on our accumulated expertise in custom-built houses, earned high praise for their designs that enabled both caregivers and elderly people to live in security, and environments to be tailored to family lifestyles to allow each member to live comfortably and securely.

## ■ Sumitomo Forestry Universal Design



## Adherence to Housing Performance Indication System

The Japanese Housing Performance Indication System provides a highly reliable and objective evaluation by a third-party expert so that the customer can assess the quality and performance of a house. The system comprises ten evaluation items, including structural stability, fire safety, durability, and energy efficiency.

Sumitomo Forestry actively promotes this system because it ensures safe and reliable houses, as well as raises their asset value. In fiscal 2009, 97%<sup>1</sup> of the Company's properties were evaluated for their design performance. Customers were also recommended to acquire construction performance evaluations.

1 This rate pertains to all houses constructed, including additions and remodeling, whereas the Housing Performance Indication System only applies to new construction.

## Timber Used for Housing

Sumitomo Forestry adheres to its Timber Procurement Philosophy and Policy with the conviction that it should procure the timber it uses to build houses from forests that are managed according to sustainable methods.

Following the attainment of Sustainable Green Ecosystem Council (SGEC)<sup>1</sup> certification of its Company-owned forests in Japan, in fiscal 2007 Sumitomo Forestry obtained Chain of Custody (CoC)<sup>2</sup> certification for its handling of SGEC certified timber products from the stages of distribution and processing through house construction. CoC certification recognizes that the Company separates SGEC-certified timber from other timber at every step, from storage and timber processing to distribution. Furthermore, the certification represents a third-party verification that Sumitomo Forestry uses certified timber in its houses. Sumitomo Forestry was the first major housing manufacturer in Japan to earn both certifications.



SGEC-Certified Timber Used in Housing

“Use of certified timber” is labeled on all of the Company's standard engineered studs used in *Sumitomo Ringyo no ie* (Sumitomo Forestry Home) houses in Hokkaido, indicating that these houses are made of Japanese larch grown in Hokkaido.

Sumitomo Forestry promotes the use of Japanese timber in the houses it builds, and in fiscal 2009 achieved a usage rate of 70% for its principal structural members.

1 The Sustainable Green Ecosystem Council is Japan's own forestry certification system, in which third parties verify sustainable forest management. Certification is based on seven standards, including the preservation of biodiversity and the conservation and maintenance of soil and water resources.

2 Chain of Custody (CoC) certification is given to businesses that separate and label forest products from certified forests in the storage, processing and distribution processes.



I would like Sumitomo Forestry to leverage its role as an industry leader to promote the use of Japanese timber in the interest of curbing global warming and cultivating water resources. (NGO)

▶ Using Japanese Timber in Homes(P.146)

## Dedication to Wooden Homes

Japan is blessed with abundant forest resources, and wooden homes have been built in the country from ancient times. Natural wood not only creates a calm ambience, but also embodies a variety of qualities that facilitate comfortable living throughout the seasons. Sumitomo Forestry takes advantage of the natural appeal of wood, focusing on harmony with nature in Sumitomo Forestry Home houses to create its *MyForest* brand. The Company actively uses Japanese-grown cypress trees for the posts and other structural members of these homes. Using timber grown in Japan revitalizes the domestic forestry industry, thereby protecting the nation's forests against degradation. Aspiring to offer homes that provide people with comfortable living and enjoyment of the changing seasons, Sumitomo Forestry applies its Ryouonbou design concept that incorporates traditional approaches to using natural light, ventilation and greenery.

Henley Properties Group(<http://www.henley.com.au/>), one of Australia's premier homebuilders, joined the Sumitomo Forestry Group in September 2009 and is developing house models featuring designs with the aesthetic quality of wood found in Sumitomo Forestry Home. Henley Properties Group is also using environmentally friendly timber and building materials produced by the Group and developing new construction methods to improve energy conservation and construction-process efficiency.



- I think that wood should be used not only for structural members, but also for the parts of a house that residents actually touch, such as walls and ceilings, so that the warmth of wood can be appreciated. (Customer)
- I would like Sumitomo Forestry to offer traditional Japanese homes that feature the gleaming black beams typical of old townhouses. (Customer)
- I think Sumitomo Forestry is the most wood-focused house maker. Trees are essential to human life and I would like to see more Sumitomo Forestry Homes in town. (Customer)

## Multi-Unit Residential Building Initiatives

Sumitomo Forestry builds multi-unit residential buildings using two-by-four construction, which offers superior seismic resistance and durability, Big Frame construction method utilizing the Company's proprietary wooden beam Rahmen structure, and RC construction using steel-reinforced concrete.

The Company's multi-unit residences built with the two-by-four construction method perform exceptionally well in terms of fire resistance, sound insulation, wind resistance, and insulation and air-tightness, as verified by the Japan 2x4 Home Builders Association. In addition, these residences are designed to maximize the use of available space. Representative of Sumitomo Forestry, the interiors of these residential buildings are made with wood, and provide comfortable living spaces with unique textures and colors that comfort the mind and body.

In January 2010, Sumitomo Forestry launched the *BF-Maison* line of environmentally sound rental housing using its original Big Frame construction method. These apartment buildings are the first constructed using the Big Frame construction method and offer high seismic resistance, durability, insulation, and air-tightness, providing residents with comfort and a sense of security. Since the structural elements, interiors, and fittings are designed separately, it is easy to freely place walls and open space, and can be renovated to suit changes in the neighboring environment, as well as a diverse range of needs. This results in not only reduced initial investment in construction costs but also realizes comparatively simple renovation, and makes possible long-term stable rental management and long life of the structure itself.

RC construction provides high quality that can be maintained for a long period of time, which preserves high asset value. In addition, this construction method enables floor plans that create new lifestyle concepts, as well as land plans that connect residents and streets, making possible a more abundant lifestyle. Construction of *The House Kohoku Tsunashima*, which was designed on the theme of connections between people, cities, and nature, will be completed in August 2010 in Yokohama, Kanagawa Prefecture. As part of the initiative to create new networks between cities and nature, the complex features an Urban & Farming Exchange program to facilitate interaction between the people and culture of the southern Boso peninsula. Featuring undeveloped woodlands, experiential farming, handicrafts, and dyeing using plant-based dyes, the program will create a nexus for interaction between urban and natural environments.

## Promoting Renovation Projects

Sumitomo Forestry Home Tech Co., Ltd., a Group company specializing in renovation work, offers renovation proposals to extend the life and comfort of houses that have exceeded the average service life of modern Japanese houses, considered to be about 30 years. Based on its expertise in wooden housing, the Sumitomo Forestry Group employs technological and design skills to enhance structural safety, and uses high-quality wood to create a warmer atmosphere.

About 40% of existing detached wooden houses are considered to be insufficiently earthquake resistant, and therefore require seismic upgrading to ensure security for their occupants. To address this need, Sumitomo Forestry Home Tech and the Tsukuba Research Institute have jointly developed five proprietary technologies for greater earthquake resistance: portal frame shear walls, glass block shear walls, the Sumirin ARC Construction Method and Sumirin JEM Construction Method, all of which have successfully passed technical evaluation by the Japan Building Disaster Prevention Association, and special tough panels that have been approved by the Ministry of Land, Infrastructure, Transport and Tourism (MLIT). The portal frame shear walls, Sumirin ARC Construction Method, synthetic adhesive beams, and special tough panels are all patented, and the Company has patents pending on other technologies as well.

Developed using lessons learned from case studies of old wooden houses pulling away from their foundations during a major earthquake, the Sumirin JEM Construction Method is a technology that reinforces the interconnection of posts, the foundation and base by using epoxy resin adhesive to affix specially designed hardware to the surface of the existing foundation and attaching it securely using a Hole-down bolt. The development of this technology reduces construction time, and provides the customer with a secure and pleasant renovated house. In recognition of the Company's unique

survey system, which is accurate and efficient, and original renovation technologies that enable reduction of cost and shortening of construction time, Sumitomo Forestry's proposal for a full renovation of an existing wooden house was selected for MLIT's Excellent Long-Term House Leading Model Project in the existing house renovation category in May 2009, as it also was in fiscal 2008.

Maintaining historical structures for future generations is important to protecting valuable social assets. In October 2008, Sumitomo Forestry Home Tech published a book entitled Renovations Bringing Wisdom from the Past to Tomorrow: Technology to Utilize Wooden Homes in the Future. This book introduces examples of historic houses that have been renovated and cutting-edge technologies for earthquake resistance to commemorate the 20th anniversary of the Company's founding. In April 2010, the second edition was published.

The Company is strengthening training programs aiming to improve employees' ability to propose new ideas and their technological expertise in order to meet the needs of each and every homeowner. As a result, the Company's case study of renovation of a 100-year-old house won an award of excellence in the House Renovation Contest sponsored by the Center for Housing Renovation and Dispute Settlement Support. Further, the Company's case study of the renovation of a 150-year-old house has won an award of excellence in the Presentation Category of the Interior Coordination Contest 2010, held by the Japan Interior Industry Association.

In fiscal 2009, the Company worked on approximately 200 renovation projects (excluding minor repairs) involving houses constructed in or after 1950, the year the Building Standards Act was promulgated. The renovation of old houses requires a high degree of specialist expertise as the deterioration can be quite advanced. Sumitomo Forestry Home Tech Co., Ltd. will continue to leverage its specialist knowledge gained from its abundant expertise to provide high-quality homes that last for decades.



Renovations Bringing Wisdom from the Past to Tomorrow: Rehabilitation of Traditional Japanese Houses to Meet the Needs of the People Who Live in Them

## Preserving the Quality of Traditional Japanese Houses

“Passed down from our ancestors, and filled with our memories, I want to make this house into a strong structure and pass it down to future generations.” The renovation of a 100-year-old home in Nara City, Nara Prefecture, gave shape to this customer's dream.

The framework of the house was lifted up with jacks so that work could be done on the foundation. The original posts and beams were preserved, while optimal seismic reinforcement was completed using traditional Japanese techniques. Uneven surfaces were leveled and humidity countermeasures implemented, eliminating inconveniences for daily life as well as improving the environment for storing precious documents and artwork.

### Comments from the Renovation Engineer

When explaining seismic reinforcement for traditional Japanese homes to a customer, the content of the explanation will always be technical in nature. So we always go beyond just showing the design blueprints—we always show perspective drawings and present examples of previous projects the Company has worked on, to make the explanation both accurate and easy to understand. Customers are especially anxious about foundation work, when we raise the framework off the ground using jacks. We always show photographs of actual projects, and take the time to explain the process and situation of the construction in a polite way to put customers at ease.



Kenji Shimomura  
Renovation Engineer  
Sumitomo Forestry Home Tech Co., Ltd.

### Comments from the Customer

During construction, I never hesitated to say what I wanted to be preserved. I may have asked for too much, but the Sumitomo Forestry Home Tech team always listened to what I said. I'm pretty sure they struggled with some of my requests. I'm completely satisfied because our family can sit together around the wood-fired stove and with the overall sense of security I feel throughout the house.



The K Family Residence in Nara,  
before renovation



The K Family Residence in Nara,  
after renovation



## Traditional Japanese Home Renovation Permanent Exhibition at a Registered Tangible Cultural Property

The Fujioka Family Residence in Gojo City, Nara Prefecture is an Edo Period village headman's house and the birthplace of Fujioka Gyokkotsu, who shared close friendships with noted haiku poets, including Yosano Akiko. The ten structures, including the main wing of the house built in 1882, were opened to the general public as registered tangible cultural properties in 2008. Sumitomo Forestry Home Tech Co., Ltd. provides support to Uchinono-Yakata, a non-profit organization that manages the Fujioka Family Residence, and also renovated a rice warehouse to house the Traditional Japanese House Rehabilitation Research Institute, as a space to explain rehabilitation of traditional Japanese houses. This permanent exhibition opened in March 2010 and explains ways to preserve the beauty of traditional Japanese houses while utilizing them for modern lifestyles.

### ○ Promoting Communication with Customers

#### Striving for Customer Satisfaction

Sumitomo Forestry's basic philosophy is "putting customers first." The core of the Company's business is providing high-quality housing and services that satisfy the customer. Our objective is to meet all of our customers' expectations over their house's lifetime, from design to maintenance, and to bring the number of dissatisfied customers down to zero.

To achieve this, Sumitomo Forestry listens to its customers as much as possible, while continuously striving to instill the attitude of putting the customer first among all employees through a wide range of education, training and ongoing study programs.

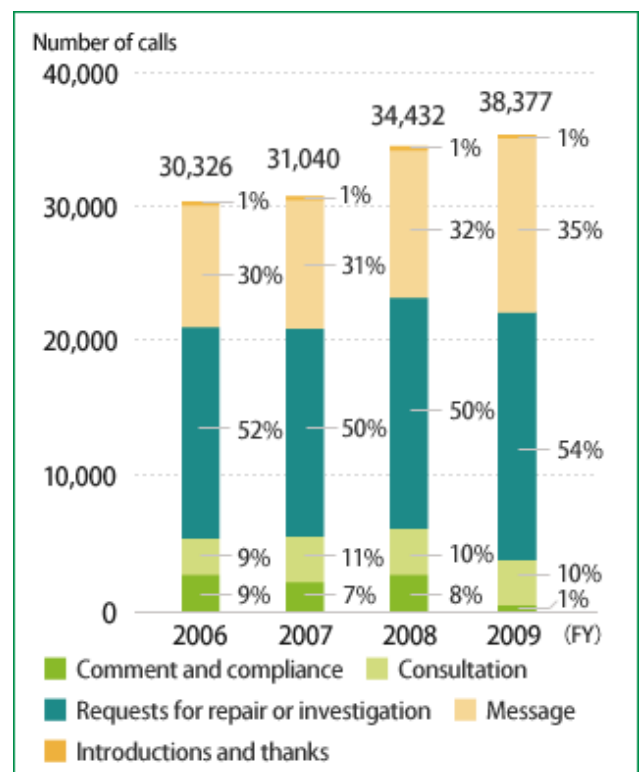
#### Responding to Comments and Requests for Consultation

#### 24-Hour, 365-Day Support through Customer Support Centers and Call Center

Sumitomo Forestry places strong emphasis on its after-sales support after a house has been handed over to its new owners in order to ensure that its customers are secure and comfortable in their homes.

Customer Support Centers specializing in after-sales support accept requests for consultation and repairs and maintenance. A dedicated Call Center is also available to take calls at night and on holidays. These two centers function together to ensure that after-sales support staff is standing by 24 hours a day, 365 days a year.

In April 2009, Sumitomo Forestry established the Owners Support Group in locations around Japan to provide Sumitomo Forestry Home owners with after-sales support and consultations on house renovating, rebuilding and replacement. With this addition, the Sumitomo Forestry Group is able to respond to a wide range of requests regarding its houses and home lifestyles.



Number of Call Center Consultations

## Satisfaction No.1 Working Group Activities

Sumitomo Forestry set up the Satisfaction No.1 Working Group in April 2007 to reduce the number of dissatisfied customers and improve the Company's ability to put the customer first. This effort takes the emphasis on putting the customer first to a new level. At the same time, an integrated groupware management system was established to expedite responses.

Comprised of members from the Customer Service Department and the Housing Division, the Satisfaction No.1 Working Group formulates various themes and works to make improvements. In fiscal 2009, it identified areas for improvement based on the results of a customer survey, then devised countermeasures and prioritized measures to address concerns of residents living near construction sites. The Satisfaction No.1 Working Group also created a tool to explain important issues to customers when contracts are signed, and revised the form used to record meetings.

As a result of these measures, unaddressed complaints have declined by half since the system was launched in March 2007, and repair-related costs fell by about 9% in fiscal 2009 compared to the previous fiscal year.

The ultimate goal of the Satisfaction No.1 Working Group is to reduce complaints from unsatisfied customers to zero. The Company has set the target of reducing repair-related costs to below that of the previous fiscal year, and will intensify its efforts to earn the trust of customers and ensure their satisfaction.

## Regular Survey Implementation

To accurately assess its customers' views, Sumitomo Forestry administers a survey at the time owners move in, and in their second and tenth years of occupancy. The survey includes detailed questions on home design, building materials, equipment and fixtures, Sumitomo Forestry staff attitudes and responses, and other issues. Sumitomo Forestry tabulates these results every year to make improvements in the future. Moreover, the customer is given a postcard questionnaire at the end of each after-sales maintenance visit or inspection requesting feedback on subjects such as the maintenance contractors' attitude and behavior, response speed, and repair techniques.

## Keeping Customers Informed

Even after new houses are handed over to customers, Sumitomo Forestry continues to provide useful tips on maintenance and lifestyle. This is part of the Company's commitment to maintaining close communication with its customers and supporting their lifestyles.

One of the Company's communication tools is Club Forest, a special Web site that homeowners of Sumitomo Forestry-built homes can register to use. The site offers information on a range of subjects, such as gardening and interior decoration, and can also be used to request repairs and maintenance. Requests submitted via the Web site are answered with a return telephone call from Customer Support Centers during regular business hours. The Web site has about 27,000 registered members to date.



Club Forest, the special Web site for owners of Sumitomo Forestry houses

Another communication tool is Sumitomo Forestry's home and lifestyle magazine, *Suteki-na Kazoku*, which is sent out to homeowners twice per year. The magazine features a variety of lifestyle-related information, as well as details about Group company activities such as remodeling and utilization of land. Print runs for each issue were about 210,000 in fiscal 2009.



Home and lifestyle magazine *Suteki-na Kazoku*



I would like Sumitomo Forestry to maintain regular communication with consumers and customers. (Management-related CSR expert)

## Standards for Advertising

Sumitomo Forestry thoroughly checks its advertising so as not to convey uncertain or misleading information, and also strives for strict compliance with relevant legislation including the Japanese Building Lots and Buildings Transaction Business Law, Act Against Unjustifiable Premiums and Misleading Representations, and Copyright Act. There were no material violations in advertising in fiscal 2009, as in past years.



Companies must provide consumers with accurate information and appropriately communicate their goals. (NGO)

## Property Development Programs

### Property Development Policy

Sumitomo Forestry is committed to property development that provides attractive communities where families can raise healthy children. The Company also devises building site plans that encourage communication between residents so that people of all ages can live together with enjoyment and comfort.

### Property Development in Tune with Neighborhoods

When Sumitomo Forestry plans a new property development, it aims for congruency with the surrounding neighborhoods and communication with residents in its efforts to create an attractive property. The Company surveys the scenery and history of the surrounding area, plans suitable house exteriors, makes constructive use of local materials, and designs houses that facilitate communication.

When building Forest Garden Kamishidami, located in Aichi Prefecture, Sumitomo Forestry used survey results to select colors for external walls that would fit in well with the adjacent land and buildings environment and integrate with the street. Trees that complement every season were planted, and attention was given to the overall balance of the street, housing lots, building placement, height of trees, and density of foliage. For its Forest Garden Kozoji, Sumitomo Forestry built housing exteriors using local materials, including *hazu* stones produced in the Tokai region for the retaining walls, and bricks made in the ceramic-production center of Mino. The stones, which have a long history in the region, will acquire a patina as years go by, adding to asset value, while the natural elements and greenery were chosen to harmonize with the overall neighborhood. In addition, benches placed next to the building's entrance are becoming places where local residents gather to talk and relax.



Forest Garden Kamishidami

Forest Garden Izumisano in Osaka was designed with housing exteriors that would blend in with the quiet and green surroundings. A corner tree about five meters high was placed at the town's gate, and landmark trees about four meters tall were placed by each house to prominently display the greenery. Locally procured stones have been effectively placed, as with a retaining wall made of *ikoma* stones.

Cul-de-sacs were used to separate the site, with roads in the neighborhood unable to pass through the division, enhancing the safety of pedestrians. The houses were situated to ensure privacy while allowing natural light to enter all of the houses, creating a pleasant atmosphere for daily life.



Forest Garden Izumisano



I would like Sumitomo Forestry to build houses that enhance the landscapes of their surrounding areas. (NGO)

## Property Development in Harmony with Nature

Sumitomo Forestry uses the Ryouonbou design concept to provide comfortable houses that harness the forces of nature. This design concept is also used in property development to propose environmentally sound housing that coexists harmoniously with nature.

Forest Garden Toyosatodai in Tochigi Prefecture uses the Ryouonbou design concept in all of its neighborhoods. Sumitomo Forestry endeavored to create a neighborhood that is friendly to both people and the environment by incorporating the natural forces of the sun, wind and greenery into the design and considering the sunshine and natural airflow in the houses. Landmark trees were situated to provide relief from the summer heat, and a garden zone was created to block the sun and create a cool spot in the neighborhood. Grass was planted in two-car parking spots to ease the glare.



- Sumitomo Forestry should utilize green-scaping technology widely, for example in its community development. (Business partner)
- Although the environment must be considered, I would like Sumitomo Forestry to also consider urban property development that expresses the particular characteristics of Japan. (Research and educational organization)

## Property Development compatible with an Aging Society

As the population of elderly people in Japan continues to rise each year, the dawn of an aging society is upon us. Sumitomo Forestry is entering the elder care field to provide elders with facilities where they can enjoy life every day.

Fil Care Co., Ltd., a Group company, operates a total of ten private-pay elderly care facilities, having opened Grand Forest Kobe Rokkodo (Nada-ku, Kobe City) in April 2010 and Grand Forest Shiinamachi (Toshima-ku, Tokyo) in May 2010, joining previously opened Grand Forest Shizuoka Aoi-no-Mori (Aoi-ku, Shizuoka City) and Grand Forest Hikawadai (Nerima-ku, Tokyo).



Grand Forest Shiinamachi

Fil Care Co., Ltd. is expanding its businesses in residential housing for elders, operating elder care facilities, and related services to meet the needs of society as the population ages. Under the motto, Care with a Human Touch, Fil Care aspires to create senior lifestyles filled with abundance through the provision of high-quality and attentive care to each and every resident, supporting their independence, so elders can enjoy a lively day every day.

## ○ Promoting Housing Distribution

### Participation in the JTI Project

To create rich and varied living environments, Sumitomo Forestry recognizes the importance of raising the value of housing assets, improving the overall quality of society's housing stock, and facilitating the purchase of secondhand housing.

For this reason, along with its ongoing efforts to supply high-value homes, in December 2006 Sumitomo Forestry became a supporting corporate participant in the Japan Trans-housing Institute (JTI). Set up as a joint venture by the Ministry of Land, Infrastructure, Transport and Tourism and private-sector companies, this non-profit public corporation administers the public-sector support system for the rental housing market. Introduced in fiscal 2006, this program provides guaranteed agreements to rent and transplant homes belonging to people whose children have grown up, and subletting those homes to families with young children.

By participating in this program, Sumitomo Forestry hopes to enhance its after-sales support and advisory capabilities for homes and lifestyle, develop derivative businesses such as secondhand home provision and home renovation, and collect information on diversifying lifestyles and homes.

Currently, Sumitomo Forestry provides information on this new system to customers living in Sumitomo Forestry Home houses in the greater Tokyo area, which includes Kanagawa, Chiba and Saitama prefectures.

## Together with Our Business Partners

Sumitomo Forestry works with its building contractors and timber and building material suppliers to reduce environmental impact and improve their occupational health and safety management.

### ● Providing High-Quality Timber and Building Materials

Sumitomo Forestry Group companies manufacturing wood building materials both in Japan and overseas carry out programs to ensure that their timber and building materials are of the highest quality.

Sumitomo Forestry Crest Co., Ltd. became the Group's largest integrated manufacturer of wood building materials in April 2010 through a merger with the former Toyo Plywood Co., Ltd. (previously a Group company).

Sumitomo Forestry Crest aims to be the preeminent integrated manufacturer of wood building materials, fusing both marketability and creativity. All seven plants operated by Sumitomo Forestry Crest have acquired ISO 9001 certification for quality management for their strict quality control systems.

Using a quality information management system that quickly reflects customer opinions and complaints back to each plant, the number of complaints received in fiscal 2009 was reduced to two-thirds the level recorded in the previous year.

Sumitomo Forestry also promotes the acquisition of JIS, JAS and ISO certification by Group companies outside Japan. In 2003, a medium-density fiberboard plant operated by New Zealand affiliate Nelson Pine Industries Ltd. (NPIL) (<http://www.nelsonpine.co.nz/>) became the first in the Oceania region to obtain JIS certification for fiberboard. In March 2007, PT. Rimba Partikel Indonesia (RPI) received the first-ever JIS certification acquired by a particle board plant in Indonesia. RPI has a high share of Indonesia's market, and its acquisition of JIS certification assures customers of the reliability of its high-quality products, such as those carrying the F☆☆☆☆ designation that indicates reduced levels of formaldehyde emission.

In May 2008, NPIL acquired new JIS mark certification, followed by ALPINE MDF Industries (ALPINE MDF) (<http://www.alpinemdf.com.au/>) in September 2008.

In order to comply with air pollution regulations in the United States, four Group companies have acquired the California Air Resource Board (CARB) certification: NPIL in October 2008, followed by ALPINE MDF in January 2009, RPI in February 2009, and Kutai Timber Indonesia (KTI) (<http://www.kti.co.id/>) in November 2009.

### ● Procuring Sustainable Raw Materials

#### Green Procurement Guidelines and Timber Procurement Standards

Sumitomo Forestry strives to prevent environmental pollution, reduce environmental impact, and develop a recycling-oriented society, with a commitment to its environmental philosophy of "contributing to society through the vigorous pursuit of business operations in harmony with conservation principles." In line with these principles, the Company gives preference in its purchases of goods and services to business partners that have established their own green procurement guidelines and timber procurement standards, and that work to reduce their environmental impact. In June 2007, Sumitomo Forestry finalized and announced its Timber Procurement Philosophy and Policy, formulated to help the Company verify the legal compliance of the timber it handles and improve traceability.

In accordance with these principles, Sumitomo Forestry plans to reinforce its system for collaboration on environmental issues in two ways: evaluating business partners' environmental conservation efforts, and assessing products based on the evaluation standards.



## Green Procurement Guidelines

1. Reduction of the use of substances or emissions that affect the environment or human health
2. Reduced consumption of energy resources
3. Use of materials from forests managed in a legal and sustainable manner
4. Usability over the long term
5. Suitability for recycling
6. Use of recyclable materials and reusable components
7. Ease of proper treatment or disposal at end of life cycle

▶ Revised Action Plans Based on Timber Procurement Philosophy and Policy(P.24)

▶ Promoting the Use of Timber from Sustainable Forests(P.149)

## Ensuring Traceability of Timber

Sumitomo Forestry procures timber and timber products from around the world. To ensure that it does not handle illegally logged timber, the Company examines all of its suppliers of timber and timber products for legal compliance. Sumitomo Forestry dispatches managers and local representatives to logging sites as necessary to enhance the reliability of its verification of legal compliance.

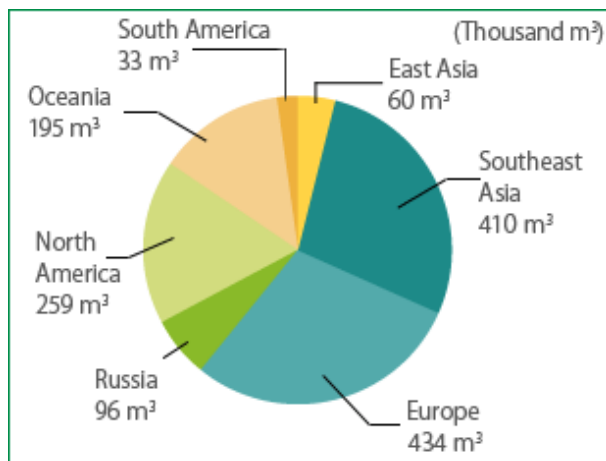
During the three years from 2007 to 2009, the Company conducted investigations of all of its overseas suppliers of directly imported timber based on its Timber Procurement Standards. The results confirmed that all of these suppliers of timber and building materials were in compliance.

Sumitomo Forestry continues to advance its efforts to use certified timber. To expand the volume of certified timber used by Sumitomo Forestry, in fiscal 2006 the Forest Products Trading Department and the Building Materials Department of the Timber & Building Materials Division acquired Forest Stewardship Council (FSC)<sup>1</sup> Chain of Custody (CoC) certification, followed in September 2008 by CoC certification from the Programme for the Endorsement of Forest Certification (PEFC)<sup>2</sup>

In fiscal 2006, all Company-owned forests in Japan were certified by the Sustainable Green Ecosystem Council (SGEC), which confirms that forests are sustainably managed based on assessments by third parties. In fiscal 2007, the Housing Division also received SGEC separation and labeling certification, verifying that the timber used in the Company's houses is from certified forests. Sumitomo Forestry has acquired certification for all processes in its forestry business, from forest management to distribution and house construction. With these certifications, the Company has completed its system for ensuring that its timber has high traceability and comes from certified forests.

- 1 The FSC is a third-party organization that provides a global forest certification system. Its Forest Management (FM) certification authenticates forest management, while FSC CoC certification confirms that forest products from certified forests are appropriately separated and marked in the storage, processing and distribution processes.
- 2 The PEFC is a forest certification program that promotes sustainable forest management by offering certification from third parties independent of stakeholders.

■ Sources of Imported Timber and Wood Products (Based on figures provided to the Japan Lumber Importers' Association)



## Expanding Timber Procurement from Company-Owned Plantation Forests

▶ Providing Timber Products and Materials from Sustainable Forests(P.21)

▶ Sustainability of Timber Resources(P.142)

### ○ Communication with Business Partners

#### The Sumirin-kai: A Forum for Communication with Timber and Building Materials Suppliers

Sumitomo Forestry sponsors the Sumirin-kai, an organization that serves as a forum for communication with regional suppliers of timber and building materials. Training sessions and information exchange meetings are held at various locations, allowing members to deepen mutual friendships, promote product R&D, enhance production and distribution, and support improvements in the industry as a whole. As of January 2010, the Sumirin-Kai had 887 registered members from all areas of Japan.



General Meeting of the Sumirin-Kai



I would like to see Sumitomo Forestry take a more prominent stance, given its position as a leader in the industry. I would also like the Company to make recommendations regarding how we suppliers can contribute. (Business partner)

#### Precut Forum 21: A Study Forum for Precut Factories

Founded as an industry organization in 1997, Precut Forum 21 comprises a nationwide network that aims to improve the quality and productivity of Precut<sup>1</sup> plants that process timber in advance of construction, as well as to develop the businesses of its members.

As the managing company, Sumitomo Forestry is actively involved in administering this forum, and has hosted various programs, including ISO seminars for companies interested in acquiring ISO 9001 series certification, study tours of manufacturers in other industries, study sessions on the proper handling of industrial waste, and seminars on business opportunities utilizing Japanese timber. In fiscal 2009, training sessions in applying for excellent long-term housing status were conducted. Sumitomo Forestry will continue to provide support for cost-cutting at plants and improved design and marketing skills.

1 “Precut” is a production system for construction whereby advanced CAD/CAM technology is used for high-precision processing of timber, which is subsequently taken to construction sites and assembled. This method is in contrast to the traditional carpentry method involving on-site cutting and planing the wood by hand.

#### Partnership with Members of the INOS Group

In order to provide reliable and safe housing for its customers, Sumitomo Forestry maintains close partnerships with construction companies and their agents throughout Japan. The Company established the INOS Group to share its extensive expertise developed over many years and to implement its warrantee system. As of March 2010, the number of members stood at 314. A general meeting is held once a year to further communication between members and share objectives.

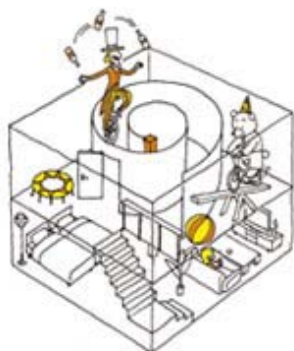
As members of the INOS Group, local construction companies are eligible to use construction technology and quality-guaranteed building materials provided by Sumitomo Forestry. The member companies can also take advantage of Sumitomo Forestry's computers and systems to make structural calculations and estimates, and efficiently issue construction completion guarantees and warranties against defects in housing. This enables local INOS Group members to respond to their customers as trustworthy members of the local community, and also provide the safety and reliability made possible by Sumitomo Forestry's expertise.

In fiscal 2009, the INOS Group's “Simple Long-Term Housing Project 2009” was selected as an Excellent Long-Term House Leading Model Project by the Ministry of Land, Infrastructure, Transport, and Tourism. Construction of “Simple Tone: Housing for the Five Senses” homes from this series has begun around Japan. Further, 156 homes qualified for subsidies under the Fiscal 2009 Excellent Long-Term Housing Promotion program.

Supporting members in all respects, the group provides the latest information related to new opportunities, such as the Eco-Point System for Housing and Promotion of Wooden Homes initiatives.

In fiscal 2009, members of the INOS Group built 1,052 houses (as of March 2010). In fiscal 2010, the member companies are aiming to construct 1,200 new houses and also increase efforts in renovation.

■ Plans for Simple Tone: Housing for the Five Senses, a stylish modern design for a “perfectly square” home.



## Publication of Building Materials Monthly

Sumitomo Forestry publishes *Building Materials Monthly*, an informational magazine for purchasers and sellers of building materials, with a monthly circulation of about 5,000. With a history spanning more than 45 years since its establishment in 1964, the magazine underwent a significant redesign from the April 2010 issue, aiming to “inspire everyone involved in the timber and building materials industry” through the timely publishing of related news and topics such as “The Housing Eco-Point System,” “Eco-Housing,” and “Housing Starts Statistical Data.”



*Building Materials Monthly*

## Communication with Building Contractors

Sound relationships of trust and cooperation with building contractors are essential to Sumitomo Forestry's business development.

In order to create stronger partnerships, Sumitomo Forestry runs the nationwide Association of Sumitomo Forestry Safe Building Contractors. It provides information to improve building contractors' technical skill levels and management of construction, considers operational problems with contractor representatives, and presents awards for excellence to outstanding site managers and carpenters.

To gain an accurate understanding of the issues and problems faced by building contractors, Sumitomo Forestry conducted the Survey on Production Systems and CSR in fiscal 2009, with 81.6% of building contractors responding. This questionnaire was designed to identify weaknesses and flaws in Sumitomo Forestry's standards and plans, as well as facilitate improvements in operations, safety and technical capabilities. It was also useful in familiarizing employees of Sumitomo Forestry's building contractors with the concepts underlying CSR, which advocates business based on social ethics. These concepts encompass strict legal compliance, environmental conservation, respect for human rights, and contributions to local communities.

In October 2009, the results of the fiscal 2009 and 2008 questionnaires were presented to the Matsu Association of Building Contractors, an annual social gathering of superior building contractor partners, serving to heighten consciousness of CSR among the building contractors.

Many building contractors face a shortage of skilled labor and aging among their craftsmen, making cooperation and support in the training of a new generation of builders essential to ensure production capacity in the future. The Sumitomo Forestry School of Professional Building Techniques, founded in 1988, offers a one-year carpentry course for people wanting to work for Sumitomo Forestry, as well as five- to ten-day elementary and intermediate level training

courses offered on the behalf of building contractors. Such measures support human resource development in this industry.



I expect Sumitomo Forestry to increase its communications with building contractors, and disseminate information on its initiatives that deal with environmental problems. (Research and education organization)

## Improving Quality and Workplace Safety at Housing Construction Sites

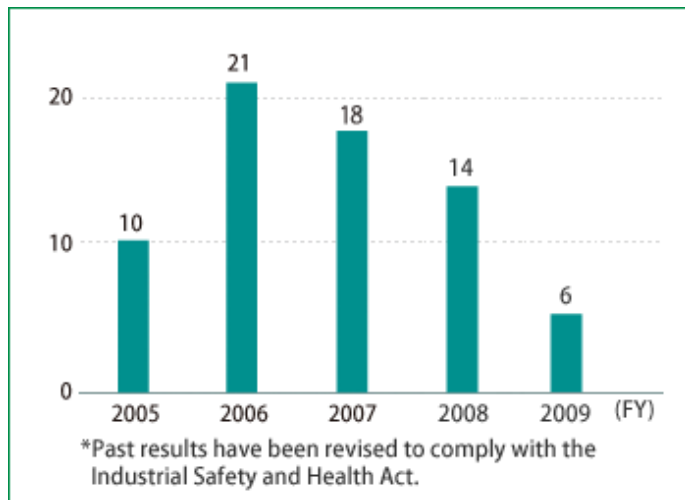
Based on Sumitomo Forestry's own Health and Safety Management Guidelines and with the cooperation of building contractors, the Company is working to eliminate work-related accidents, including construction site accidents caused by falls and slipping, heavy machinery, or power tools.

In fiscal 2009, the Company set forth the basic principle of prevention of industrial accidents through comprehensive implementation of risk assessment, with three priority areas: (1) strict compliance with the Industrial Safety and Health Act; (2) prevention of industrial accidents; and (3) comprehensive self-management, with consideration given to previous years' industrial accidents, status of industry safety and health promotion initiatives, and compliance with related laws and ordinances. Targets and action plans for each division and department have been developed.

The Environment & Safety Division of the Housing Division participated in the monthly workplace health and safety meetings held at each branch, and is strengthening its role in providing direction and education for all aspects of safety management. In order to ensure smooth implementation of initiatives to comply with the revised Ordinance on Industrial Safety and Hygiene for construction sites using scaffolding, the Company conducted sampling surveys at construction sites alongside the project manager from the scaffolding construction contractor. This enabled the Company to provide direction and ensure consistent standards, with the results contributing to a reduction in industrial accidents.

In addition, training sessions are held to promote greater safety and higher quality at every local chapter of the Association of Sumitomo Forestry Safe Building Contractors.

■ Number of Work-Related Accidents (requiring at least four days off work) at Building Contractor Locations



## Zero Emissions Efforts in Cooperation with Waste Treatment Contractors

The Sumitomo Forestry Group established a goal of 98% recycling of industrial waste from production plants, new housing construction sites and other locations by March 2010, and all divisions, including affiliates, have worked to achieve zero waste emissions. Collaboration between internal divisions is also essential to these efforts, and the same is true of building contractors engaged in on-site sorting of waste and intermediate treatment contractors consigned with industrial waste processing. Reduction of industrial waste generated in house construction work is not an issue that can be resolved solely at construction sites, but also requires a reassessment at all stages, including technological development, materials procurement, production and waste processing, in order to curb the generation of industrial waste.

▶ Zero Emissions(P.138)

## Together with Our Shareholders

Sumitomo Forestry works to ensure a high level of transparency in management and proactive disclosure of information to build trust with shareholders and investors.

### Communication with Shareholders and Investors

#### Information Disclosure

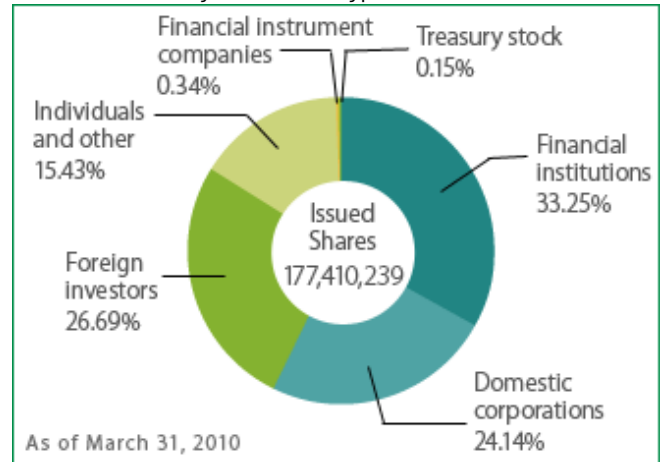
In the interest of greater management transparency, Sumitomo Forestry takes a proactive approach to information disclosure. At the General Meeting of Shareholders held every June, for example, the Company presents reports and information as clearly as possible using various forms of media. It also publishes printed and online versions of its Annual Report in both English and Japanese, as well as Japanese reports for shareholders on business activities. These documents are designed to present the essence of Sumitomo Forestry's activities in an accurate and detailed manner.

In its efforts to continue gaining greater trust from shareholders and investors, Sumitomo Forestry holds earnings briefings and individual meetings to explain its business performance following the announcement of interim and year-end results, as well as conference calls following release of Q1 and Q3 results. In fiscal 2009, the Company held 214 of these individual meetings, demonstrating its commitment to proactive communication.

At the individual meetings held in fiscal 2009, the Group presented the concept that forestry is and has always been an environmental business for Sumitomo Forestry, which helped participants understand the Group from the perspective of its efforts in environmental businesses. In an age when society is striving to solve environmental issues on a global scale, businesses that are both environmentally and economically sound are indispensable. Thus, Sumitomo Forestry established the Environmental Business department to achieve those aims. These individual meetings helped investors to understand the Group's philosophy and direction, as well as the details of its business and performance results.

In July 2010, the Company hosted its first meetings specifically for individual investors in Tokyo and Osaka, which were attended by about 150 individual investors. The Company presented both the Group's financial results and its efforts to preserve and protect the environment.

Share Distribution by Shareholder Type





## ● Inclusion in Socially Responsible Investment Indexes

There has been growing interest in socially responsible investment (SRI) in recent years. In this approach to selecting investments, assessments of corporate social responsibility (CSR), including environmental responsiveness, social activities, and ethical stance, are weighed alongside financial performance.

Sumitomo Forestry has been a component stock of the Dow Jones Sustainability World Index (DJSI World) for five consecutive years, and was recently selected for the first time as the sector leader in the Home Construction Sector. Under the corporate direction of contributing through our business activities to local environments, societies, and economies as an integrated housing and lifestyle company, and guided by the spirit of a company that has practiced sustainable forestry since its founding in 1691, the Company became a participant in the United Nations Global Compact in December 2008. We believe our commitment to the realization of a sustainable society through our global businesses and initiatives was a factor in this selection.

Sumitomo Forestry was selected for inclusion in the FTSE4Good Global Index in September 2004, the Morningstar SRI Index from September 2008, and perseveres in its efforts to continue being recognized in these indexes (as of March 31, 2010).

Sumitomo Forestry will continue to promote social responsibility in its economic, environmental and social endeavors as it strives to earn its place in investor portfolios as a rewarding destination for SRI.



## Together with Our Employees

Recognizing that employees are human assets, Sumitomo Forestry strives to create a workplace conducive to the successful performance of people of diverse backgrounds.

### ● Creating a Workplace in which a Diverse Range of Employees Can Work Together with Enthusiasm

#### Basic Personnel Policy

Based on the conviction that employees are human assets, Sumitomo Forestry has put in place personnel systems designed to foster a workplace environment that facilitates the successful performance of people of all backgrounds.

In fiscal 2009, the Company launched policies to establish and enhance the personnel system, as well as support careers with an emphasis on each and every employee's independence and initiative. The top priority initiatives were a Company-wide effort to reduce overtime work, support for a diversity of work styles to achieve a work-life balance, and expansion of career support.

#### Basic Personnel Policy

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

#### ■ Employment Breakdown (as of March 31, 2010)

Management level	1,926
Non-management level	2,496
Contract employees (interior coordinators)	48
Contract employees (non-interior coordinators)	60
Hosted from other companies	9
Average years of service	12.3
Average annual salary	7,659,438 Yen
Ratio of disabled employees	1.82%

## Employee Hiring and Promotion Policies

Outstanding personnel are essential to Sumitomo Forestry's ability to sustain its business operations and contribute to society. In hiring employees, we seek people who have the mental toughness and people-skills to push ahead with corporate innovation in Japan and abroad, have a sense of the fairness and integrity that characterize Sumitomo Forestry's corporate culture, and have an abiding respect for humanity.

The Personnel Department's hiring team holds self-discovery seminars and hands-on workshops on world-class business models for students who have begun their search for career opportunities after graduation. These activities aim to help young people make choices about their lives, addressing subjects such as how to select candidate companies in the job-hunting process, methods of self-analysis, and Sumitomo Forestry's own business operations.

### ■ Recruiting Results

	FY2009			FY2010		
	Male	Female	Total	Male	Female	Total
Housing sales	98	19	117	71	16	87
Housing engineering	22	14	36	22	7	29
General management	27	7	34	21	9	30
Total	147	40	187	114	32	146

## Re-employment of Retired Employees

Sumitomo Forestry actively promotes the re-employment of workers who have reached retirement age, with the aim of boosting its performance by retaining employees with proven abilities and skills, and also to meet the needs of people who desire to continue working after the retirement age of 60. Employees who are interested in re-employment and meet certain requirements, including continuous employment for at least ten years and possession of specific skills and experience, can work as contract employees (non-interior coordinator) until age 65 by registering with Sumirin Business Service Co., Ltd., a Group affiliate engaged in personnel outsourcing.

In fiscal 2009, the Company re-employed 22 people and, going forward, will make every effort to offer re-employment to as many people as possible.

## Hiring Policies at Group Companies Outside Japan

Sumitomo Forestry is committed to contributing to local economies. For this reason, its Group companies outside Japan have endeavored since their founding to hire and train local employees and managers to the greatest extent possible.

As an example of these efforts, overall Group companies in Indonesia (PT. Kutai Timber Indonesia, PT. Rimba Partikel Indonesia and PT. AST Indonesia) have hired 99% of all employees locally. At New Zealand affiliate Nelson Pine Industries Ltd. (NPIL), all but three employees from a workforce of 245 were hired locally.

While some businesses may require short-term positions, Sumitomo Forestry endeavors to foster positive relationships with local communities and generate ongoing employment by creating employment opportunities with continued contract renewals over the long term.

## Helping Employees Achieve Work-Life Balance

Sumitomo Forestry, as a company involved with housing and lifestyles, strives to create a workplace where employees can treasure their families and create a rich family life. The Company is committed to continuous improvement of a system that supports both work and private life, as well as ensuring that all employees take advantage of the system. From fiscal 2008, in recognition of the diversity of workstyles, the Company re-organized the Positive Action Group as the Work & Life Group to promote the creation of a workplace that is easy to work in.

### ■ Promoting Work-Life Balance Through Vacation and Leave Programs

Program	Objective and Description	FY2009 Results
Refresh Vacation	This system allows employees to combine their weekly holiday with paid vacation days for five consecutive days of vacation every year between January 1 and December 31, as distinct from the New Year and summer vacation periods. Regular employees and contract employees (non-interior coordinators and interior coordinators) who have been continuously employed by the company for at least one year are eligible.	61%
Childcare (Revised April 1, 2010)	Childcare leave may be taken by regular and contract employees (interior coordinators) for the longer of the first 18 months of the child's life or until March 31st immediately following the child's first birthday. Further, until the child completes the sixth grade of elementary school, employees may begin or end work earlier or later, work shorter hours, or work a four-day week, and be exempted from overtime work. In addition, employees may also take the equivalent of ten days a year in one-hour increments to care for a sick or injured child, also until their children have completed the sixth grade of elementary school. Of these ten days, up to five days may be used for attending special events with their children. Employees with two or more children are granted an additional five days.	<ul style="list-style-type: none"> <li>▪ 100% of female employees who gave birth took childcare leave.</li> <li>▪ 17 male employees took childcare leave.</li> </ul>
Family Care	This system allows up to 365 cumulative days of leave per family member requiring care, and is available to employees and contract employees. Participants may also begin work and end work earlier or later, work shorter hours, or work a four-day week.	2 employees took Family Care leave.
Family Illness / Injury (Revised April 1, 2010)	Regular and contract employees may take the equivalent of ten days a year in one-hour increments to care for their family. Five of the days annually may be used to care for family members who are ill or injured. Employees with two or more family members requiring care are granted an additional five days.	-

■ Childcare-related Programs

Pregnancy	Childbirth	12 months	18 months	Elementary School Entrance to end of Sixth Grade
	Spouse Childbirth Leave			Male-only
Maternity Health Management Leave		1 During pregnancy, childbirth leave, childcare leave, within one year after childbirth		Female-only
	Pre- / Post-Childbirth Leave			Both male and female
	Childcare Leave (following childbirth leave) <sup>3</sup>		2 Longer of 18 months or until March 31 <sup>st</sup> following 1 <sup>st</sup> birthday	
Reduced Hours/Four-day Workweek <sup>3</sup>				
Flexible Hours (start early/late, end early/late) (can be combined with Reduced Hours/Four-day Workweek) <sup>3</sup>				
Limitation on Overtime/Late-night Work				
	Exemption for Certain Work / Limitation on Overtime/Late-night Work <sup>3</sup>			
	Leave to care for child / attend child's ceremonies <sup>4</sup>			

<sup>3</sup> Employees who have worked continuously for 1 year or more

<sup>4</sup> Employees who have worked for 6 years or more



I would like to know about the specific programs that Sumitomo Forestry has put in place to promote “value families.” (Customer)

## Encouraging Male Employees to Take Childcare Leave

As part of Sumitomo Forestry's efforts to value families, the Company encourages male employees to take childcare leave. Surveys are taken of male employees whose spouses have given birth to a child and childcare leave guides are distributed to male employees. The Company intranet is also used to publicize the status of employees taking childcare leave, as well as stories from employees who have taken childcare leave.

In fiscal 2009, the Company hosted the fifth annual conference for employees who are taking childcare leave, including two male employees. The participants held a lively discussion with the Company president on how to increase acceptance of continuing to work while raising children. This year marked the first time that the employees' supervisors and peers participated in the program. Based on the contents of these discussions, Sumitomo Forestry published and distributed a Work-Life Balance pamphlet to all employees in April 2010.

In fiscal 2009, the number of male employees taking childcare leave increased to 17. Sumitomo Forestry will continue to foster an environment that accepts the usage of the childcare leave program by both men and women and the balance between work and childcare, creating a positive cycle that improves the support of parents caring for their children.



Conference for employees taking childcare leave



I'm very interested in your childcare leave program for male employees. I'd like to know the specifics because a program in name only, where no one actually participates, is meaningless. (Shareholder/ Investor)



## Launching the Telework Program

Sumitomo Forestry formally launched the telework program in fiscal 2009, in which employees may work at home or other location remotely, aiming for the realization of a diversity of workstyles.

Two monitoring surveys conducted in fiscal 2008 provided the feasibility of teleworking at headquarters and branch offices, giving employees a new way of working, as well as increasing both work efficiency and work-life balance. Accordingly, Sumitomo Forestry reviewed its information systems and security measures to establish systems for the treatment, working environment and health management of telework employees, and implemented a full-scale program from April 2009. Eight employees are participating in the program, employees who have needs for childcare or family care, as well as those whose commute times were especially long. The time saved by not commuting to an office is being used for both work and family life, and working in a quiet home environment has proven to increase productivity, providing proof of the concept for the telework program.

## Compliance with Next Generation Law

The Next Generation Law requires employers to formulate and implement action plans to support employees raising families.

Sumitomo Forestry's programs included in its 1st Action Plan for fiscal 2005 to 2006 and 2nd Action Plan for fiscal 2007 to 2008 satisfied designated requirements, earning certification from the Tokyo Labour Bureau in April 2007 and in May 2009 for its respective plans.

The 3<sup>rd</sup> Action Plan (FY2009-FY2010) has two goals. The first is to create a work environment in which employees can comfortably raise their children, spend time with their family, and work effectively and positively. The second goal is to create a climate that accepts both men and women balancing work with raising children.

The 3<sup>rd</sup> Action Plan has three specific targets: (1) ensuring at least 30 male employees take childcare leave, (2) publishing an educational booklet and nurturing an environment supportive of childcare by both parents, and (3) implementation of revised rules to facilitate easy commuting during pregnancy. Sumitomo Forestry intends to earn certification attesting to the compliance of the 3<sup>rd</sup> Action Plan with the Next Generation Law, as it succeeded in doing with the previous two plans.

In fiscal year 2009, the number of male employees taking childcare leave rose to 17. The Sumitomo Forestry Work-Life Balance pamphlet was distributed throughout the Company and efforts continued to achieve targets. In April 2010, Maternity Health Management Leave was established allowing expectant and nursing mothers to take up to ten days in one-hour increments when difficulties are encountered in visiting the hospital, commuting to work, or with starting work.



The Kurumin Mark of Certification



I would like Sumitomo Forestry to continue being a company that provides comfortable lifestyles to the employees of Group companies and business partners, as well as their families. (Business partner)

## Promoting Affirmative Action

Sumitomo Forestry is committed to creating a workplace in which people can fulfill their ambitions and exercise their skills irrespective of gender. To encourage the success of female employees, the Company is working to expand the presence of women in all job positions and to support working while raising children.

In fiscal 2009, the Company, in cooperation with other house builders, sponsored a Female Housing Sales Job Information Exchange. Company employees engaged in a lively exchange of information with female employees of other companies in the same industry on such topics as being a female sales executive and balancing work and motherhood. The opinions given at this meeting will be reflected in future measures. Sumitomo Forestry plans to hold these meetings on an ongoing basis to provide opportunities for enhancing motivation and problem-solving.

■ Female Employment Ratios (as of April 1 of each fiscal year)

(%)

As % of Company Workforce	FY2006	FY2007	FY2008	FY2009	FY2010
Female employees including contract employees (interior coordinators and non-interior coordinators)	15.8	15.8	16.4	16.4	16.9
Female employees in management positions	0.7	0.9	0.9	1.3	1.3
Newly hired female university graduates	15.4	25.0	21.0	21.0	22.4



Expectations for diversity are increasing in society. The greater the extent a company's workforce is made up of unique individuals, the stronger the company will be. (Financial and environmental expert)

## New Return to Work Application System

Sumitomo Forestry introduced a system in October 2008 that offers employees the opportunity to apply to return to work after resigning because of family obligations or the job relocation of their spouse, so that their job experience can be utilized and they can continue working. Employees who have worked for three or more consecutive years are eligible for this program, and the Company determines whether to re-hire employees based on needs and the applicant's skills. Applicants hired within three years of resigning are able to return to their former position. As of May 2010, 18 people are registered in the system.

## Transfers to Accommodate Spouse Transfers

In fiscal 2008, Sumitomo Forestry established a program that facilitates the transfer of employees to the same destination as their spouse. This enables employees to continue working with Sumitomo Forestry. To date, four employees have participated in this program.

## Human Rights Programs

Sumitomo Forestry's action statement, "Our Values and Ideals," lays out the Group's shared ethical code, based on a respect for diversity, regardless of disability, gender or age, a recognition of equality, and a total rejection of discrimination. Sumitomo Forestry ensures that all employees are familiar with these concepts and promotes this shared ethical code through training and other educational programs.

## Prevention of Sexual and Power Harassment

In accordance with "Our Values and Ideals" and its Employment Regulations, Sumitomo Forestry prohibits sexual and power harassment through clearly stated rules and disciplinary standards. The Company has set up the Sexual Harassment Consultation Hotline and the Compliance Hotline to appropriately handle inquiries and complaints. To raise awareness of the issues among employees, the Company provides information and case studies through the intranet, pamphlets, and training on human rights and ethics.

When handling a case of harassment, the Sexual Harassment Consultation Hotline promptly and appropriately verifies the facts and gathers information with the accused, the complainant, and third parties, and then takes necessary procedures with those concerned in accordance with the Company's regulations and Act on Securing, Etc. of Equal Opportunity and Treatment between Men and Women in Employment. The privacy of all those involved is protected, and every effort is made to ensure that neither the complainant nor those cooperating are treated detrimentally.

## New Business Proposal System

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In fiscal 2006, Sumitomo Forestry launched the Power for the Future Project to solicit new business proposals for harnessing the ambitions and skills of employees in creating new business.

The Project reviews business proposals and plans submitted by employees, who are awarded if their plans are adopted. For the proposal winning the Grand Prix prize, the Company considers its commercialization as a new business, and upper management offers advice and encouragement to the employee.

The 3<sup>rd</sup> Annual Power for the Future Project received 178 proposals, 120 in the New Business Proposal category, and 58 in the Business / Operations Improvement Proposal category. Following a rigorous review, two plans were awarded the Grand Prix and received an award of recognition from the division general manager. Both plans will be considered for future implementation.



Presentations during the third round of judging.

## Communication with Our Employees

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Sumitomo Forestry has conducted an employee satisfaction survey every two years since 2002 to determine employee satisfaction.

In the fourth survey conducted in July 2008, which received 4,286 responses for a response rate of 86%, 73% of respondents stated that they were satisfied to be working at Sumitomo Forestry. The results also showed that employees with career objectives tended to have higher satisfaction. Almost half of respondents stated that they felt fatigued, revealing that difficulties in taking leave and frequent long overtime hours are problems for employees.

Based on the results of the survey, Sumitomo Forestry set three priority issues for its future measures: providing support for career development, reducing overtime work and eradicating obligatory overtime (from peer pressure), and accommodating diverse work styles. The next survey will be conducted in fiscal 2011.

## Relations with the Labor Union

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Sumitomo Forestry pursues a mutually beneficial relationship with its labor union to achieve healthy business development together. Labor agreements are based on the Labor Union Act, and all employees (with the exception of management) belong to the company union. These agreements stipulate that the Company must ensure economic stability for union members and continuously strive to maintain and improve working conditions.

To build sound and smooth relations between management and the labor union, a management advisory board has been established to exchange views and deepen mutual understanding. A Safety and Health Committee has also been established, made up of management and union representatives, to address workplace safety and health issues.

In fiscal 2009, the Company actively addressed three main areas: bringing forward the internal notification period for transfers, revisions to the retirement benefits system, and implementation of a survey on overtime work; the Company also works to resolve issues related to various allowances and benefits, and work-life balance.

## Accommodating the New Lay-Jury System

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Sumitomo Forestry has considered measures to accommodate Japan's new jury system in advance of its implementation. Jury duty will be deemed equivalent to the employee's regular work responsibilities, and the employees will thus be paid their regular salary.

## ○ Creating a Safe and Healthy Workplace

### Workplace Safety and Health Policies

Sumitomo Forestry is actively engaged in fostering a workplace in which employees can perform their jobs in a safe and healthy manner. In recent years, the Company has introduced a range of initiatives to address one of its priority issues: reducing overtime work to ensure that employees enjoy mental and physical health and work-life balance.

Sumitomo Forestry provides regular health checkups to all employees, whether permanent or non-permanent. This along with other activities to improve workplace health and safety demonstrate the Company's commitment to its Rules for Safety and Health Management and its basic personnel policy of recognizing employees as human assets.

### Reduction of Overtime

Reducing overtime improves employee health and morale, lowers employee turnover, attracts outstanding personnel, and ultimately enhances the Company's ability to provide high value-added products and services. Accordingly, Sumitomo Forestry has given this issue the highest priority.

Because office work is increasingly performed using computers, the Company introduced a compulsory 10 p.m. PC shutdown system in June 2007 as a measure to prevent Visual Display Terminal (VDT) syndrome and health complications from overwork.

In October 2007, the Company established an executive committee and working groups headed by the Personnel Department director to encourage appropriate control over working hours and limitations on overtime, with the goal of raising employee morale and maintaining their health. For an issue that management shares with labor, the committee drafted measures to curb overtime tailored to each division's work style and specific problems related to working hours, and put them into action from April 2008.

In particular, it has become even more important to manage working hours to preserve the health of employees in the Housing Division, in light of more stringent construction-related legislation, the maturation of the housing market, and dramatic changes in the external environment such as heightened competition. Accordingly, Sumitomo Forestry took specific measures to curb overtime work, such as discontinuing perfunctory meetings, restricting times for internal meetings, setting concentrated work times, and automatically shutting down PCs in the late evening on week nights and restricting their use on weekends. Sumitomo Forestry also decided to start and end work times later in consideration of the tendency for work duties to be concentrated in the afternoon, and in response to the results of the labor union's questionnaire and requests.



Stakeholder  
Comment

I expect to see results from initiatives to reduce long working hours. (Customer)

### Anti-Smoking Program

Sumitomo Forestry actively implements systems and programs to support the physical and mental health of its employees, while also providing information to encourage greater awareness of the importance of taking responsibility for one's own health.

With the growing interest in quitting smoking, the Company has implemented anti-smoking programs that encourage employees to try quitting smoking and to eliminate smoking-allowed areas on Company premises. The first trial non-smoking campaign had a successful quit-smoking ratio of 48%, and in the second trial, 44% of participants successfully quit smoking. In fiscal 2009, smoking-allowed areas were eliminated on the occasion of the relocation of the Company's headquarters.

From fiscal 2010, the program will be further strengthened with the launch of the "No Smoking Anywhere During Work Hours" campaign. In the first half of the year, smoking will not be allowed during morning work hours, and from the second half, smoking will not be allowed at all during work hours (excluding breaks).

## Mental Health Initiatives

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Sumitomo Forestry has been running a Mental Health Support Program since April 2006 to further support its employees' mental health.

A toll-free telephone service called the Medical Consultation and Treatment for Mind and Body is also available to take calls regarding workplace concerns, relationships with other people, general frustrations and worries, and requests for information on medical facilities. Posters displayed in the Company and cards printed with information about the toll-free service are distributed to regular and contract (interior coordinators and non-interior coordinators) employees (except for dispatched employees) to ensure familiarity with the service and encourage its use. Currently, seven Group companies also provide the Medical Consultation and Treatment for Mind and Body to their employees.

## Regular Health Checkups and Extensive Examinations

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To help employees manage their health, all employees are given a regular health checkup each year, with more extensive examinations available to employees over 35 and dependents of employees upon request.

For the second consecutive year, 100%<sup>1</sup> of Sumitomo Forestry's employees in fiscal 2009 received both a regular health checkup and an extensive examination, thanks to monthly progress checks by each business establishment. In addition, a follow-up system has been set up for all patients requiring further examination, including consultations with the industrial doctor in each office and the delivery and collection of forms verifying second examinations.

From fiscal 2008, metabolic syndrome diagnostic criteria have been included in regular health checkups and more extensive checkups for employees aged 40 years or more. Sumitomo Forestry is committed to raising the attendance rate of employee dependants, as well as employees. However, it is difficult to convey information to employee dependants in some cases, as when employees are transferred to distant locations without their families or are posted outside of Japan. To address such cases, Sumitomo Forestry has introduced an online reservation system for extensive examinations, enabling employee dependants to visit the doctor on their own initiative. E-mail is used to provide information on the consultation, thus improving convenience and increasing attendance rates.

<sup>1</sup> This does not include employees on long-term leave for maternity leave and illness.

## Plants with Safe and Healthy Workplaces

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The Sumitomo Forestry Group strives continuously to improve labor health and safety at its plants.

In October 2009, Sumitomo Forestry Crest Co., Ltd.'s Kyushu Plant (former Toyo Plywood Co., Ltd.) was awarded honorable mention in the 2009 Saga Prefecture Industrial Safety and Health Convention, Saga Labor Bureau Chief's Prize for Superior Safety and Health in a Workplace, Organization, or by an Individual. This prize is for workplaces recognized as having made exemplary efforts to improve industrial safety and health within the Prefecture. The Company was recognized for "always having a deep awareness of the importance of safety and health, and proactively promoting voluntary safety and health management activities."

The Group will continue its efforts in safety and health activities with the goal of being recognized as exemplary in all respects.

## Prevention of Child Labor and Forced Labor

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The Sumitomo Forestry Group's offices in and outside Japan hire employees in compliance with local laws and ordinances, and do not engage in illegal labor practices such as child labor and forced labor.



## ● Development of Sumitomo Forestry's Human Resources

Sumitomo Forestry's human resources development policies are based on supporting the autonomy of employees, who determine Sumitomo Forestry's success.

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### Human Resource Development Policies

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To create an open and inclusive corporate culture that values diversity advocated in the Action Guidelines, Sumitomo Forestry works to support autonomous employees as a basic policy for human resources development.

Sumitomo Forestry not only provides training tailored to specific job categories and levels, but also offers a full range of training based on employee needs and current requirements of society, including support for graduate studies at universities in and outside of Japan, acquisition of professional certifications, and an extensive speakers program featuring experts from external institutions, and programs to develop future business leaders and nurture individual employee career aspirations.

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### Career Consultation and Support

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The Career Support Desk opened in April 2007 to employees with assistance specific to their needs in managing their careers. Specialized career advisers provide expert career advice for individual employees. In fiscal 2009, 31 people made use of this service.

Sumitomo Forestry launched the mentoring program in fiscal 2008, creating a one-to-one relationship between the mentor and the employee. The mentor provides counsel to the employee and supports his or her long-term career development. The mentoring program was established as a result of the findings of an employee satisfaction survey conducted in fiscal 2008 as a means to improve sharing of information and communication with employees.

The mentoring program is designed to create a corporate climate in which employees can support each other's growth freely and continuously. In fiscal 2009, three pairs participated in the program for the full year.

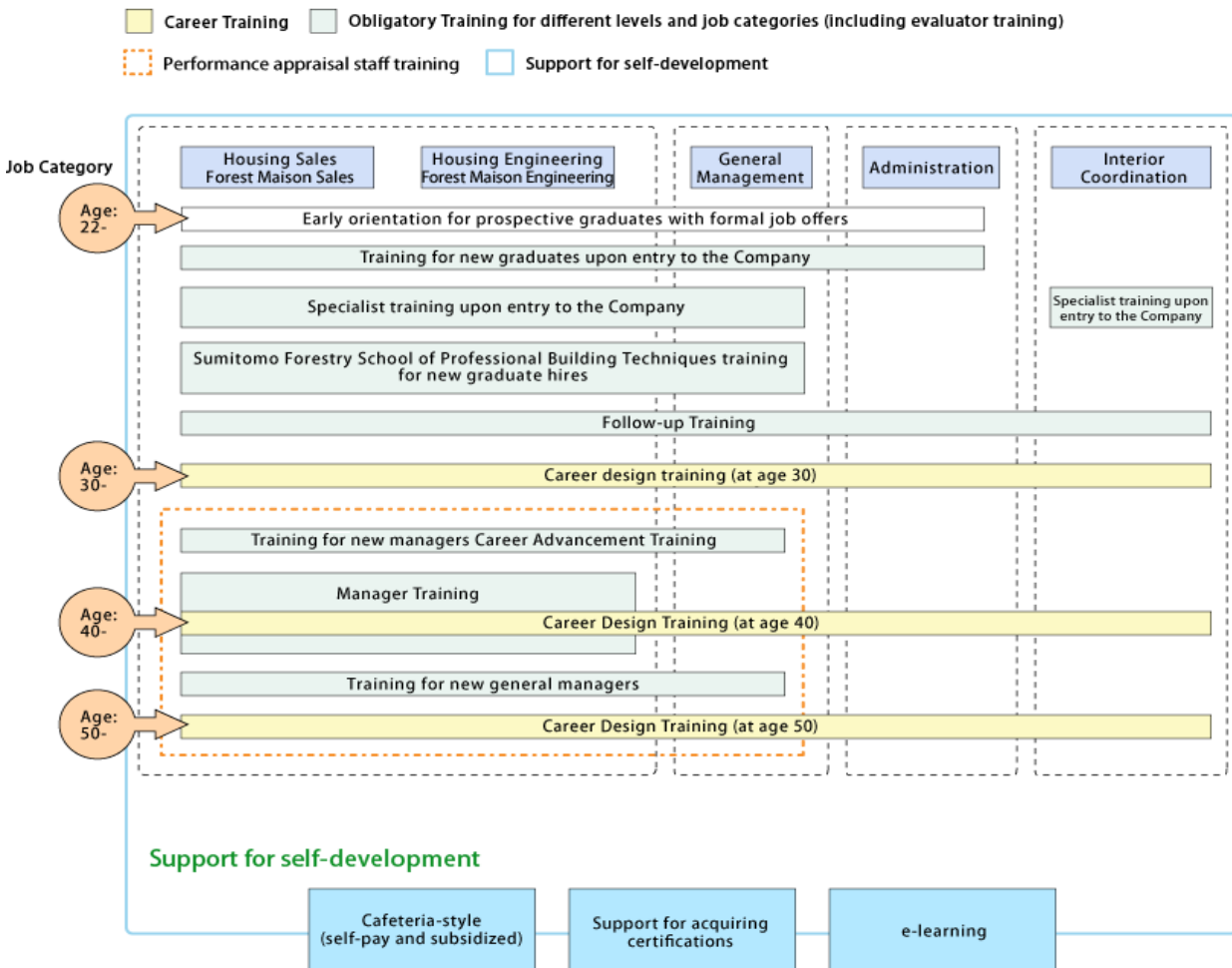
## Multifaceted Training

Sumitomo Forestry offers its employees a variety of training opportunities to encourage them to independently pursue their career ambitions and to provide opportunities to learn business skills that match their life plans. In fiscal 2009, the Company spent 99,000 yen per employee on training.

### Multifaceted Training Programs

Training Programs	Description	FY2009 results (Number of people)
Periodic training for different levels and job categories	Specific training for new graduates upon entry to the Company, training for new graduates at Sumitomo Forestry School of Professional Building Techniques, follow-up training for those who have changed job categories, new manager training, job-specific and objective-oriented training for mid-level managers, training for new general managers, etc.	1,150
Selective training for differing needs	Training for career stage transition, including programs for management strategy, female managers, and career design	415
	Graduate studies program: MBA programs of highly specialized knowledge concerning management and problem-solving methodology	1
“Cafeteria-style” training	Subsidized external training programs to acquire official qualifications and enhanced business skills	230

### Initiatives for Further Enhancing Human Resources Development Programs



## Creating Intellectual Property

Sumitomo Forestry strives to foster a climate conducive to the active creation of intellectual property. In particular, the Company is addressing environmental problems by creating new and competitive technology related to timber research and for long-lasting houses, and then pursuing patents. The Company seeks to aggressively protect the Group's intellectual property and avoid infringing on rights controlled by other entities, holding workshops on intellectual property and compliance. With respect to environmentally related intellectual property, the Company is promoting shared internal utilization through various measures including the establishment of the Environmentally Related Intellectual Property Map, the publication of Intellectual Property News, and the introduction of relevant material on its Web site.

Sumitomo Forestry has also initiated patent proposal and award programs with monetary incentives awarded to employees who submit ideas for outstanding inventions. Employee awareness of patent proposals is rising every year, with 453 proposals received in fiscal 2009. Furthermore, education on intellectual property has been incorporated in new graduate and general training programs.

## Passing on Skills

Sumitomo Forestry recognizes that to continue building *Sumitomo Ringyo no ie* (Sumitomo Forestry Home) houses that utilize the advantages of the traditional wooden post-and-beam construction method, it is important to pass on skills and techniques to the next generation of workers. To achieve its objective of nurturing the skills and knowledge of craftspeople (carpenters), Sumitomo Forestry founded the Sumitomo Forestry School of Professional Building Techniques in 1988 as an intra-corporate vocational training school. In fiscal 2009, 41 people graduated from the School, for a total of 857 graduates since its establishment. In fiscal 2010, 28 students were admitted and are currently engaged in training.

The School functions as a boarding school for candidate carpenters who have joined Group-affiliate Sumitomo Forestry Home Engineering Co., Ltd., which specializes in carrying out and supervising the construction of Sumitomo Forestry Home houses. Living together in dormitories for one year, these students study a wide-ranging curriculum, from traditional wooden post-and-beam construction methods to the latest construction techniques used by Sumitomo Forestry Home for the houses it builds. The skills that these carpenters acquire are consistently evaluated highly, demonstrated by strong performances at the annual National Skills Competition in Japan. In October 2009, six graduates of the school and current employees of Sumitomo Forestry Home Engineering Co., Ltd. participated in the 47th Annual National Skills Competition. Each employee brought home a medal, winning one gold, one silver, one bronze, and three “fighting spirit” awards. This marks the fifth consecutive year since the 43rd competition that the School's students have been awarded such honors.

The Sumitomo Forestry School of Professional Building Techniques also serves as a center for training new employees, regardless of their specialties, from other Sumitomo Forestry Group companies. The School cooperates in work experience programs every year for local students, with 11 sixth-grade elementary school students accepted in July 2009 and three second-year middle school students attending in November 2009.

In May 2009, Fujio Terano, a technician leader in the Chiba office of Sumitomo Forestry Home Engineering Co., Ltd., and Yoshihiro Endo, a contract carpenter in the North Japan Office, were awarded the Outstanding Craftsman Award by the Minister of Land, Infrastructure, Transport, and Tourism. The two employees were recognized for their technical skill and techniques, and their significant contributions to the guidance and nurturing of the next generation of craftsmen. These awards mark the third consecutive year since 2007 that builders of Sumitomo Forestry homes have been recognized with such awards.



47th National Skills Competition

## Together with Society

Sumitomo Forestry makes use of the knowledge and expertise it has built up through its business activities in its social contribution activities in environmental education and forest preservation. The Company also actively communicates with society to convey its corporate stance.

### ○ Ongoing Communications with Society

#### Policy

Sumitomo Forestry believes that ongoing communication with society is essential to a company's sustainable development, and further believes it essential to gain the recognition and understanding of all stakeholders. Sumitomo Forestry uses its unique mascot called "*Kikorin*" to present its corporate stance in newspapers, magazines, television and other media. The Company particularly emphasizes direct communication, and participates directly in special events to give the public a more accurate and deeper understanding of Sumitomo Forestry.



- Sumitomo Forestry's commercial really draws the interest and concern of children and students—the future generation—so I look forward to seeing it. (Educational and research organization)
- Sumitomo Forestry should carry out more publicity on its environmental initiatives. (Business partner)
- I expect educational activity about the role forests play in preserving the environment. (Student)
- I want you to expand the number of environmental education events. (Student)

#### Dissemination of Information about Wood

In fiscal 2009 for the third consecutive year, Sumitomo Forestry held the Sustainable Forest Gallery 2010: *Kikorin* and Friends of the Earth at Tokyo Midtown in Tokyo's Minato Ward. This corporate public relations event was held for one week in January 2010.

This year's event was designed to express how the Sumitomo Forestry Group operates its businesses in consideration of the Earth's environment. The event space created a world of wooden goodness that could only come from Sumitomo Forestry, expressed by such installations as *Kikorin's Forest*, with a globe motif, and *Kikorin's House*, constructed with the actual materials used to build *Sumitomo Ringyo no Ie* (Sumitomo Forestry Home) houses. Photo galleries of the endangered plant and animal species living in Company-owned forests and introduction of the Company's efforts to protect ecosystems emphasized the Company's vision of growing our businesses while preserving biodiversity. More than 9,000 people, including students and the general public, visited the event.

Also in fiscal 2009, the Fourth Annual Summer Ecology School for Families, sponsored by the Asahi Shimbun newspaper and co-sponsored by Sumitomo Forestry, was held at the National Children's Castle in Tokyo's Shibuya Ward. The school was attended by 245 families (545 people) selected from 2,040 applicants. The selected families learned nature crafts, participated in challenging eco-quizzes and made models of eco-homes. Sumitomo Forestry employees, appearing as "forest professors" and "home and town professors," explained the importance of forests and the appeal of wood in an entertaining way.

## ● Evaluation by Society

### Sumitomo Forestry's Corporate Advertising Wins Awards

The “Friends of the Earth: *Kikorin's House*” execution of the fiscal 2009 corporate advertising campaign was awarded a bronze medal at the 33rd Yomiuri Housing and Life Advertising Pateo Awards. The awards were established by The Yomiuri Shimbun in 1977 to recognize development in housing-related industries and related advertising activities. The awards are characterized by the total evaluation by noted representatives of different fields of the advertising related to housing and living placed in The Yomiuri Shimbun, the company's product planning and marketing activities, as well as the corporate vision behind it. The Group's advertising was evaluated for “Communicating the company's approach to the environment in a clear and easy-to-understand manner.”

The fiscal 2009 corporate advertising campaign featuring the *Kikorin* mascot, “Forests from Volcanoes?” (Mt. Bromo Plantation Project), won a best-in-category award in the 77th Mainichi Advertisement Design Competition. Sponsored by the The Mainichi Newspapers, the award is one of Japan's most prestigious domestic newspaper advertising awards, having been established in 1931 as part of activities to promote both art and business under the slogan, “Promoting craft and integrating the arts and industry.” The Group's advertising was selected from among 159 entries of advertising placed in The Mainichi Newspapers.



“Friends of the Earth:  
*Kikorin's House*”



“Forests from Volcanoes?”  
(Mt. Bromo Plantation Project)

### The 3<sup>rd</sup> Annual Kids Design Award

Sumitomo Forestry's *Ryouonbou* design concept was awarded the Kids Design Award in the Architecture and Space Design category of the 3<sup>rd</sup> Annual Kids Design Awards sponsored by the non-profit organization, Kids Design Association. The judges commented, “The *Ryouonbou* concept of cooling and heating provides opportunities for parents and children to implement the lifestyle in their own homes.” The *Ryouonbou* design concept, which utilizes natural energy and expresses the four seasons in a home, was evaluated for its contributions to improving the safety, security, and healthy growth and development of children.



KIDS DESIGN AWARD 2009



## ● Social Contribution through Core Businesses

### Policy on Social Contribution Activities

Sumitomo Forestry believes that it is important to utilize its technology and knowledge to contribute to the sustainable utilization of timber resources and local community development, as well as protect our abundant forests into the future. With these aims, the Company is engaged in a wide variety of social contribution activities.

Raising awareness about forests to a larger segment of society is particularly important to their preservation. This motivates Sumitomo Forestry to dedicate resources to environmental education such as lectures at elementary and middle schools, as well as on-site training at Company-owned forests. The Company is also actively involved in restoring forests damaged by disaster.

Sumitomo Forestry also supports volunteer activities undertaken by individual employees to create a workplace environment that encourages people to contribute to their local communities.



I would like Sumitomo Forestry to take the lead in social activities closely oriented to the local community.  
(Employee)

### Forester House

Sumitomo Forestry has been presenting its initiatives in sustainable forestry to the general public for over 100 years, and in line with that tradition, it opened the Forester House in 1993. Located in the Company-owned forest in the Besshiyama area of Niihama City, Ehime Prefecture, the facility serves as a focal point in the Company's efforts to share information on the uses of forests and forestry.

The Forester House was founded to commemorate the centenary of the large-scale reforestation plan initiated in 1894 by Teigo Iba, the manager of the Sumitomo Besshi Copper Mine and later the second Director General of Sumitomo. Among the exhibits, which were updated in 2005, Georama installations illustrate the stages of forestry from tree planting to logging, a gallery displays images of Company-owned forests, and other exhibits portray the history of Sumitomo Forestry and its environmental initiatives.



The Forester House

The facility is used as a base for walks in the forest, nature observation and environmental education. It attracted 3,425 visitors in fiscal 2009, and is also used for the Company's employee training programs. Looking forward, we plan to enhance activities at the Forester House so that even more people can make use of it, while continuing to employ the facility as a base for sharing information.

### Mt. Fuji *Manabi no Mori* Project

Sumitomo Forestry launched the Mt. Fuji *Manabi no Mori* natural forest restoration project in 1998 to contribute to local communities by repairing the severe damage caused by Typhoon Violet in 1996 to forests south of Mt. Fuji. The Company received a broad range of advice from a steering committee made up of representatives from the local government, NPOs, academics, and media organizations. Major tree-planting activities have been completed, and the Company continues its cultivation activities such as clearing away underbrush.

Under the project, the Environmental Education Program for local elementary and middle school students was launched in fiscal 2006, and continued in collaboration with the NPO, Whole Earth Nature School. The program allows children to experience Mt. Fuji's natural environment and improve their understanding of nature in an entertaining way by exploring *Manabi no Mori*, looking for wildlife, listening for characteristic birdsongs, observing the ecology of trees and wild grasses, and participating in active nature-related games. The Mt. Fuji *Manabi no Mori* Project also features the Forest Ark, a facility that provides visitors with the opportunity to observe environmentally friendly technologies such as solar and wind generating systems, a bio-toilet, and a pellet stove. A total of 573 students participated in the program in fiscal 2009.



Environmental Education Program

The Company also began a nature experience program in fiscal 2007 for children living in an orphanage. In fiscal 2009, 12 children participated, enjoying a refreshing day in the forest.

Along with these programs, the Mt. Fuji *Manabi no Mori* project offers support in training local human resources to promote environmental education. The Company is also working to determine the effectiveness and impact of its restoration activities through participation in research, including vegetation monitoring programs and wildlife habitat surveys by specialists, as well as basic research on forest utilization and conservation.

These activities have been highly commended for their significant contribution to environmental protection at Mt. Fuji, and led to Sumitomo Forestry winning the Mt. Fuji Charter Performance Awards.



I hope more children living in cities are given the chance to experience such programs as the *Manabi no Mori* Environmental Education Program. (Customer)

## Conservation of Tokyo Headwater Forests

As part of its efforts to support employees' volunteer activities, since April 2005 Sumitomo Forestry has provided assistance for employees participating in the Tamagawa Suigen Shinrintai (Tama Riverhead Forest Region), sponsored by the Tokyo Metropolitan Bureau of Waterworks.

## Collaborating with Educational Institutions

Dr. Nasu (PhD, Engineering), deputy general manager of the Housing Division, presented “Collaboration between Sweden and Japan on Wood Construction Technology,” an overview of joint research conducted over a two-and-a-half year period with the SP Technical Research Institute of Sweden in November 2009 at the Architectural Structure: The Future and Issues sponsored by Meiji University. The symposium explored the future of Japan's architectural structures, building materials, and building techniques while providing comparisons with global technological levels.

In May 2010, Dr. Nasu guest-lectured at the Tokyo Institute of Technology on the topic “Wooden Construction in Europe and Japan,” presenting case studies of the Company's Big Frame construction method and the development of European wooden construction.

These lectures are based on the Big Frame-Euro Joint Research, which was conducted at the invitation of the Royal Sweden SP Research and Development Agency, and consisted of basic research and technology sharing that resulted in the construction of a student dormitory. This joint research program has also been featured on the NHK program, “Save the Future.”

Like Japan, Sweden is blessed with forest resources and makes proactive use of them. In order to contribute to the prevention of global warming, Sweden is engaged in a number of projects to expand the use of wood construction as a matter of governmental policy. The BF construction method offers safety, versatility, and freedom of interior space layout, and is perfectly matched to the European culture of caring for and living in buildings for the long term, and is recognized as a new construction technology for wooden houses in Sweden.



Dr. Nasu presenting at the Meiji University Symposium



Student dormitory built using BF construction method (Skellefteå City, Sweden)

## Disseminating Information at Symposia and Other Events

Sumitomo Forestry actively sponsors lectures to offer the knowledge and experience it has gained for the benefit of society.

In fiscal 2009, as interest in biodiversity is increasing due the 10<sup>th</sup> Convention of the Parties of the Conference on Biodiversity being convened in Nagoya, Sumitomo Forestry was an exhibitor at the Biodiversity Expo 2010 sponsored by the Ministry of the Environment held at the Marine Messe Fukuoka in February 2010 and at the Osaka International Convention Center in March 2010. The Company's exhibit introduced its efforts to preserve biodiversity including the endangered species in Company-owned forests.

At the Biodiversity and Business Opportunity panel discussion held on the opening day of the expo in Fukuoka, the general manager of the Environmental Solution Department at the time presented a case study of Sumitomo Forestry's efforts to preserve biodiversity at its large-scale commercial forest plantation in Indonesia.



Sumitomo Forestry's booth

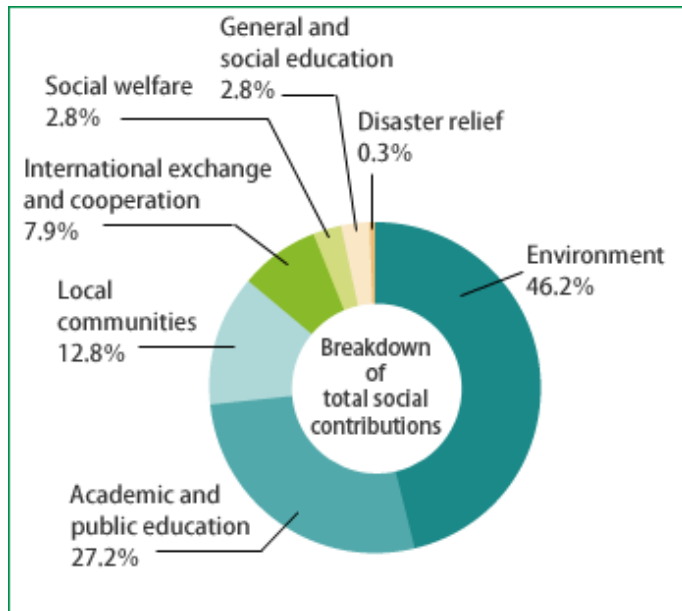


Panel discussion

▶ Initiatives to Preserve Biodiversity(P.59)

## Funds Allocated to Social Contribution Activities

■ Funds Allocated to Social Contribution Activities (fiscal 2009)



## Reforestation Project in Indonesia's Bromo Tengger Semeru National Park

In November 2008, Sumitomo Forestry began working with the Republic of Indonesia's Ministry of Forestry to carry out a reforestation project on approximately 1,000 hectares in Bromo Tengger Semeru National Park in East Java. This project aims to obtain United Nations accreditation as a clean development mechanism (CDM) project.

Regarded as one of Indonesia's most famous tourist attractions, the national park is situated at a high altitude and centered on Mt. Bromo, which is considered a Hindu holy site by the indigenous Tengger tribe. Repeated forest fires and sulfur dioxide gas emitted by Mt. Bromo, however, have devastated the forests, making their recovery extremely difficult.

After the project start, saplings were prepared, roads repaired, and in January 2009 tree planting began. To date, 171 hectares of land have been planted with trees. Going forward, the project will continue to expand the land area under reforestation as well as nurturing the trees already planted.

Forests absorb CO<sub>2</sub> but also cultivate water resources, prevent landslides, provide recreation areas, and maintain and protect biodiversity. Plantation forest operations help recover these functions and will result in the return of precious and vital forests in the national park and for the local peoples. Thus, the project proactively employs local peoples, encourages local school children to get involved with plantation activity, and deploys specialist experts to comprehensively study the effects of plantation activity on biodiversity.



Plantation lands



Biodiversity survey



## Managing the Daigoji Temple Garden

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Since 1998, Sumitomo Forestry Landscaping Co., Ltd. has maintained the expansive landscape of the Daigoji Temple—designated as a World Heritage Site—located in Kyoto's Fushimi Ward. The temple's garden, which has ponds and waterfalls around its Sarasvati Hall, has been damaged by pond water that has leaked and become buried in sediment, and by overgrown trees. The Company restored and replaced the waterfalls, reinforced small waterfalls and streams, built up the banks of the ponds to prevent leakage, improved the pond bottoms and carried out water-resistance work. Moreover, Sumitomo Forestry Landscaping restored the landscape in consideration of the overall scenery—the temple's bell towers, main lecture hall and Sarasvati Hall against the backdrop of a mountain and deciduous trees renowned for their colorful leaves in autumn—to reflect past sensibilities and create a sense of gentle calm and relaxation. Completed in November 2008, the garden was named the Rinsen Muryo Jyuen.



Before restoration



After restoration

## Other Social Contribution Activities

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### Policy on Social Contribution Activities in Sites Outside of Japan

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As a good corporate citizen, and guided by “Our Values and Ideals,” Sumitomo Forestry is committed to actively contributing to community development, in consideration of local conditions and with an understanding of local cultures and traditions.

### KTI Educational Foundation

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To commemorate the 30th anniversary of its founding, Sumitomo Forestry Group company PT. Kutai Timber Indonesia (KTI) established the KTI Educational Foundation in 2000 to provide scholarships to elementary and middle school students living in the vicinity of the KTI plant and plantation forests. The Foundation also provides relief donations for natural disasters such as earthquakes and floods.

In fiscal 2009, the Foundation provided 36,000,000 rupiah (approximately 290,880 yen) to 44 elementary school students and seven high school students.



## Support for Regional Environmental Conservation Efforts through the Sumitomo Forestry School of Professional Building Techniques

Beginning in fiscal 2006, the Sumitomo Forestry School of Professional Building Techniques participated in a local citywide cleanup program to remove illegally dumped rubbish, organized by the Yotsukaido Cleanup Association. Participation, which was part of orientation for new students, was intended to give school students the opportunity to consider waste-related issues, as well as encourage volunteer activities and foster positive attitudes among these builders of the future, and give back to the local community. In April 2010, following welcoming remarks by the director of the environmental economy department of the City of Yotsukaido, 36 participants carried out cleanup activities.



Clean-up activities

## Contributions to Public Policy

As an active member of the Social Capital Organizational Deliberation Council, Sumitomo Forestry offers suggestions regarding legislation such as the Building Standards Act, the Kenchikushi Law for Architects & Building Engineers, the Building Judiciary Designated Housing Defect Collateral Execution Law, and the Excellent Long-term Housing Promotion Act.

In July 2008, Sumitomo Forestry became a founding member of the Committee for the Promotion of High-Quality Housing Stock, recognizing the growing urgency to develop systems for residential construction that can be used successively by multiple generations while retaining asset value. To ensure the longevity of houses, owners face the financial burden of regular inspections and maintenance. Accordingly, the Association revised the assessment methodology used by real estate transaction companies when a house is resold, devising a scheme that accounts for the appropriate maintenance of a house in its appraisal value. Sumitomo Home Services Co., Ltd., a Group company in the real estate agency business, has adopted this system for its Sumitomo Forestry Home houses.



Stakeholder  
Comment

I expect the company to carry on the ambitions that motivated its founding, protect and cultivate Japan's beautiful forests, and pressure the government to raise the proportion of wooden constructions. (Employee)

## Investment to Realize a Sustainable Society

### Support for the Fund to Continue the Activities of Small and Medium-Scale Corporations in the Housing and Related Industries

Sumitomo Forestry contributes to the Fund to Continue the Activities of Small and Medium-Scale Corporations in the Housing and Related Industries, which provides assistance to companies that possess proprietary technology but face operational difficulties due to the absence of a successor to take over from the current head. Leveraging the network and expertise that Sumitomo Forestry has built up over many years, companies in which the fund invests can take advantage of the resources needed to tackle succession issues and support new business development.

### SRI through Corporate Pension Funds

Socially responsible investment (SRI) funds have attracted considerable attention recently as an investment approach that emphasizes environmental considerations and socially oriented activities.

Reflecting the Company's commitment to CSR and recognition of the social significance of this investment approach, the corporate pension fund that manages Sumitomo Forestry's pension plan has invested 600 million yen in SRI funds from the plan's assets, which totaled 41.48 billion yen as of March 31, 2010.

## Environmental Vision

To step up its efforts for addressing environmental issues, the Sumitomo Forestry Group revised its Environmental Philosophy and Environmental Policies in October 2007, and presented them more clearly and coherently.

### Environmental Philosophy and Environmental Policies

#### Environmental Philosophy

With many years of practical experience in silviculture, Sumitomo Forestry Group has an appreciation of the wonderful renewable resource that forests represent and the benefits that nature provides. Environmental protection is imperative in the 21st century. As a corporate group with a close affinity with nature, we are aware of the potential impact of our activities on the environment, and we contribute to society through the vigorous pursuit of business operations in harmony with conservation principles.

#### Environmental Policies

As a positive contribution to the creation of a sustainable society that achieves a balance between the environment and economy and gives due consideration to such issues as biodiversity and the prevention of global warming, the Sumitomo Forestry Group shall ensure conformance of its business operations to the following policies.

**1. Develop a business domain centered on trees and wood**

Cultivate forests as a way to preserve and enhance natural environments and forest functionality while seeking to actively utilize those timber resources.

**2. Develop and sell environmentally friendly products**

Pursue the development, design and sale of products and technologies that are environmentally superior in terms of the entire product lifecycle.

**3. Minimize environmental impact**

Make efforts to prevent environmental pollution through accurate assessment of direct and indirect influences on the environment; promote green procurement of timber and other building materials and green purchasing of office products and other goods; and, achieve and maintain zero emissions through proper waste treatment and 3R (reduce, reuse, recycle) initiatives.

**4. Make ongoing improvements to environmental activity and the environmental management system**

Establish environmental budgets to ensure implementation of the Environmental Policies, and make ongoing improvements to environmental budgets and the environmental management system through reviews conducted at least once a year.

**5. Ensure strict legal compliance**

Adhere to all environmental laws, rules and regulations, voluntary standards, accords with stakeholders and other environmental conventions.

**6. Promote environmental education**

Provide environmental education for all people involved in the business operations of the Sumitomo Forestry Group and encourage voluntary environmental activities.

**7. Place emphasis on communication**

Actively disclose information and respect the opinions of stakeholders while pursuing environmental initiatives.

## 8. Publicly disclose and ensure implementation of the Environmental Policies

Make the Environmental Policies available to the general public and ensure familiarization with the policies by all people involved in the business operations of the Sumitomo Forestry Group.

Akira Ichikawa  
President and Representative Director  
(Revised April 1, 2010)



Stakeholder  
Comment

It is important that Sumitomo Forestry effectively communicates its vision to society. (Expert)

## Implementing the Medium-Term Environmental Management Plan

In December 2009, the Sumitomo Forestry Group set forth the Medium-Term Environmental Management Plan, including specific guiding principles and targets for the Group's environmental management going forward, replacing the previous plan that was established in December 2005.

The plan takes the medium-term perspective, examining specific quantitative targets to define the vision of where Sumitomo Forestry should be in five years' time, setting out shared targets for the Group as well as targets for each division, and major affiliated companies.

Measures to achieve the targets are set forth by various perspectives: product (customer), business process innovation (internal, business partners), human resource development (employees, business partners), communication (industry, general public), etc. By advancing efforts to achieve the targets below, the Group will realize true environmental management.

■ Medium-Term Environmental Management Plan (Excerpt of Major Objectives)

Unit	Responsible	Area of Environmental Impact	Basic Strategy (Objectives)	Evaluation Metrics / Targeted Values	FY2009 Results	FY2014 Targeted Values
Sumitomo Forestry Group (shared targets)	Environmental Management Department	Global warming	Reduction of CO2 emissions(Offices)	Percentage of reduction of total CO2 emissions compared with FY2006 (%)	-11.5%	-12% (2010 target value continues)
			Reduction of CO2 emissions(Plants in Japan)	Percentage of reduction of CO2 emissions per base unit compared with FY2006 (%) *The base unit is set separately for each plant.	-	-8%
				Percentage of reduction of total CO2 emissions compared with FY2006 (%)		
				Guidelines for capital investment and emission volume transactions		
				Former Sumitomo Forestry Crest Co., Ltd. (four plants)	-13.2%	-10%
				Former Toyo Plywood Co., Ltd. (three plants)	-29.4%	-20%
			Sumirin Agro-Products Co., Ltd.	-11.3%	-10%	
	Reduction of CO2 emissions(Plants outside Japan)	Set for each plant in consideration of national policy on CO2 reduction targets, etc., in each country.				
Environmental Management Department	Resource consumption, Resource recycling, Industry waste products	Achievement of zero emissions	Do not simply dispose of industrial waste generated by domestic manufacturing facilities, as well as new construction sites through simple incineration or landfill.	-	Achieve zero emissions in the capital area (by December 31, 2012)	
Forestry Department	Forestry Department	Resource consumption, Resource recycling, Biodiversity, others	Promotion and expansion of sustainable forests	Percentage of certified forests in newly acquired forests managed by the Group	100%	100%
		Biodiversity, Others	Establishment of forestry management that enables both preservation and conservation of biodiversity and forestry businesses	<ul style="list-style-type: none"> <li>Implement monitoring surveys in Company-owned forests (Collect and review fundamental materials: 2008-2011).</li> <li>From 2012, set specific numeric targets by region based on comparative analysis of data collected.</li> </ul>	2 out of 4 locations	4 out of 4 locations Set specific numeric targets from 2012.

Unit	Responsible	Area of Environmental Impact	Basic Strategy (Objectives)	Evaluation Metrics / Targeted Values	FY2009 Results	FY2014 Targeted Values
Timber & Building Materials Division and Major Affiliated Companies	Forest Products Trading Department	Resource consumption, Biodiversity	Increase sustainable timber handled	Percentage of certified timber handled and percentage of plantation timber handled.	Products 92.5%	Products 95%
	Building Materials Department	Global warming, Resource consumption, Resource recycling	Increase utilization of environmentally friendly building materials	Volume of environmentally friendly building materials handled	5,046 EcoCute units	6,000 EcoCute units
	Sumitomo Forestry Timberland Management Co., Ltd.	Resource consumption, Global warming	Promote use of domestically grown timber	Volume of domestically grown timber handled	Logs 419,000 m <sup>3</sup> Lumber 235,000 m <sup>3</sup>	Logs 1,300,000 m <sup>3</sup> Lumber 500,000 m <sup>3</sup>
	Sumitomo Forestry Crest Co., Ltd. (Komatsushima plant)	Resource consumption, Global warming	Promote use of sustainable timber	<ul style="list-style-type: none"> <li>Percentage of domestic timber used</li> <li>Carbon Footprint (CFP) display</li> </ul>	71.3% Launched CFP display on domestic plywood	95% Display CFP on all products
Overseas Business Division and Major Affiliated Companies	Overseas Business Division	Resource consumption, Resource recycling, Biodiversity	Expand use of sustainable raw materials * Sustainable raw materials: plantation timber, certified timber, waste wood	Percentage of sustainable timber used for raw materials	91%	100%
		Resource consumption, Resource recycling, Living environments (others)	Promote environmentally friendly housing	Percentage of houses sold that meet environmental standards (number of units)	Percentage : 67% (72 units)	Percentage : 90% (495 units)
Housing Division and Major Affiliated Companies	Building Materials Procurement & Logistics Department	Global warming, Resource consumption, Resource recycling, Others	Promote and expand usage of domestic timber	Percentage of domestic timber used in all products (base: volume of all timber used)	63.6%	70%
	Technology Department					
	Marketing Strategy Department					
	Sumitomo Forestry Landscaping Co., Ltd.	Biodiversity, Living environments (residential landscaping)	Promote residential landscaping that is friendly to biodiversity	Number of native plants used	17,753	35,000



Unit	Responsible	Area of Environmental Impact	Basic Strategy (Objectives)	Evaluation Metrics / Targeted Values	FY2009 Results	FY2014 Targeted Values
Real Estate Business Division and Major Affiliated Companies	Residential Property Development Department	Resource consumption, Resource recycling, Global warming	Promotion of environmentally symbiotic property development	Percentage of housing units using next-generation energy-conservation standards (Base: construction starts)	34%	100%
	Sumitomo Forestry Home Service Co., Ltd.	Resource consumption, Resource recycling, Industrial waste	Promotion of re-use of housing	Number of SumStock house transactions	9 units	12 units

## Fiscal 2009 Activity Plans and Results

### ● Fiscal 2009 Activity Plans and Results

#### ■ Reducing CO2 Emissions

☆☆:Target Achieved ☆:Target Almost Achieved ×:Target Not Achieved

Key Initiatives	FY2009 Plan	FY2009 Results	Self-Assessment	FY2010 Plan	Unit
Reduction of CO2 emissions	<p>By the end of fiscal 2010, compared to fiscal 2006</p> <ul style="list-style-type: none"> <li>• Offices: Reduce total emissions by 12%</li> <li>• Plants in Japan: Reduce emissions per sales unit by 5%</li> <li>• Plants outside of Japan: Reduce emissions per sales unit by 20%</li> </ul>	<ul style="list-style-type: none"> <li>• Offices achieved a significant reduction of 11.5% compared to base year.</li> <li>• Re-evaluation of the targets for plants in Japan and overseas was conducted in December 2009 due to the difficulty in ascertaining the actual status of reduction efforts as a result of the use of net sales as the base unit, which is easily impacted by the effects of economic recession.</li> </ul>	×	Continue efforts under the new CO2 emissions reduction targets in FY2010. Especially at plants in Japan and overseas, implement target management using indicators that allow easier discovery of the status of reduction activities.	Group
	Reduce total emissions by 2.4% compared with FY2006.	Switched to energy-saving lighting in showrooms and model homes and use of fuel-efficient Company-owned vehicles. As a result, a large decrease in CO2 emissions of 9.5% compared with FY2006 was achieved.	☆☆	Continue efforts to reduce consumption of electricity and gasoline.	Housing Division
Introduction of LCA	Visualization of CO2 emissions volume through LCA	Started display of carbon footprint on particleboards manufactured.	☆☆	Conduct LCA surveys, and revise carbon footprint.	RPI

■ Zero Emissions

Key Initiatives	FY2009 Plan	FY2009 Results	Self-Assessment	FY2010 Plan	Unit
Attainment of zero emissions	Continue efforts to reach zero emissions by March 2010 for plants, new housing construction sites, etc.	<ul style="list-style-type: none"> <li>Targets were not achieved due to insufficient recycling routes, despite zero emissions efforts undertaken at each facility generating industry waste.</li> <li>Examined the zero emissions effort, reevaluated the definition and scope of zero emissions as it should be undertaken by the Group.</li> </ul>	☆☆	Continue efforts to achieve zero emissions at domestic manufacturing units and new construction sites based on the scope and definition of zero emissions as reevaluated in FY2009.	Group
	Carry out initiatives to achieve zero emissions with a recycling rate of 98%.	Despite efforts at each branch, target was not achieved.	☆☆	Consider drastic measures including use of an inter-region recovery and recycling certification system.	Housing Division
	Engage in zero emissions efforts with a target of 98% recycling overall at four plants.	Target achieved through visualization of separation of management, and implementation of environmental education, which raised consciousness of industry waste management.	☆☆☆	Endeavour to achieve zero emissions at all plants, despite increase in number of plants to be managed due to merger with former Toyo Plywood Co., Ltd.	Sumitomo Forestry Crest Co., Ltd.
Re-use of waste materials	Develop and manufacture roadbed materials from incinerator ash.	Launched full operations of roadbed material manufacturing business, achieved target production volumes.	☆☆☆	Increase production volume through improvements to the roadbed material press machines.	RPI
Promotion of recycling	Reduce pellet purchases to zero through effective use of offcuts from PB and MDF.*	Target of zero pellets purchased achieved.	☆☆☆	Continue effective use of offcuts in pellets, etc.	ASTI

\* PB: Particleboard

MDF: Medium Density Fiberboard

■ Sustainability of Timber Resources

Key Initiatives	FY2009 Plan	FY2009 Results	Self-Assessment	FY2010 Plan	Unit
Promotion of green procurement	Confirm legal compliance of all suppliers outside Japan, continuing on from FY2007.	Conducted investigations and confirmed compliance for all timber and wood products directly imported from overseas suppliers.	☆☆	Maintain 100% level of compliance for all directly imported timber and wood products handled by the Group.	Timber & Building Materials Division
	Ensure 100% of manufacturers comply with green procurement guidelines.	Conducted investigations and confirmed compliance with green procurement guidelines when setting all new designated materials.	☆☆	Maintain 100% compliance by conducting investigations each time new designated materials are set.	Real Estate Business Division
Sustainable timber and certified timber initiatives	Increase percentage of imported plywood made from certified and plantation timber to 35% or more of total imported plywood volume.	While the utilization ratio increased as customer awareness of certified and plantation timber grew, achievement fell short of target.	☆	Work to increase percentage of imported plywood made from certified and plantation timber to 50% of total imported plywood handled.	Timber & Building Materials Division
	Increase share of certified and plantation timber used in all products to 91% of log transactions.	Increased share of certified and plantation timber used in all products to 96% of total volume of log transactions.	☆☆	Maintain share of certified and plantation timber used in all products at 96% of total log transactions.	Kowa Lumber Co., Ltd.

■ Preserving Biodiversity

Key Initiatives	FY2009 Plan	FY2009 Results	Self-Assessment	FY2010 Plan	Unit
Preserving biodiversity	Set plans for monitoring of biodiversity and conduct surveys.	Conducted and completed monitoring surveys at Company-owned forests in Hyuga.	☆☆	Conduct monitoring surveys at Company-owned forests in Hokkaido.	Forestry Department

■ Management of Hazardous Materials

Key Initiatives	FY2009 Plan	FY2009 Results	Self-Assessment	FY2010 Plan	Unit
Comprehensive soil contamination countermeasures	Strict enforcement of soil contamination countermeasure rules when land is acquired.	Confirmed no soil contamination at time of land acquisition. Soil contamination countermeasure rules revised to address both Company and Joint Venture properties.	☆☆	Continue strict enforcement of soil contamination countermeasures in accordance with revised soil contamination countermeasure rules.	Real Estate Business Division
Strict management of hazardous materials	Regularly confirm appropriate handling of chemicals and reagents.	Zero incidents	☆☆	Continue zero incidents related to handling of chemicals and reagents.	Tsukuba Research Institute
Reduction of emissions of toxic chemicals	Reduce emissions of chemical substances stipulated by the Pollutant Release and Transfer Register Law.	None of the three plants achieved target due to technological difficulties.	×	Continue efforts to reduce emissions of chemical substances stipulated by the Pollutant Release and Transfer Register Law through changes in the production lines, etc.	Former Toyo Plywood Co., Ltd.

■ Effective Use of Water Resources

Key Initiatives	FY2009 Plan	FY2009 Results	Self-Assessment	FY2010 Plan	Unit
Reduction of industrial water used	Achieve a 6% reduction in the amount of industrial water used per base unit of manufacturing volume, compared with FY2008.	Reduced 12% of total industrial water used compared with FY2008, due to the reduction of industrial water related to waste water treatment.	☆☆	Advance the plan even further and achieve a 6% reduction compared with FY2009.	Former Toyo Plywood Co., Ltd.

■ Environmental Management

Key Initiatives	FY2009 Plan	FY2009 Results	Self-Assessment	FY2010 Plan	Unit
Enhancement and promotion of environmental education	Implement education programs that explain the importance and structure of the Group's environmental management system for mid-career hires, aiming to increase environmental consciousness.	Implemented environmental education programs for all mid-career hires.	☆☆	Continue environmental education programs for mid-career hires.	Personnel Department

■ Research and Development

Key Initiatives	FY2009 Plan	FY2009 Results	Self-Assessment	FY2010 Plan	Unit
Development of environmentally symbiotic technology	Through the effective use of natural energy, propose housing with low environmental impact.	Progress was made in several areas but overall progress was 67% of target.	☆	Continue research and development activities in each area.	Tsukuba Research Institute
Reduction of environmental impact of housing	Propose energy-independent housing.	Proof of concept and testing of residential storage battery systems.	☆☆	Continue research.	Housing Division

■ Promotion of Environmental Businesses

Key Initiatives	FY2009 Plan	FY2009 Results	Self-Assessment	FY2010 Plan	Unit
Effective utilization of used activated carbon from water purification plants	Achieve 2% increase in the amount of used activated carbon utilized, compared to previous year.	<ul style="list-style-type: none"> <li>3% reduction compared to previous period, target not achieved.</li> <li>Applied for a patent for research results from joint research conducted with Tokyo Metropolis.</li> </ul>	×	Commercialize products that utilize used activated carbon, such as landscaping soil and soil improvement materials, expand routes to market, and aim for 2% increase of the amount used compared to the previous year.	Sumirin Agro-Products Co., Ltd.
Effective use of wood leftover from logging	Sale of furniture made from timber from forest thinning in Monbetsu, Hokkaido.	Achieved 66% of target sales volume.	×	Expand sales proactively to major interior design fairs held across the nation.	Housing Division

■ Environmental Activities in Offices

Key Initiatives	FY2009 Plan	FY2009 Results	Self-Assessment	FY2010 Plan	Unit
Reduction of environmental impact of offices (green purchasing, etc.)	Each unit to set and achieve percentage targets for green purchasing.	The Group's overall green purchasing ratio was 67.6%.	—	Each unit to set targets and continue efforts to increase green purchasing.	Group



## ● Initiatives at Group Companies: Sumitomo Forestry Landscaping Co., Ltd.

Sumitomo Forestry Landscaping Co., Ltd. has set many environmental targets directly linked to its business activities, as well as sharing the Sumitomo Forestry Group's targets of CO<sub>2</sub> emission reduction and achievement of Zero Emissions. In fiscal 2009, Sumitomo Forestry Landscaping achieved 26 out of 38 targets.

As specific examples, the Residential Landscaping Department promoted landscaping as part of housing exterior construction projects, identified the number of native trees as a first step to preservation of biodiversity, and launched the “Harmonic Plants™” line of biodiversity-friendly plants for landscaping. In addition, the Materials Department promoted the sale of ecologically friendly products made from recycled materials, worked to confirm legal compliance of all wooden materials used, and achieved targets. The Environmental Landscaping Department and Ai-Green Department, as part of strict enforcement of handling of hazardous materials, conducted research into methods of reducing agricultural chemical usage, and worked to increase the share of non-agricultural-chemical agents sprayed on plants, etc.

In fiscal 2010, the tenth meeting of the Conference of the Parties (COP 10) to the Convention on Biological Diversity will be convened in Nagoya and biodiversity is receiving an increasing amount of attention. The Company will also actively endeavor to set and achieve biodiversity targets such as increasing the share of native plants used in residential landscaping projects.



Sumitomo Forestry Landscaping Co., Ltd. Safety  
and Environment Promotion Department, General  
Manager  
**Kazushige Hiryama**

## ● Fiscal 2009 Activity Plans and Results

Sumitomo Forestry calculates and publicizes the costs and benefits of its environmental conservation activities to promote environmentally sound management.

\* The basis of calculation includes Sumitomo Forestry on a non-consolidated basis and certain affiliated companies.

### ■ Environmental Protection Costs

Unit: Million Yen

Cost Category		Main Activities	Cost
1. Operations costs	Pollution prevention costs <sup>1</sup>	Soil contamination countermeasures	11
	Global environmental protection costs <sup>2</sup>	Sustainable forestry cultivation	562
		Overseas reforestation consultancy	32
	Resource recycling costs <sup>3</sup>	Promotion of appropriate treatment, reduction, and recycling of industrial waste	3,504
		Waste woodchip distribution operations	165
		Environment-related business (such as potting mix using sediment from water purification plants)	597
2. Management activity costs <sup>4</sup>	Operation and promotion of environmental management (ISO 14001 certification, etc.)	32	
	Disclosure and administration of environmental information (Environmental and Social Report, environment-related advertising, environment-related exhibitions, etc.)	1,198	
	Green procurement and green purchasing	205	
	Deliberation on methods for reducing CO2 emissions using LCA	13	
	Environmental education	7	
3. R&D costs <sup>5</sup>	Research and development activities related to environmental conservation	413	
4. Social contribution costs <sup>6</sup>	Management and operation of Mt. Fuji <i>Manabi no Mori</i>	27	
	Management and operation of Forester House	13	
	Participation in other social contribution activities	2	
	Grants to the Keidanren Nature Conservation Fund, etc.	2	
Total			6,784

1 Pollution prevention costs: Consultancy fees for soil contamination countermeasures, and expenditures on soil contamination inspections.

2 Global environmental protection costs: Expenditures for preservation and management of Company-owned forests to foster sustainable forestry, and expenditures in Japan and overseas relating to Indonesian reforestation consultancy.

3 Resource recycling costs: Expenditures on waste wood distribution operations and sorting, recycling, appropriate treatment, transportation and management of construction waste, as well as costs incurred in the potting mix business.

4 Management activity costs: Office expenses and auditing costs relating to maintenance of ISO 14001 certification; expenditures relating to disclosure of environmental information through advertising, environment-related exhibitions and the Environmental and Social Reports; expenditures relating to lectures on environmental education; and costs for life cycle assessment inspections.

5 R&D costs: Expenditures for environment-related research conducted at the Tsukuba Research Institute, and expenditures for outsourced research and development by each division.

6 Social contribution costs: Expenditures related to operating the Mt. Fuji *Manabi no Mori* natural forest restoration project; expenditures related to maintaining and operating Forester House; expenditures related to other social contribution activities; and grants to the Keidanren Nature Conservation Fund and other contributions.

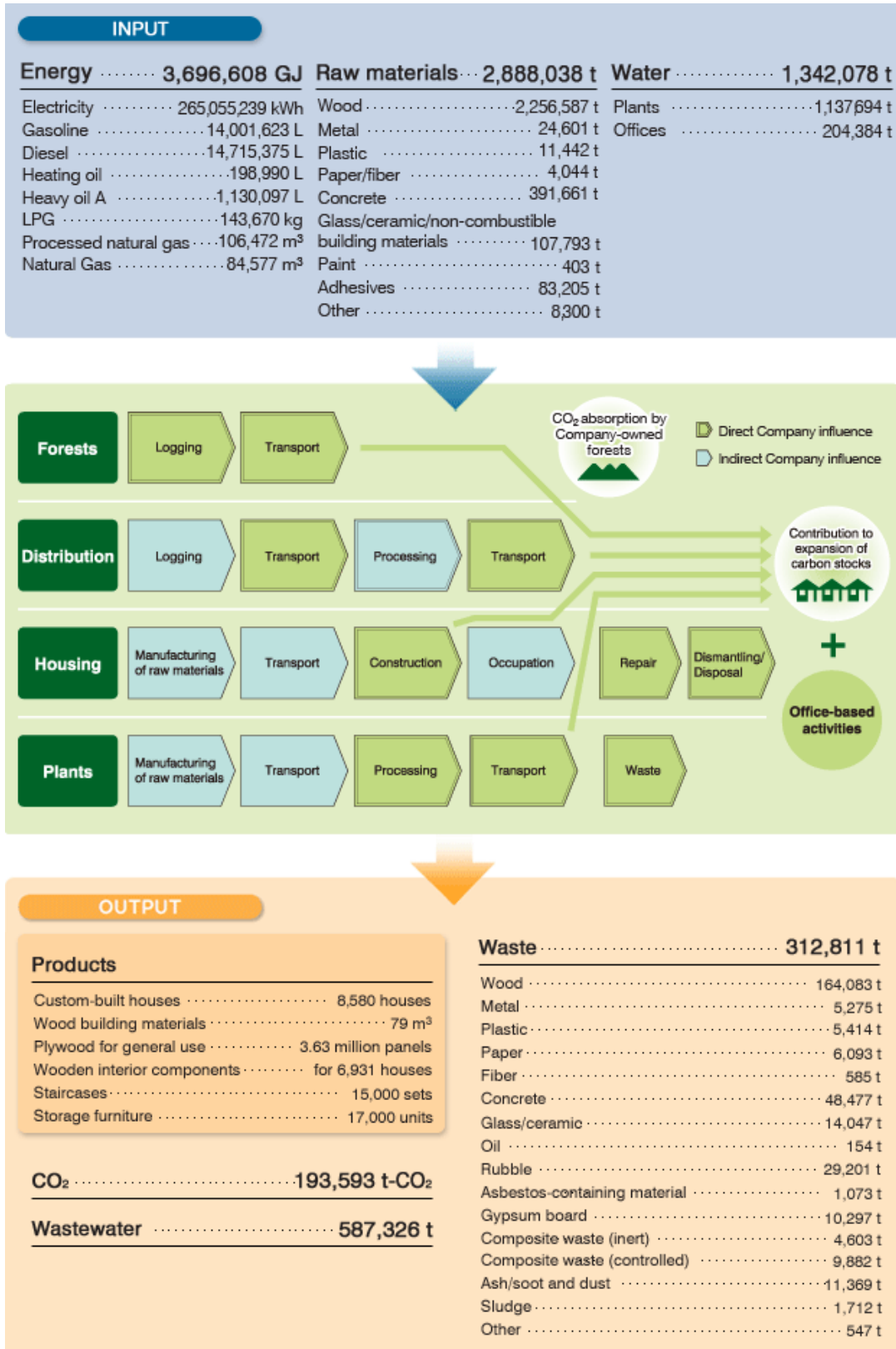
■ Environmental Benefits

Category	Description	Results
1. Benefits from Operations Costs	Volume of recycled waste wood from distribution operations (converted into chip equivalents)	815,181 m <sup>3</sup>
	Volume sold of potting mix using recycled sediment from water purification	24,600 tons
2. Benefits from Management Activity Costs	Employees designated as internal environmental auditors	66 people
3. Benefits from Research and Development Costs	Sales of environmentally sound plywood <i>KIKORIN-PLYWOOD</i>	–
	Three MyForest models, including <i>MyForest-Taiju</i> , were selected as Excellent Long-term house Leading Model Projects, continuing an achievement from FY2008	–
	Successful propagation of camellia trees at Reiganji Temple in Kyoto and <i>sasanqua</i> tree at Ankokuronji Temple in Kamakura	–
4. Benefits of Social Contribution Costs	Volunteers who participated in Mt. Fuji <i>Manabi no Mori</i> project	298 people
	Children participating in the Environmental Education Program at Mt. Fuji <i>Manabi no Mori</i> project	573 people
	Visitors to Forester House	3,425 people

## Balance of Input and Output

Sumitomo Forestry calculates the input of resources and energy as well as the emissions of CO<sub>2</sub> and waste over the life cycle of products in each business to determine the environmental impact of its business activities and to develop effective means of reducing the emissions and waste.

### Environmental Impact of Business Activities



## Life Cycle Assessments

Sumitomo Forestry believes that an accurate understanding of key issues in its business activities is crucial to the pursuit of environmentally sound business activities and the creation of a sustainable society. Accordingly, the Sumitomo Forestry Group has been carrying out life cycle assessments (LCA) since fiscal 2006 to identify the environmental impact of all of its business activities. LCA is a method of comprehensively evaluating environmental impacts of a product throughout its life cycle, including raw material procurement, manufacture, transportation, sale, use, re-use and disposal.

In fiscal 2007, Sumitomo Forestry carried out an inventory analysis<sup>1</sup> of structural plywood, staircases and countertops to raise the accuracy of LCA for a single house. The analysis demonstrated that structural plywood made from Japanese timber emitted less CO<sub>2</sub> from procurement, transportation and processing than imported timber. Accordingly, Sumitomo Forestry Crest Co., Ltd. began displaying carbon footprints<sup>2</sup> on plywood made of Japanese timber in May 2009 at its Komatsushima Plant. This program to display carbon footprints on wood products is a first in Japan. Going forward, we will research all carbon footprints of the products which are manufactured at this facility.

From October 2009, PT. Rimba Partikel Indonesia (RPI) began displaying the carbon footprints on the particleboard products they manufacture and sell. This marks the first time that an Indonesian company has labeled timber products. RPI particleboard products make effective use of resources, using wood leftover from logging, sawdust, and timber from Company-owned plantations. Further, the company's products are manufactured using low carbon emission methods, including the use of electricity from a wood biomass power generation facility.

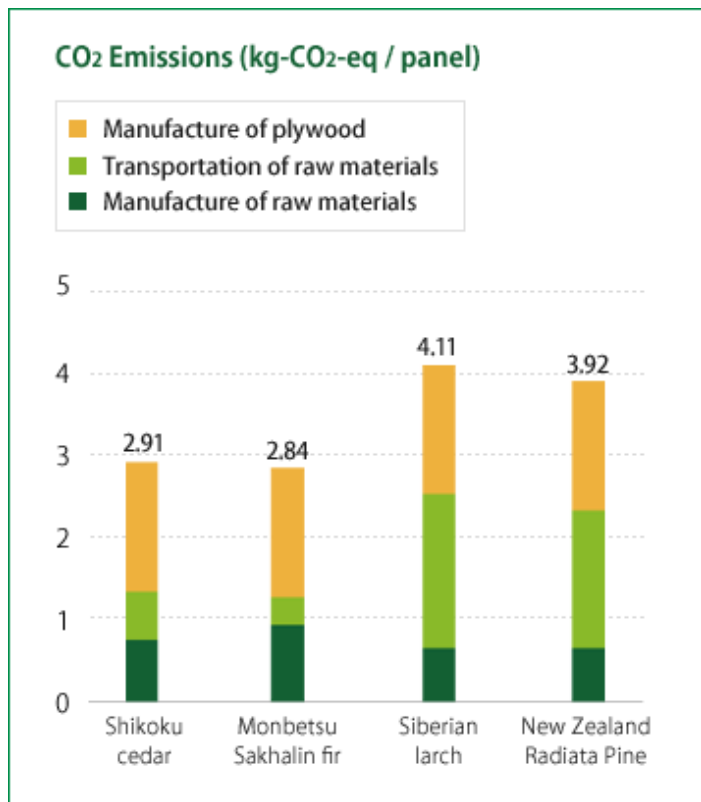
In addition, in fiscal 2008, Sumitomo Forestry set up an LCA database related to the harvesting of logs at all stages, from cutting underbrush to taking away the logs. Surveys of fuel consumption for machines used to harvest the timber, as well as fuel consumption for transportation to markets have been completed, and the data will be tabulated to clarify the LCA of log harvesting in the forestry management.

1 Analysis of the input (energy, materials, etc.) and output (gas emissions, waste, etc.) of a product over its life cycle, from manufacture to disposal.

2 Greenhouse gases emitted during the entire life cycle of the product and service, from procurement of raw materials to disposal and recycling, are converted to CO<sub>2</sub> to present the data in a more understandable manner.

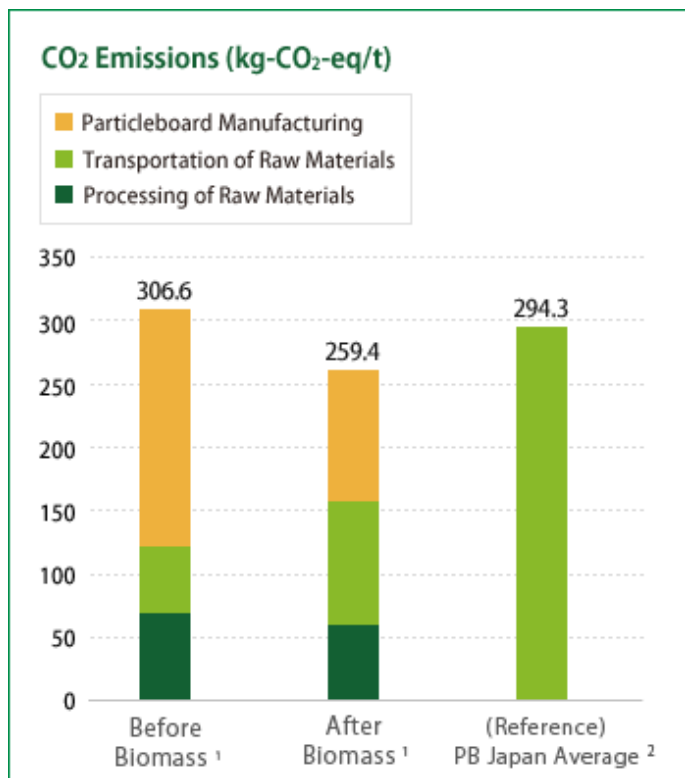


■ Carbon Footprints of Plywood Made from Japanese and Imported Timber Manufactured at the Komatsushima Plant of Sumitomo Forestry Crest



\* Data: December 2006 to November 2007.

■ Comparison of Carbon Footprints Before and After Installation of Wood Biomass Power Generation Facility (Particleboard manufactured by RPI)



<sup>1</sup> For the purpose of comparison, density = 0.68 g/cm<sup>3</sup> is converted to t to equalize the base units.

<sup>2</sup> Source: Abstracts of papers presented at The 2nd Meeting of The Institute of Life Cycle Assessment, Japan (March 2007).

<sup>3</sup> Data: January to December 2009

## Environmental Impact from the Construction of a New House

### INPUT

<b>Energy</b> ..... <b>23,559 MJ</b>	<b>Raw materials</b> ..... <b>76.18 t</b>
Electricity ..... 282.1 kWh	Timber ..... 15.64 t
Gasoline ..... 415.6 L	Metal ..... 2.49 t
Diesel ..... 213.7 L	Plastic ..... 1.08 t
	Paper/fiber ..... 0.15 t
	Concrete ..... 44.75 t
	Glass/ceramic/non-combustible building materials ..... 12.07 t

### OUTPUT

<b>CO<sub>2</sub></b> ..... <b>1,650 kg-CO<sub>2</sub></b>	<b>Waste from new housing construction</b> ..... <b>4.25 t</b>
	Plastic waste ..... 0.40 t
	Paper waste ..... 0.56 t
	Wood waste ..... 0.94 t
	Metal waste ..... 0.10 t
	Glass/ceramic waste ..... 0.70 t
	Rubble ..... 0.39 t
	Gypsum waste board ..... 0.85 t
	Composite waste (inert) ..... 0.02 t
	Composite waste (controlled) ..... 0.29 t
	Sludge ..... 0.01 t



## Contribution to Expanding Carbon Stocks

Carbon stocks refer to the CO<sub>2</sub> that is stored in the atmosphere, forests and oceans. These stocks play a major role in curbing global warming. As trees grow, they absorb CO<sub>2</sub> from the atmosphere and sequester it as carbon. When trees are harvested and processed into products, they continue to store carbon. CO<sub>2</sub> is only released when the wooden materials are incinerated at the end of their life cycle.

When mature trees are harvested and used as building materials, the CO<sub>2</sub> sequestered in the trees is stored for a long period of time. This means that building wooden houses can be likened to creating forests in the city. The carbon stocks of the Sumitomo Forestry Group's timber used for housing construction in fiscal 2009 was equivalent to 194,000 tons of CO<sub>2</sub>, about the amount of CO<sub>2</sub> emitted by approximately 38,000 households over one year.

The Sumitomo Forestry Group promotes the use of timber from sustainably managed forests in the construction of its high-quality, long-lasting wood houses and for the wooden building materials it uses. The Group also encourages the re-use and recycling of timber resources. Such initiatives will contribute to reducing the effects of global warming by expanding carbon stocks in the form of timber.

## Reducing CO<sub>2</sub> Emissions

As global warming becomes an increasingly serious issue, reducing CO<sub>2</sub> emissions has become an urgent matter. The Sumitomo Forestry Group will make a positive contribution to this task by seeking to reduce CO<sub>2</sub> emissions from its business activities and the houses occupied by its customers, and by facilitating absorption of CO<sub>2</sub> through proper forest management.

### ● Global Warming and Sumitomo Forestry's Role

CO<sub>2</sub> emissions are continuing to rise on a global basis. The Fourth Assessment Report of the Intergovernmental Panel on Climate Change (IPCC) states that global warming is very likely due to increased greenhouse gas concentrations caused by human activity. The report projects that by the end of the 21st century the global average temperature will increase by 1.1–6.4°C compared to the average between 1980 and 1999. To prevent such a scenario, the 2009 G8 Summit at L'Aquila set the targets of a 50% reduction of greenhouse gases globally and an 80% reduction by the developed nations by 2050, aiming to limit atmospheric temperature rises to two degrees or less. In December, the 15th Conference of the Parties (COP 15) to the United Nations Framework Convention on Climate Change agreed to implement reduction activities by not only developed nations but also developing nations, and to provide financial assistance to developing nations for those activities, making the effort to reduce greenhouse gases a truly global endeavor.

Japan's CO<sub>2</sub> emissions in fiscal 2008 were 1.6% higher than in 1990, and companies are being required to enact concrete measures, including strengthened legal regulations, to achieve the reduction targets agreed in the Kyoto Protocol. In addition, the government of Japan announced in September 2009 that, by 2020, Japan would reduce its greenhouse gases by 25% compared to 1990.

The Sumitomo Forestry Group will make a positive contribution by reducing CO<sub>2</sub> emissions from its business activities while facilitating absorption of CO<sub>2</sub> through proper forest management. As a housing provider, the Group recognizes its important responsibility to help reduce CO<sub>2</sub> emissions from the household sector, which currently account for about 14% of Japan's total emissions and which are increasing each year.



- While the prevention of global warming is a universal challenge, I want Sumitomo Forestry to point the way as a leader in the housing industry. (Sales partner)
- I think that trees can play a major role in reducing CO<sub>2</sub> emissions. I expect Sumitomo Forestry to lead the way in finding solutions to global warming as a company whose primary business is forestry. (Student)

### ● Reducing the Effects of Business Operations on Global Warming

The Sumitomo Forestry Group is working to reduce CO<sub>2</sub> emissions through its business activities at offices and plants as a countermeasure to global warming. In fiscal 2009, the Group reduced its energy consumption through initiatives for daily business activities, including environmentally sound driving and saving electricity, and Sumitomo Forestry Crest Co., Ltd. reduced energy consumed during inspections at each of its plants.

### CO<sub>2</sub> Emission Reduction Targets

Sumitomo Forestry has endeavored to reduce CO<sub>2</sub> emissions, by setting five-year targets for fiscal years 2006 to 2010 in three areas of operation: offices, plants in Japan, and plants overseas.

In December 2009, however, the Group revised the CO<sub>2</sub> reduction targets in the environmental management mid-term plan due to the difficulty of determining the actual status of CO<sub>2</sub> reduction activities per sales unit shared by plants in Japan and overseas, which is easily impacted by economic downturns.

The new targets for plants in Japan have been set using appropriate base units for each plant, resulting in indicators that enable much easier management of reduction efforts at the production stage. Further, targets and management indicators for total emissions, emissions per sales unit, and/or other measures as appropriate to each plant have been set in consideration of local laws and regulations.

At the current time, the mid-term targets are set for fiscal 2014. We will continue to consider setting of long-term targets in consideration of the Japanese government's movement to set targets for reduction of greenhouse gases, as well as deliberations at the global level.

## The Medium-Term Environmental Management Plan New CO<sub>2</sub> Emission Reduction Targets

Offices : By FY2010, achieve a 12% reduction in overall emissions compared with FY2006, and maintain this level to 2014.

Plants in Japan : By FY2014, achieve an 8% reduction in base units<sup>1</sup> compared with FY2006.

Plants outside Japan : Set targets for each plant in consideration of local laws and regulations, including overall emissions, emissions per unit sold, and/or other targets as appropriate to each plant.

<sup>1</sup> Base units are set appropriately for each product line at each plant.

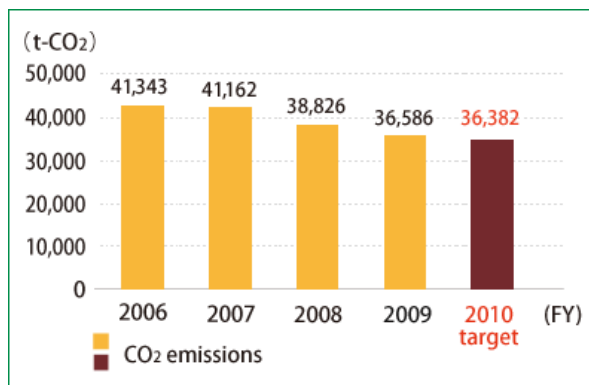
## The Medium-Term Environmental Management Policy Old CO<sub>2</sub> Emission Reduction Targets

Offices : 12% reduction of total emissions by FY2010 from 2006 levels

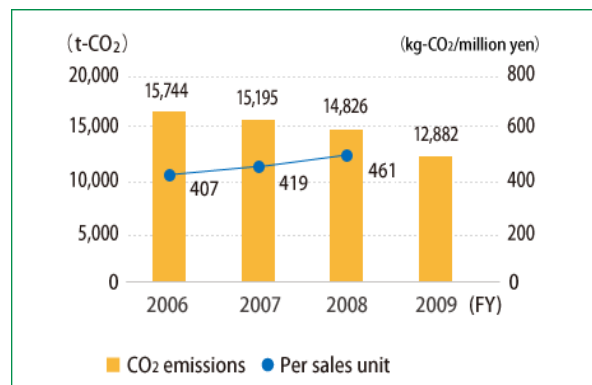
Plants in Japan : 5% reduction of emissions per sales unit by FY2010 from 2006 levels

Plants outside Japan : 20% reduction of emissions per sales unit by FY2010 from 2006 levels

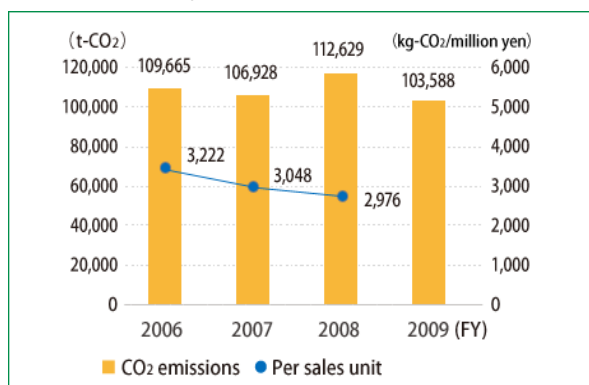
■ Offices



■ Plants in Japan



■ Plants outside Japan



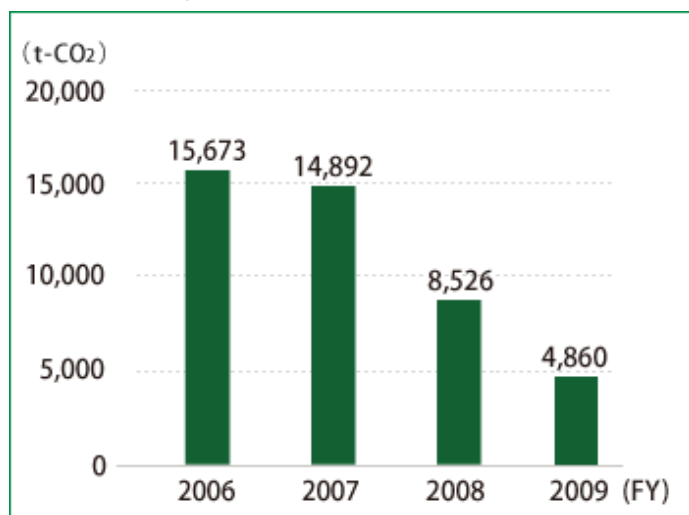
\* The results of fiscal 2009 shows only CO<sub>2</sub> emissions, since the company revised reduction targets in the environmental management mid-term plan in December 2009.

## Reducing CO<sub>2</sub> Emissions from Plants: Wood Biomass Power Generation Facility Installed at RPI

RPI is a particleboard plant located in Central Java, Indonesia. The plant was established as a joint venture between Sumitomo Forestry and local businesses in 1990. RPI is making an effort to reduce CO<sub>2</sub> emissions by switching from conventional diesel-based power generation to wood biomass power generation, which mainly uses offcuts and sawdust from sawmills near the plant as fuel.

Through the use of the wood biomass power generation facility, which went into full operation in June 2008, RPI achieved a 10,033 t-CO<sub>2</sub> reduction in CO<sub>2</sub> emissions in fiscal 2009, compared with fiscal 2007. Moreover, the United Nation's CDM Executive Board registered this initiative as a Clean Development Mechanism (CDM) project in May 2008.

■ CO<sub>2</sub> Emissions by RPI



## Reducing CO<sub>2</sub> Emissions from Offices

In order to reduce the CO<sub>2</sub> generated by offices, the Sumitomo Forestry Group sets common targets across all Group companies and continues to advance its efforts in its offices to the greatest possible extent.

At the Company's model homes and showrooms across Japan, we began from fiscal 2008 to switch over to environmentally sound lighting systems. In fiscal 2009, we began turning off the daytime lighting (on second floors) in model homes across the nation when customers are not present.

From fiscal 2009, in order to reduce CO<sub>2</sub> output from offices, we specifically focused on activities to reduce the amount of electricity and gasoline used in daily business.

▶ Energy Conservation in Offices(P.170)

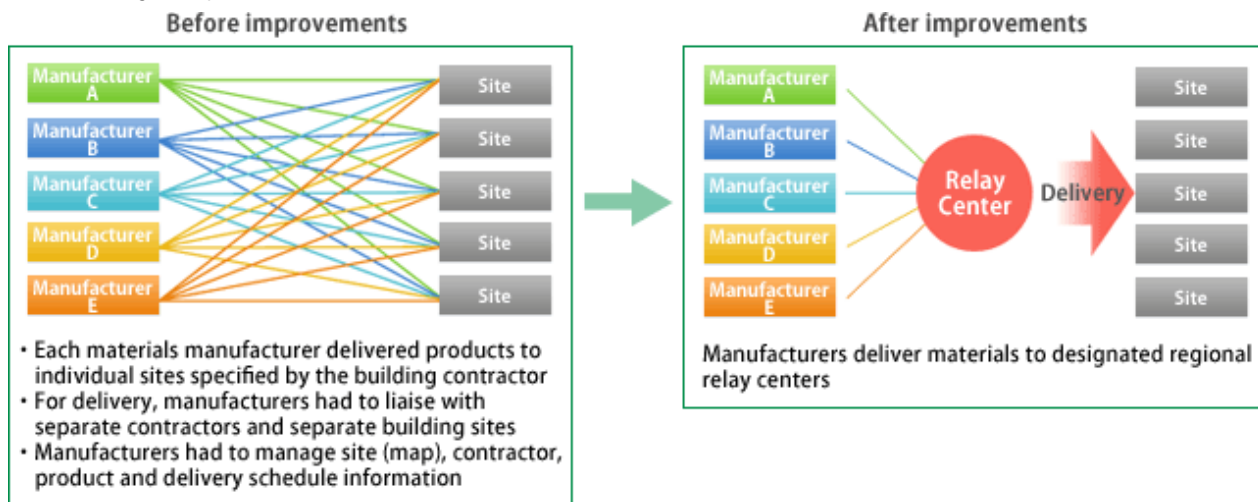
## Reducing CO<sub>2</sub> Emissions from Transportation

Sumitomo Forestry improved its distribution systems in fiscal 2007 to more efficiently transport materials from manufacturers to housing construction sites. Construction materials previously shipped directly from manufacturers to construction sites are now collected first at regional relay centers. Mixed-load shipments containing materials from different manufacturers are then delivered to construction sites. This streamlining of material deliveries to construction sites results in fewer delivery trucks and lower CO<sub>2</sub> emissions.

The Company established 28 relay centers nationwide, and reduced CO<sub>2</sub> emissions equivalent to the emissions of 142,443 vehicles in fiscal 2009.



■ Streamlining Transportation



I'd like to know in concrete terms how much CO2 is saved from the reduction of activities for your transportation vehicles. I think it's a worthwhile effort and would like to know more. (Customer)

## Participating in Japan's Trial Integrated Emissions Trading Market

In October 2008, the Government of Japan launched an integrated emissions trading market on a trial basis with a view toward adopting full-scale emissions trading in Japan. Currently, there are 521 participant companies with set targets (including 392 industry associations, federations, and other organizations), 68 companies participating in trading of emissions credits, and 126 companies participating as emissions-reducing entities in the domestic clean development mechanism, for a total for 715 companies (as of July 6, 2009). Sumitomo Forestry is the only company from the housing industry participating in the trial emissions trading scheme. Participant companies establish and pursue a voluntary goal for reducing CO2 emissions. In addition to undertaking their own efforts to reduce emissions, the participants help reduce Japan's CO2 emissions by trading emission allowances and credits. In November 2009, the Company's fiscal 2008 performance against targets was audited and verified, and the achievement of targets confirmed.

## Reducing the Environmental Impact of Households

### Considerations for Reducing the Environmental Impact of Housing

Throughout the entire life cycle of a house, from materials production to demolition, energy consumption during occupancy has the greatest impact on the environment. Energy use during the occupancy stage can reach as high as 70–80% of energy consumption over the life cycle. The nearly 10,000 houses built annually by Sumitomo Forestry emit approximately 63,000 tons of CO2 per year. The key to reducing the environmental impact of housing is a matter of how to reduce energy consumption during occupancy.

Sumitomo Forestry is tackling this issue with its *Ryounbou* natural heating and cooling design concept, the use of insulation and air-tightness specifications exceeding next-generation energy conservation standards, and the use of natural energy, such as solar energy, for power generation and water heating.

▶ Providing Environmentally Friendly Homes(P.34)



I expect Sumitomo Forestry's houses to be equipped with features that can help reduce environmental impact. (NGO)

## Reducing Energy Use through the *Ryounbou* Design Concept

The *Ryounbou* design concept draws on the wisdom and techniques of Japan's traditional houses to effectively take advantage of nature's blessings and offer a housing style that enables people to live comfortably while limiting energy consumption.

The *Ryounbou* concept is based on three design principles for creating housing that is cool in the summer and warm in the winter. *Kaze no Sekkei* wind design provides a refreshing coolness in the summer by blocking sunlight and creating airflow that channels the summer heat outside. *Taiyo no Sekkei* sun design allows winter sunshine into the house and prevents heat from escaping, keeping the indoors warm. *Midori no Sekkei* greenery design provides comfortable living throughout the seasons by utilizing garden vegetation to create a natural temperature control system.

Research on a model house demonstrated that the *Ryounbou* design concept could reduce CO<sub>2</sub> emissions during occupancy by about 40%<sup>1</sup> compared to houses built to specifications mandated by 1992 energy conservation standards.

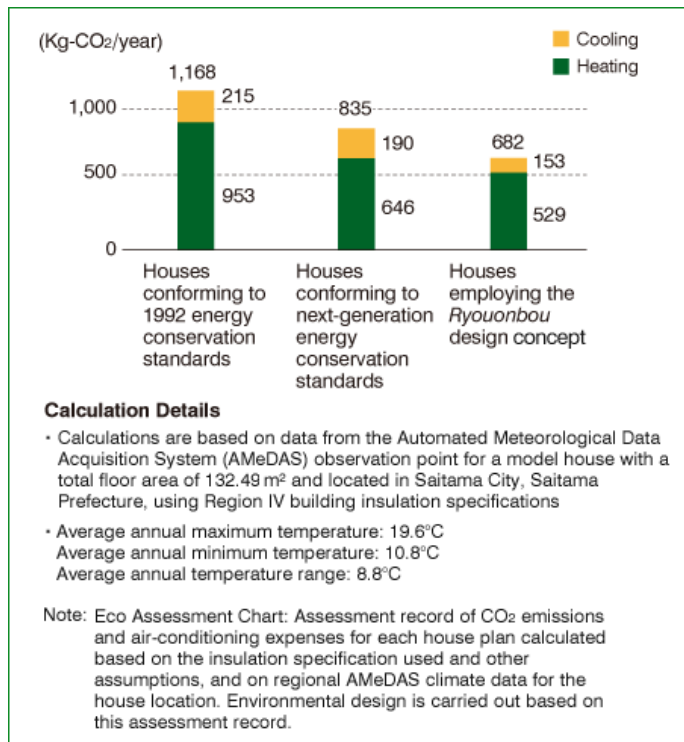
<sup>1</sup> This figure only applies to emissions attributable to heating and cooling.



Stakeholder  
Comment

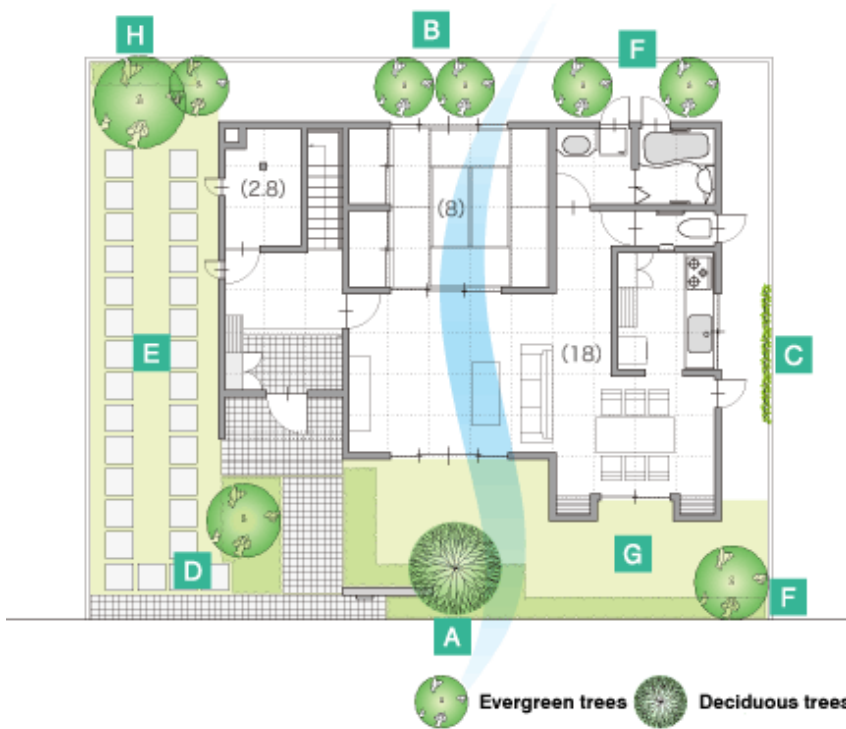
I recommend that Sumitomo Forestry cooperate with NGOs and NPOs when promoting environmentally symbiotic houses. (Environmental Expert)

### ■ Comparison of CO<sub>2</sub> Emissions during Occupation (for Air Conditioning and Heating Only) Using Eco Assessment Charts



## Case Study Plan for Placement of Greenery and Channels for the Airflow

■ Midori no Sekkei



### **A** Green canopy to create a cool, shady area of foliage

Deciduous trees grow thick with leaves in summer, blocking out direct sunlight and creating a cool, shady area of foliage. In winter, the trees lose their leaves, allowing the sunlight into the rooms.

### **B** A refreshing green area that produces cool air

By planting trees on the north side of the house it is possible to make it cooler in summer. This also has the effect of protecting the house from the northerly winds.

### **C** A screen of greenery that blocks out heat

In addition to blocking out sunlight during summer, the greenery also cools the air. The use of climbing plants such as bitter melon offers the added benefit of fresh produce.

### **D** Beautification with foliage that decorates the home

We recommend trees that suit the individual home and change appearance with the seasons. As well as bringing out the beauty of a home, greenery also helps blend the building in with its surroundings.

### **E** A parking space with greenery that moderates temperature increases during summer

In addition to allowing rainwater to be absorbed in the earth, a green parking space prevents the powerful rays of the summer sun from being reflected back into the atmosphere, thereby moderating increases in temperature in the area around the home.

### **F** “Green blinds” that gently restrict the vision of passersby

Strategically placed foliage in front of windows and other open areas restricts the view in the house from outside and enhances privacy.

### **G** Green groundcover that reduces the reflection of heat in summer

A lawn effectively reduces the reflection of the heat of the sun back into the atmosphere. Leaf transpiration, whereby moisture evaporates from the grass, helps moderate increases in temperature.

### **H** A partition of foliage that takes the edge off the cold

By strategically placing trees according to prevailing wind direction, it is possible to obstruct the cold northerly wind in winter, reduce its force and chill, and divert its direction.

## Employing Next-Generation Energy Conservation Standards

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The Japanese government has established energy conservation standards geared toward reducing energy consumption in houses.

Sumitomo Forestry's standard housing specifications have been based on next-generation energy conservation standards<sup>1</sup> since fiscal 2005. In fiscal 2009, these standards were employed in over 95.7% of the houses built by the Company. The standards also correspond to the highest energy-saving level (level 4) under Japan's Housing Performance Indication System.

<sup>1</sup> These refer to the "Standards and Owner Determination of Energy Usage Rationalization Pertaining to Houses" (Notice No. 3 of the Ministry of Economy, Trade and Industry and the Ministry of Land, Infrastructure and Transport [2006]), and "Guidelines for Design and Construction of Energy Usage Rationalization Systems for Houses" (Notice No. 378 of the Ministry of Land, Infrastructure and Transport [2006]).

## Growing Use of Solar Energy in Houses

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Employing a solar power system in addition to the *Ryounbou* design concept can further reduce a house's environmental impact. Sumitomo Forestry's *MyForest-Solabo* model features a dual power system (solar power system as a standard feature and a fuel cell that generates electricity and heat from hydrogen and oxygen, and uses the heat generated during power generation to heat water). In this way, the system can drastically reduce energy consumption and CO<sub>2</sub> emissions.

In 2008, the Ministry of Land, Infrastructure, Transport and Tourism chose Sumitomo Forestry's proposal for maximizing solar energy use and raising energy self-sufficiency through its W (double) Solar System, which combines a solar power system with a solar hot water system, as a Model Business Promotion of CO<sub>2</sub> Conservation in Homes and Buildings. A house based on this model can be expected to save about 150,000 yen per year in heating and lighting expenses, and generate about 65% less annual CO<sub>2</sub> emissions than an ordinary house built according to 1992 energy conservation standards.<sup>1</sup>

In fiscal 2009, about 20% of all houses sold by Sumitomo Forestry were equipped with solar power systems. Going forward, we will work even harder to increase the number of homes using solar energy through promoting the sales of the *MyForest-Solabo* model and other lines.

<sup>1</sup> An ordinary house built to meet 1992 energy conservation standards is defined as having two floors with a total floor area of approximately 130 m<sup>2</sup> and occupied by a family of four in Tsukuba City, Ibaraki Prefecture. It is also based on certain assumptions in Sumitomo Forestry's model plan, and could differ from actual conditions.

## Solar Hot Water System Developed

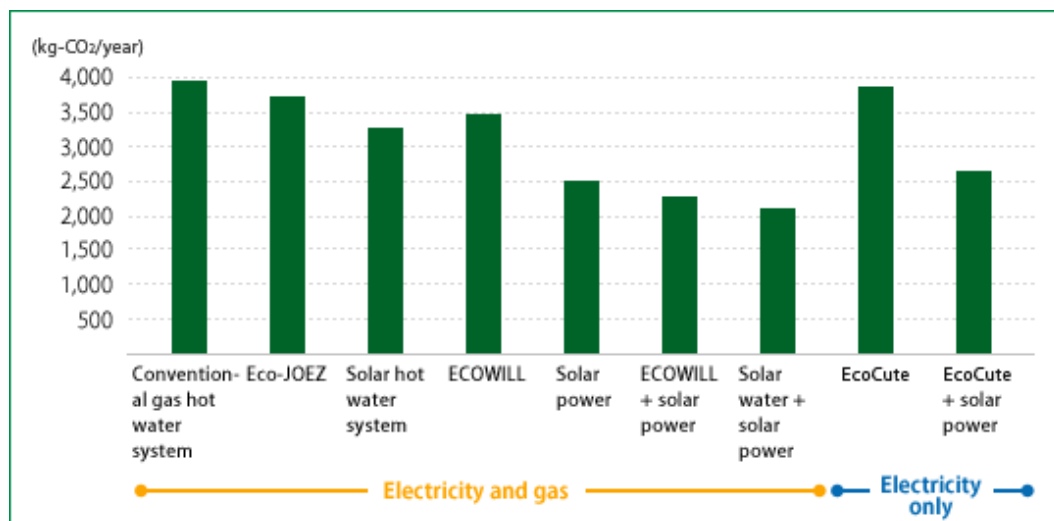
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Water heating accounts for around one-third of an average household's energy consumption. Solar hot water systems that effectively utilize solar energy can therefore contribute enormously to reducing energy consumption and CO<sub>2</sub> emissions. The development of new products that utilize solar thermal energy, which is more efficient than solar power generation, has progressed outside Japan, where their application is widespread due to the environmental and economic advantages.

Although solar thermal energy use has been slow to spread in Japan, Sumitomo Forestry believes it is a technology that will become indispensable to society in the future. Accordingly, the Company worked with an equipment manufacturer to develop a new solar hot water system. The system uses a roof-mounted solar thermal energy collector containing medium-heat antifreeze to absorb heat. The antifreeze is fed into a thermal converter in a water storage tank, which incorporates a gas heater to heat the water. This system ensures a stable and economical hot water supply. Moreover, since the piping is passed through the roof, it does not mar the exterior appearance of the house. The amount of solar heat used and the amount of money saved are displayed on a remote control, enabling homeowners to check the system's effectiveness.

The system, which can be installed for less cost than a solar power generation system, is estimated to reduce CO<sub>2</sub> emissions by at least 30% and save about 30,000 yen annually on processed natural gas expenses for gas water heating in an ordinary house.<sup>1</sup>

■ Comparison of Annual CO2 Emissions from Housing Using Combined Hot Water and Solar Power Generation (for heating, cooling, hot water, cooking, ventilation, lighting and power outlets)



<sup>1</sup> An ordinary house is defined as a two-floor house with a total floor area of 130 m<sup>2</sup> and occupied by a family of four in Tsukuba City, Ibaraki Prefecture. It is also based on certain assumptions in Sumitomo Forestry's model plan, and could differ from actual conditions.

## Promoting Environmentally Friendly, Energy-Saving Renovation

With energy consumption by the household sector increasing, steps must be taken to reduce CO<sub>2</sub> emissions from day-to-day life. Sumitomo Forestry Home Tech. Co., Ltd. offers environmentally friendly, energy-saving renovation suited to each customer's home. Renovation options include solar power generation systems, the latest water-saving household appliances for the kitchen and bathroom, and natural ventilation and lighting to reduce reliance on heating and cooling equipment.

Sumitomo Forestry Home Tech is renowned for innovation in renovation technologies that improve the functionality of the structure, including use of insulation in the walls and floors to conserve energy, conversion to barrier-free layouts, and seismic retrofitting. NHK television featured two case studies of the Company's innovative renovations: energy-saving renovation and “reduction” renovation, in which a two-story house is converted to a single-story house.

Moreover, from fiscal 2009, aiming to contribute to the realization of a world where houses are used long-term and passed down to the next generation, the Company launched the Realise Reform Team in order to further strength its renovation operations. Renovation requires a high degree of technological prowess and specialist knowledge because each home and each customer's needs are different. The Realise Reform Team is comprised of dedicated specialists from sales, design, construction, interior design, survey, and after-sales service departments to support each customer's renovation. This unique team structure enables a swift and precise response to diversifying customer needs, including for energy-saving and environmentally friendly renovation.



## Zero Emissions

Houses use a large amount of resources, so reducing the use of and recycling those resources are important issues. Sumitomo Forestry is striving to achieve zero emissions of industrial waste generated at its plants, new housing construction sites, and other operations sites by facilitating the recycling of these waste and using building materials that can be recycled after use.

### Policy on Resources

Building a house requires an enormous amount of resources. Approximately 76.2 tons of resources are used for the principal structural members and building materials that go into a single house built to the Company's standard specifications. Aiming to reduce environmental impact and effectively utilize resources, Sumitomo Forestry recognizes the importance of focusing on zero emissions initiatives, including reducing the generation of waste, reusing resources, recycling waste as raw materials, recycling chemicals, and utilizing heat from incinerating waste.

At the time of inputting raw materials, besides reducing the use of resources by eliminating redundant materials and using components that generate a low amount of offcuts, it is important to use components manufactured from recycled materials in order to promote the cyclical utilization of resources. Sumitomo Forestry is applying specific initiatives for each type of building material to complete the loop of recycling, including using recyclable resources, thoroughly separating wastes at construction and demolition sites, and using recycled products such as recycled crushed stones.



I think houses being constructed now should last 30–50 years before replacement. When the houses are taken down, the components should be easily separated for re-use. (Customer)

### Zero Emissions Initiatives

The Sumitomo Forestry Group started carrying out zero emissions initiatives to advance the recycling of resources in fiscal 2007. The Group has defined zero emissions as not disposing in landfills or simply incinerating all of the industrial waste generated at manufacturing sites, new housing construction sites and other operations sites (excluding demolition work sites). Quantitatively, this means achieving a recycling rate of at least 98%. All Group companies and departments had been pursuing the goal of a recycling rate of at least 98% for industrial waste by the end of March 2010.

As of March 2010, however, the Group's overall recycling ratio was 79.9% despite continuing initiatives, as a number of issues and problems arose.

The scope and breadth of the Sumitomo Forestry Group's businesses, which include housing construction and related businesses, renovation, manufacturing, and distribution, inherently makes increasing the recycling rate a challenge. Moreover, all industry waste disposals were being contracted to an external vendor resulting in insufficient recycling routes, which made increasing the recycling rate difficult.

Thus, the Group undertook a re-evaluation of its efforts to date, as well as of the definition and scope of “Zero Emissions” to identify the top-priority initiatives the Group should undertake.

#### New Definition

The Group will not simply incinerate or bury in landfills all of the industrial waste generated from its plants in Japan and new housing construction sites.

Going forward, based on the new definition, the Group will continue zero emissions activities at domestic manufacturing facilities and re-evaluate the fundamental approach and systems used at new construction sites.<sup>1</sup> The Group initially aims to achieve zero emissions in the Capital Area by December 31, 2012.

<sup>1</sup> Includes residential landscaping.

## Waste Reduction at New Housing Construction Sites

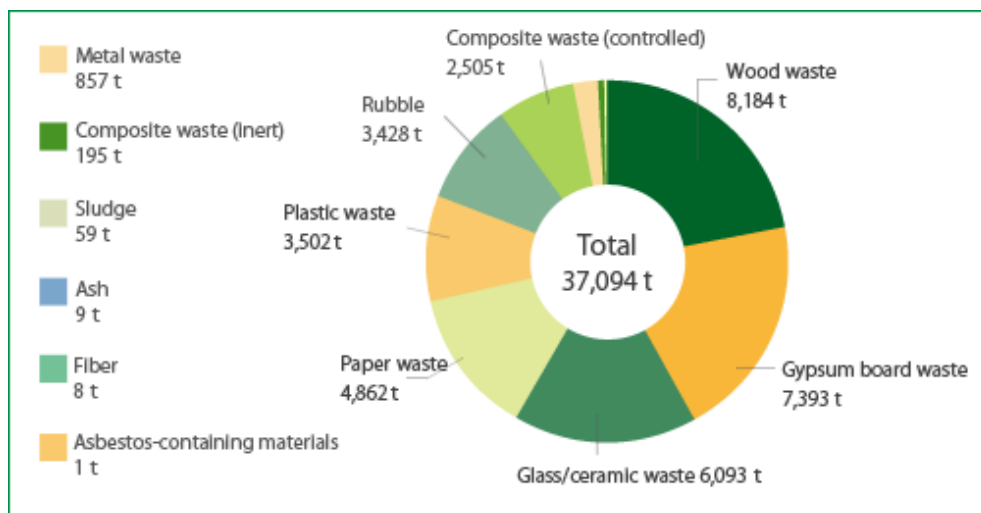
In fiscal 2009, Sumitomo Forestry achieved a recycling rate of about 83.2% for waste generated at new housing construction sites.

In fiscal 2008, the Housing Division started a trial run of an industrial waste traceability system that uses IC chips to ascertain the actual output of waste from new housing construction sites. IC tags were attached to waste, which was sorted into 11 categories and collected separately, and the information obtained was sent to the Japan Industrial Waste Technology Center via the Japan Waste Network (JWNet electronic manifest) to monitor the movement of the waste. The system enables accurate measuring of the weight of waste and contributes significantly to preventing inappropriate disposal. In fiscal 2009, this industrial waste traceability system was installed and operated at ten branches, including the six branches in the Greater Tokyo area, Mito, Kyoto, Shiga, and Kita-Kyushu. Going forward, data collected before and after the installation of this system will be analyzed, enabling the optimization of efforts to control generation of industrial waste.

The Group continues its efforts to limit the generation of industrial waste through the use of pre-cut timber, reducing the amount of packaging materials used. Examples of efforts in this area include use of pre-cut lumber for soffits (the underside of eaves) and gables and setting the dimensions of the eaves to minimize end-cuts from materials used to finish the underside of the home's eaves. In addition, the practicality and costs of pre-cutting ceramic roof tiles, sidings, and panels for exterior reinforcement are being investigated for future deployment.

Recycling of waste materials such as siding, roof tiles, and composite wastes—not simple incineration or burying in landfills — is a major issue in the pursuit of zero emissions. The Company is also exploring the possibility of obtaining “inter-region recovery and recycling certification” used by Nichiha Corporation and Kubota Matsushitadenko Exterior Works, Ltd., which are manufacturers of siding and slate roofs that the Company hopes to recycle.

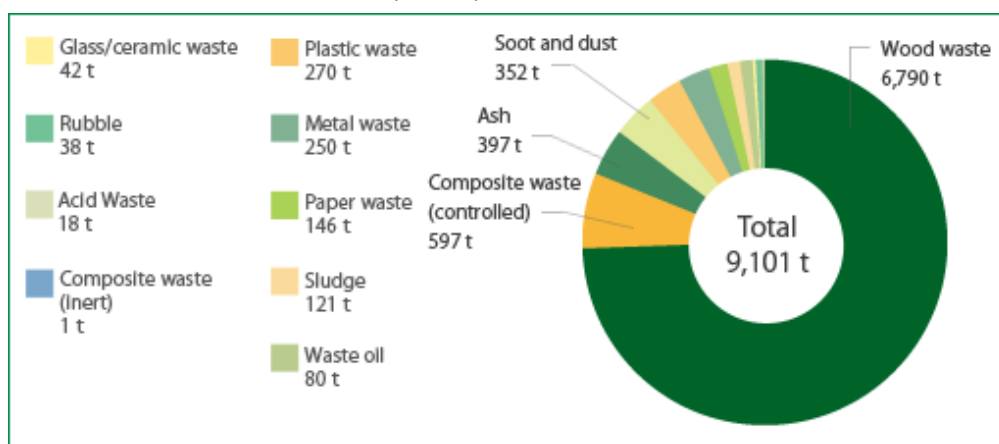
■ Volume of Industrial Waste from New Detached Housing (FY2009)



## Waste Reduction at Plants

zero emissions (98% or higher recycling ratio) was achieved at the Group's plants, as a result of continuing efforts to achieve zero emissions by March 2010 at the plants operated by Sumitomo Forestry Crest, the former Toyo Plywood, and Sumirin Agro-Products.

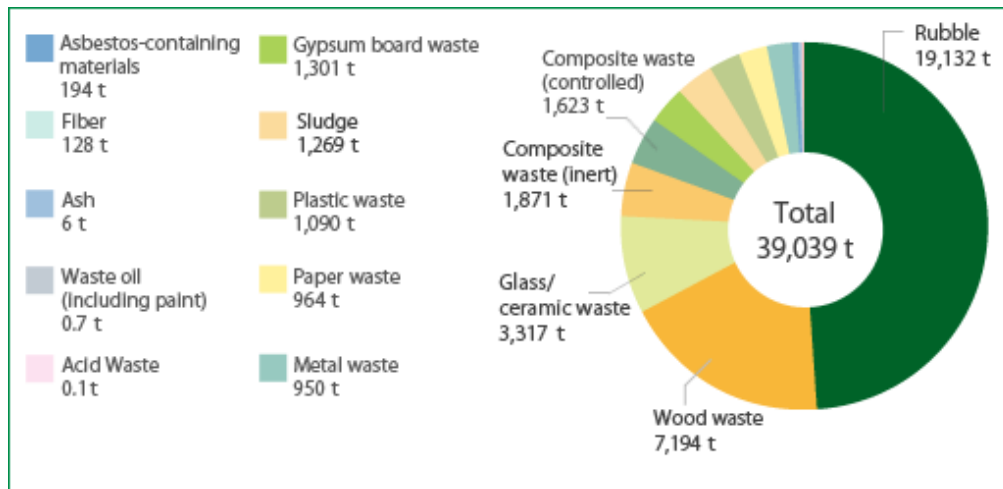
■ Volume of Waste Generated at Plants (FY2009)



## Waste Reduction in Other Businesses

Industrial waste is generated by a wide range of corporate activity, including research facilities, renovation work, landscaping and greening work, and repair work for rental properties, and the distribution business. In these areas as well, the Group set performance targets for zero emissions and endeavored to achieve those targets, but was not able to achieve them in fiscal 2009.

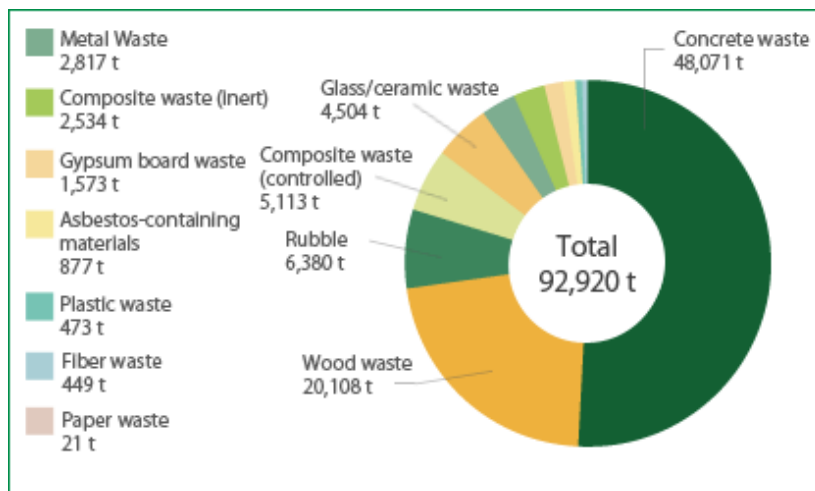
■ Volume of Industrial Waste from Other Businesses (FY2009)



## ○ Proper Disposal of Demolition Waste

Sumitomo Forestry demolished nearly 2,100 old houses in fiscal 2009 to make room for new housing construction, generating some 93,000 tons of waste in the process. Recognizing the importance of keeping waste materials in circulation, the Company has strived to improve recycling even before the enactment of the Construction Waste Recycling Law, by thoroughly dismantling, sorting, and separately disposing of waste materials. The Company has achieved a nearly 100% recycling rate for concrete and metal waste and a 98% recycling rate for wood waste. The present challenge is developing recycling routes for roofing tiles, glass, ceramics, gypsum board, and other composite waste, as there is still no effective means of recycling these materials.

■ Volume of Demolition Waste (FY2009)

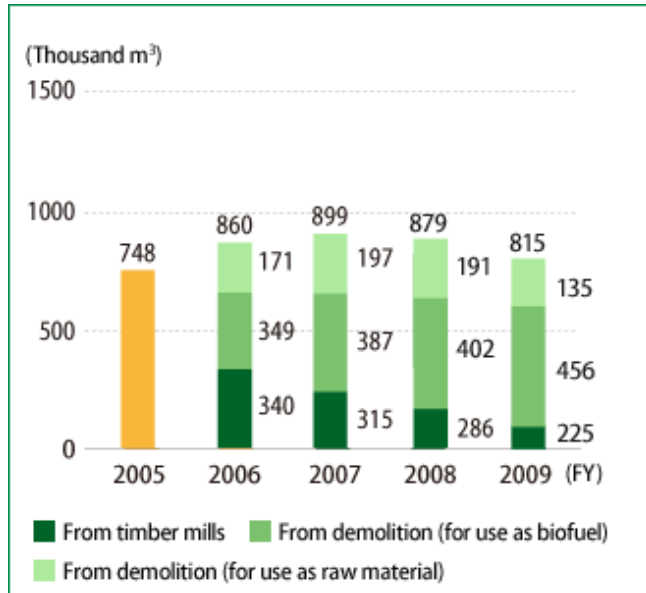


## Resource Recycling

### Recycling of Wood Waste

Offcuts from the timber milling process and waste wood from new housing construction and demolition sites can be turned into wood chips for use in papermaking and particleboard or as biofuel. Sumitomo Forestry has created its own recycling routes for facilitating the distribution of wood chips by employing the networks it has developed through its timber distribution business.

■ Volume of Wood Chips Handled (Thousand m<sup>3</sup>)



### Researching the Effective Utilization of Used Activated Carbon

For the past two years (Fiscal 2008–2009), Sumirin Agro-Products has conducted joint research with the Tokyo Metropolitan Government Bureau of Waterworks to develop potting media for agriculture and horticulture and a soil improvement agent for landscaping, both made with used activated carbon from drinking water treatment plants. The bureau uses an advanced water purification process that combines ozone treatment with biologically activated carbon. This system uses large quantities of activated carbon in the processes of reducing organic material and deodorization. Used activated carbon needs to be replaced with new carbon due to age-related deterioration. The bureau forecasts that it will generate approximately 5,000 m<sup>3</sup> of used activated carbon in fiscal 2010, for which it needs an effective use.

This research demonstrated that used activated carbon effectively promoted plant growth when used as potting media for agriculture and horticulture, as a soil improvement agent for landscaping, and as a raw material for foundation materials. Sumirin Agro-Products and the Tokyo Metropolis have applied for a patent on these research results. Going forward, the company plans to commercialize and expand sales channels for potting media and soil improvement agents using used activated carbon.

## Sustainability of Timber Resources

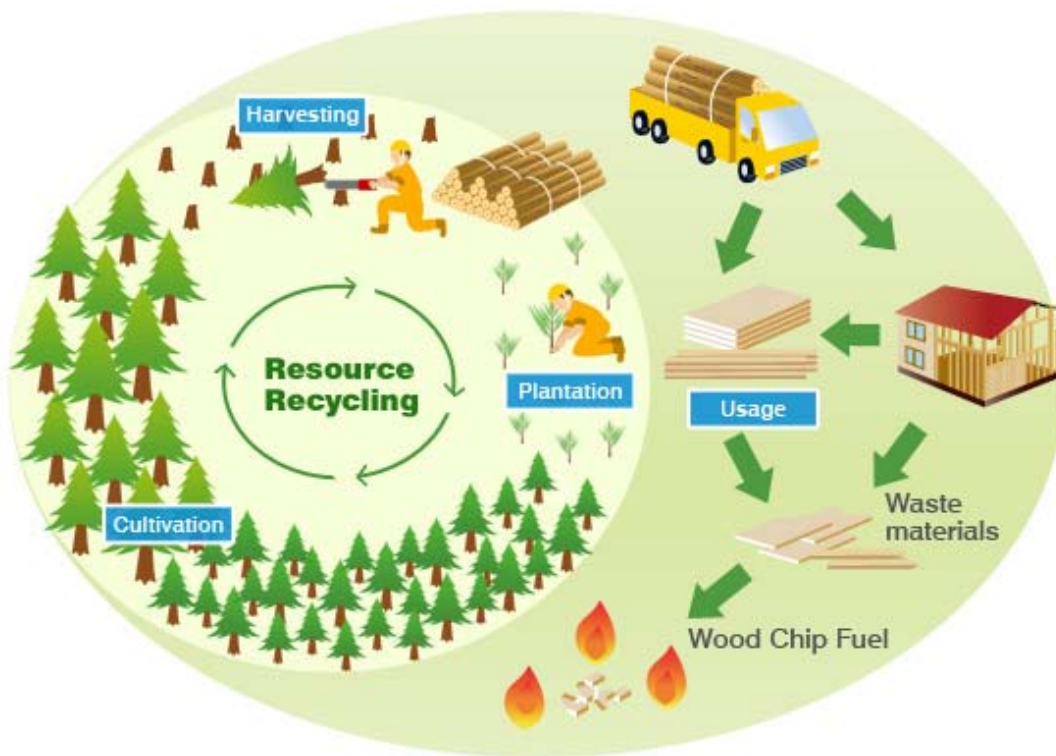
Sumitomo Forestry procures sustainable timber resources, actively uses Japanese timber and is expanding its reforestation efforts outside Japan to ensure that forest resources are available in perpetuity.

\* Definitions for English translations of *shokurin*. The terms below are used with the following definitions throughout this report.

**Reforestation:** The re-planting of trees on land that had previously been forested but lost its forest cover, due to harvesting or forest death.

**Afforestation:** The planting of trees on land that had never been forested, or the re-planting of trees on land that had been forested several hundreds of years ago.

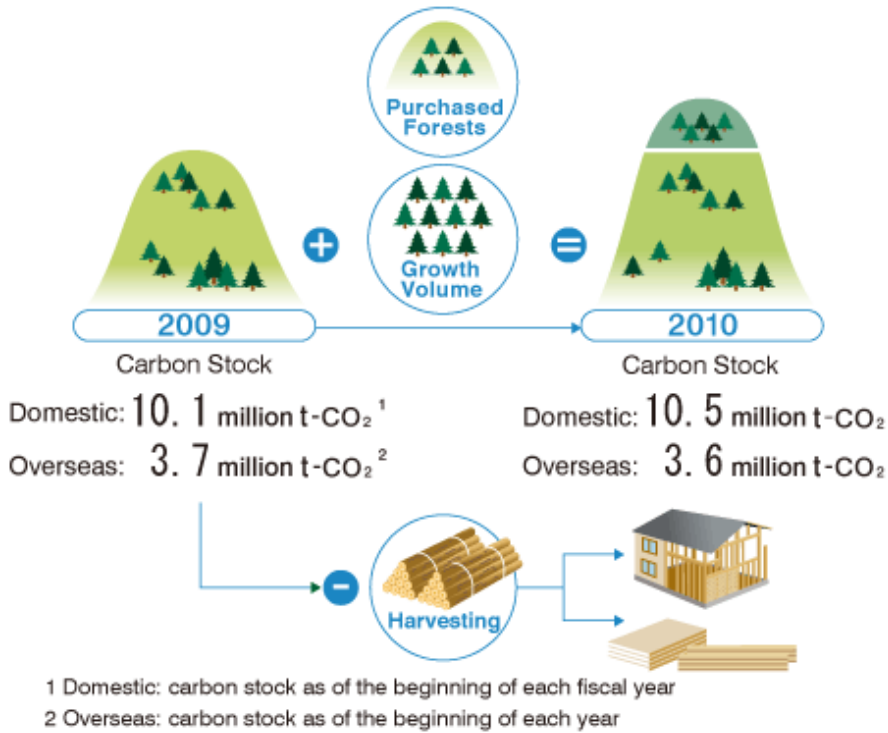
### Conservation and Sustainable Use of Timber Resources



#### [Cultivation]

The Sumitomo Forestry Group owns forests with a total area of 42,642 hectares within Japan and, outside of Japan, manages forests with a total area of approximately 37,000 hectares. Forests perform a number of functions for the public good, including conserving national land, cultivating water resources, curbing global warming by absorbing CO<sub>2</sub>, and preserving biodiversity. These functions can be enhanced by appropriate forestry management including clearing away of underbrush, pruning, and thinning.

Forests absorb CO<sub>2</sub> then retain it as carbon. The carbon stock of the Sumitomo Forestry Group forests in Japan was 10.5 million t-CO<sub>2</sub>, and 3.6 million t-CO<sub>2</sub> overseas.



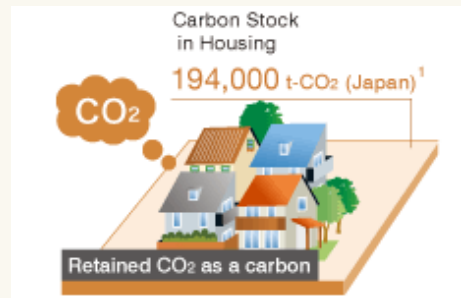
**[Harvesting]**

In fiscal 2009, the Sumitomo Forestry Group harvested approximately 220,000 m<sup>3</sup> of trees. The harvested trees were milled and processed, then provided to the world in a variety of applications, including housing and furniture. In some cases, for example structural members used in houses, the timber will be used for decades. Even after trees are processed into products, the wood continues to retain CO<sub>2</sub> as carbon. Thus, it can be said that using wooden products and building wood-construction homes are activities that “Create Forests in Cities.”

**Carbon Stock in Housing**

One *Sumitomo Ringyo no Ie* (Sumitomo Forestry Home) house has a carbon stock of about 22.6 t-CO<sub>2</sub>, and the carbon stock of all houses constructed by the Company in fiscal 2009 totaled approximately 194,000 t-CO<sub>2</sub>.

1 Carbon stock of the timber used in building houses in fiscal 2009.



**[Usage]**

Wood products don't become waste after just one use. For example, in the case of wood-construction homes, the lumber can be re-used after demolition as wooden materials such as boards. Wood chips resulting from that process, and wood that can no longer be used, can still be used as wood fuel. This is called cascade usage and is a way to use wood completely and totally. In this way, carbon is retained until wood products are used as biomass fuel to create electricity.

▶ Establishment of Biomass Power Generation Company and Wood Fuel Chip Supply Company(P.169)

**[Plantation]**

Just harvesting trees and using the timber means forestry resources will be diminished. Sumitomo Forestry always plants and cultivates new trees after harvesting trees to ensure sustainability of forest resources. In fiscal 2009, Sumitomo Forestry planted forests in Japan with a total area of approximately 49 hectares and 4,300 hectares overseas.



From a carbon stock perspective, during the time wood products used in cities are retaining carbon, newly planted trees grow, absorb CO<sub>2</sub>, and retain carbon. Company-owned forests and the carbon retained in the homes we build thus increase the carbon stock and contribute to counteracting global warming.

## Conservation and Sustainable Use of Japanese Timber Resources

The depletion and devastation of forests has become a global issue. As a timber distributor and owner of approximately 42,600 hectares of forest, Sumitomo Forestry believes that it has an important role to play in ensuring the sustainability of timber resources. The Company will continue to promote the use of sustainable timber by capitalizing on its accumulated forest management expertise and on the results of its research and development efforts related to trees and wood.



Japan's forestry industry is in decline. I'd like to see Sumitomo Forestry take the initiative in reviving this industry in Japan. (Customer)

### Management of Company-Owned Forests

Sumitomo Forestry's Company-owned forests located in Hokkaido, Shikoku, Kyushu and Wakayama cover a total area of 42,642 hectares (about 1/900 of Japan's land area). These forests are managed in an environmentally sound and sustainable manner.

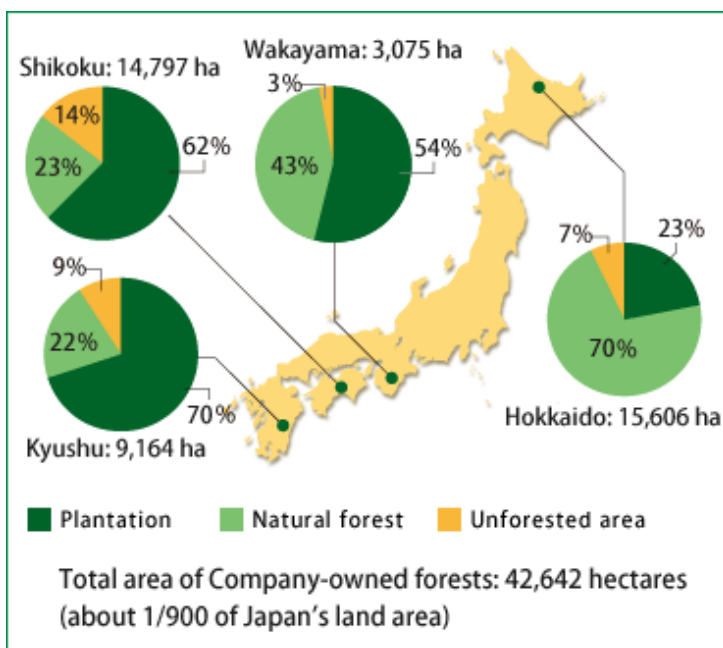
Forests perform a number of functions for the public good, including conserving national land, cultivating water resources, curbing global warming by absorbing CO<sub>2</sub>, and preserving biodiversity. These benefits can be enhanced with proper forest management. Unlike fossil fuels, the cycle of reforestation, thinning, harvesting and re-planting makes it possible to use forests as a renewable resource.

Sumitomo Forestry-owned forests acquired certification from Japan's Sustainable Green Ecosystem Council (SGEC)<sup>1</sup> in September 2006, meaning that a third party has verified that the forests are properly managed. In fiscal 2009, the forests were inspected for the third time since earning forestry certification, and it was determined that Sumitomo Forestry has taken appropriate measures to preserve biodiversity, among other issues. In addition, 973.5 hectares of forests acquired in Kyushu and Shikoku through April 2009 were also certified by SGEC.

The Company's management practices consider the ecosystems and surrounding environment, and include methods for appropriate thinning and small-area clear cutting, which enable efficient harvesting of trees, followed by reforestation. These practices ensure sustainable forest management.

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

■ Distribution and Area Covered by Sumitomo Forestry-Owned Forests (As of March 31, 2010)



▶ Ensuring Traceability of Timber(P.88)

▶ Initiatives to Preserve Biodiversity(P.59)

▶ Preserving Biodiversity(P.151)

## Effective Use of Company-Owned Forests through Joint Operations

To maximize the functionality of forests, proper maintenance of forests—clearing away of underbrush, pruning, and thinning—is vital, but in Japan, the large number of owners holding small parcels of land makes it difficult to do so efficiently.

As a result, maintenance of forests and usage of domestic timber are delayed, diminishing the vitality of forests and creating a significant problem. To address this situation, Sumitomo Forestry launched efforts to create greater efficiencies by facilitating multiple owners of forests to manage forests cooperatively.

### Joint Operations with Owners of Large Forests

In October 2009, Sumitomo Forestry, Oji Paper Co., Ltd., and Oji Forest & Products Co., Ltd. signed a memorandum of understanding to engage in joint utilization of forestry resources centered around each of the three company's forests.

The three companies are jointly engaged in two projects involving active use of SGEC-certified timber from Hokkaido, and a joint forestry operations area in Ehime prefecture—leveraging technology and expertise accumulated over many years of forestry management, as part of an integrated, upstream-to-downstream initiative. We aspire to fulfill our responsibility to society as the largest private-sector owner of forests in Japan by realizing the renewal of Japan's forests by innovating new private-sector-led business models. This project is the first time that private-sector companies owning large forests have concluded a memorandum of understanding for joint forestry operations.

#### ■ Overview of Operations

Active use of SGEC-certified timber from Hokkaido	SGEC-certified logs harvested from forests owned by Sumitomo Forestry (Monbetsu area) and Oji Paper group (Soya and Engaru areas) will be processed by SGEC-certified entities (processing facilities that have been certified by SGEC for classification, separation, and labeling), and finished into high-quality structural members made of engineered wood, then used in custom-built detached houses sold by Sumitomo Forestry.
Joint forestry operations area in Ehime prefecture	Sumitomo Forestry and the Oji Paper group will jointly create a forestry operations area centered on forests owned by Oji Paper group with neighboring privately held forests, creating the scale necessary for operating efficiencies, and building new logging roads through the mountains, thereby increasing the productivity and efficiency of operations such as thinning.

### Promotion of Public-Private Sector Forestry Management

In fiscal 2009, Sumitomo Forestry, aiming to enable efficient forestry operations between the public and private sectors, concluded an agreement for promotion of forestry management on public, private, and Company-owned forests in Kochi, Kumamoto, and Wakayama prefectures. The initiative in Kumamoto prefecture is the largest forest area ever covered by such an agreement.

To achieve efficiencies in forest management, it is necessary to designate a forestry joint operations area encompassing national forests, private and public forests, whose ownership structures are different, and then treat the combined forests as if they were one, as well as build an efficient network of strip roads. Through the conclusion of an agreement for promotion of forestry management, it is now possible to efficiently build a network of strip roads, which has been problematic up until now, and to create efficiencies in forestry operations, with the expectation of reduced costs.

Going forward, the partners will jointly engage in thinning operations and sales of products made from the thinnings, and aim for even more appropriate and efficient operations.

■ Overview of agreement for promotion of forest management

Area	Signatories to the Agreement	Company-Owned Forest Area (Total Area)
Kochi Prefecture	<ul style="list-style-type: none"> <li>Forestry Agency, Shikoku Regional Forest Office, Reihoku Forest Management Department</li> <li>Sumitomo Forestry Co., Ltd., Niihama Forestry Office</li> </ul>	225 ha (716 ha)
Kumamoto Prefecture	<ul style="list-style-type: none"> <li>Forestry Agency, Kyushu Regional Forest Office, Kumamoto Nambu Forest Management Department</li> <li>Forestry and Forest Products Research Institute, Forest and Agricultural Land Maintenance Center, Kumamoto Water and Forest Resource Office</li> <li>Sumitomo Forestry Co., Ltd., Hyuga Forestry Office</li> <li>Kyushu Yokoi Forestry Co., Ltd.</li> </ul>	317 ha (3,935 ha)
Wakayama Prefecture	<ul style="list-style-type: none"> <li>Forestry Agency, Kinki Chugoku Regional Forest Office, Wakayama Forest Management Department</li> <li>Forestry and Forest Products Research Institute, Forest and Agricultural Land Maintenance Center, Wakayama Water and Forest Resource Office</li> <li>Sumitomo Forestry Co., Ltd., Ogawa Forestry Office</li> <li>Miyama Forest Owner's Cooperation</li> </ul>	288 ha (1,539 ha)



I want Sumitomo Forestry to maintain not just Company-owned forests but also uncared for places in declining forests. I hope to see operations that will renew as many declining forests as possible. (Customer).

## Promoting the Use of Japanese Timber

Following World War II, mountains throughout Japan were planted with Japanese cedar and cypress trees in an intense reforestation effort. However, Japanese timber became less competitive than imported timber due to deregulation policies, making forest management an unprofitable business. As a result, the country's forest plantations were practically abandoned and the forestry industry fell into decline.

Sumitomo Forestry believes that sound business practices are needed to drive Japan's forestry industry so that timber resources can continue being produced from the country's forests in the future. This means that greater use of Japanese timber will be a major challenge.



- Japanese timber has such high quality, I'd really like to see Japan's forestry industry become vital again. (Student)
- I want Sumitomo Forestry to work to revitalize Japanese forestry, creating a mechanism to use more Japanese timber, not imported timber. (Student)

## Using Japanese Timber in Homes

Sumitomo Forestry embraces a policy of actively using Japanese timber in its houses, and is promoting initiatives to encourage the use of its *Super Cypress* laminated engineered wood for structural use, made from Japanese cypress (*Chamaecyparis obtusa*), and its original load-bearing wall lattice panels, made from Japanese cedar (*Cryptomeria japonica*) and Japanese larch (*Larix leptolepis*). In fiscal 2008, the Company reached its target of using Japanese timber for 70% of the principal structural members for *Sumitomo Ringyo no Ie* (Sumitomo Forestry Home) houses.

Sumitomo Forestry also builds houses that use Japanese timber for 100% of principal structural members, limited to certain product models and regions. The *MyForest-Waraku Miyabi* home, launched in November 2006, uses Japanese timber for all principal structural members, including *Super Cypress* (100% Japanese cypress laminated engineered wood) for foundations and posts and larch for beams. The *MyForest-Taiju* home, launched in February 2008, uses Japanese timber for all principal structural members, with *Super Cypress* used for posts, foundations and sleepers, and cypress used in original load-bearing lattice panels. Sumitomo Forestry also encourages the use of Japanese cedar for interior materials.

The Company increased the percentage of Japanese timber used for principal structural members in *MyForest-Nostalgia*, a mainstay product in the two-by-four housing category. In two-by-four houses, the switch to Japanese cypress laminated engineered wood foundations and sleepers increased the ratio of domestic timber used in principal structural members from 4% to 30%.

Sumitomo Forestry is also encouraging the use of regionally produced timber. In Hokkaido, the Company offers a 100% "made in Hokkaido" model that uses only locally grown Japanese larch and Sakhalin fir. In fiscal 2009, the Company built houses in Nagano, Ehime, Nara, Wakayama, Yamaguchi, Kochi, Kumamoto, and Oita using at least some locally produced timber.

The Company will continue to promote these efforts to increase the use of domestic timber.



- My family feels a great deal of pride in the house that Sumitomo Forestry built for us. (Business partner)
- Sumitomo Forestry does not exclusively use Japanese timber, but also uses imported timber. I think the Company should set separate environmental initiatives for each type of timber. (Business partner)

▶ Providing Environmentally Friendly Homes(P.34)

## Utilization of Japanese Timber and Consideration for the Environment

Sumitomo Forestry developed and started sales of the *Monbetsu no Mori* line of furniture that makes effective use of thinnings of broadleaf trees harvested from Company-owned forests primarily in Monbetsu, Hokkaido.

The Company is actively involved in the use of domestic timber in the houses it builds, and has increased to 70% the ratio of domestic timber used in principal structural members. In addition to structural members, aiming to proactively use domestic timber in furniture, the Company launched the *Monbetsu no Mori* project with 11 member companies, which advances the development of furniture that leverages the best qualities of domestic timber and the best qualities of wood.

Thinnings, which are curved, and wood left over from logging are difficult to process into timber products and have conventionally been used primarily as raw materials for pulp, or as fuel in the form of firewood—or disposed of unused. The *Monbetsu no Mori* brand of interior furniture is the result of investigation into the effective use of thinnings from broadleaf and other trees. The thinnings from broadleaf trees used as raw materials for the *Monbetsu no Mori* brand come from SGEC<sup>1</sup>-certified forests. Going forward, the products will be marketed carrying the SGEC label.

By promoting the supply of thinnings from broadleaf and other trees to companies that support and endorse these types of projects, the Company is encouraging the proactive use of domestic timber and supporting the revitalization of domestic forests and protecting the environment, thus contributing to the achievement of the government's goal of 50% self-sufficiency in timber.

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



Furniture products made with thinnings of broadleaf trees from forests in Monbetsu

Sumitomo Forestry Crest Co., Ltd. uses Japanese cedar for its *Ayasugi* line of interior materials such as entrance hall storage areas, stairways and flooring. Although Japanese cedar is the most commonly planted tree in Japan, after it is cut into posts, some parts of the remaining wood are generally not used. However, Sumitomo Forestry Crest was particularly suited to apply its unique technologies to process these parts for its *Ayasugi* line.

The company also manufactures a line of doors and flooring called *Totorop*, which is made of Japanese-grown Sakhalin fir. A cycle of logging and planting these trees, which are commonly grown on plantations in Hokkaido, enables a balance between timber supply and forest regeneration. *Totorop* products effectively use the knotted parts of the timber, which was previously unused, as laminated engineered wood without diminishing performance. Moreover, when drying Sakhalin fir, dried scraps and offcuts are used in the drying equipment as biomass, a renewable energy.

Through the extensive use of Japanese cedar and Sakhalin fir, the company is contributing to the preservation of national lands, as well as to the prevention of global warming.

Sumitomo Forestry Landscaping Co., Ltd. began selling *Original Deck Hinoki* brand of wooden decks that use thinnings from Japanese cypress in the floorboards. Japanese cypress is a conifer that possesses beautiful grain and superior durability, and, as such, has traditionally been used in shrines and altars. Using the Sumitomo Forestry Group's domestic network to procure thinnings from Japanese cypress, which has not been used very much until now, and the Group's proprietary technologies to effectively utilize it as a product, the Company promotes the use of domestic timber, and contributes to the healthy development of domestic forests.



Original Deck Hinoki

## Development of Efficient Timber Drying Technology

Cedar and cypress timber, which are often used to make posts, are sawed up and then dried. However, cracking tended to occur in the wood-drying process, especially for cedar due to its high moisture content. Therefore, resolving this problem was essential to ensuring consistent quality.

Sumitomo Forestry responded by developing and promoting the *MIZDAS*<sup>®</sup> system, which is incorporated into timber drying equipment to automatically control temperature and humidity via computer. Sensors are attached to the section of the timber to be dried to measure the moisture content and temperature of the wood inside the drying kiln. Conditions are adjusted accordingly to ensure appropriate temperature and humidity levels. This system reduces cracking, distortion and other damage to the timber, making it possible to deliver the highly competitive and high-quality *MIZDAS*<sup>®</sup> Cedar posts and *MIZDAS*<sup>®</sup> Cypress posts at low cost.



Cypress posts are dried in a kiln equipped with a *MIZDAS*<sup>®</sup> system



Shipment of cedar posts

## Effective Use of Unused Biomass Resources

Branches and twigs from thinning of forests, and offcuts such as wood left over from logging, left alone become a source of greenhouse gas emissions and are related to forest deterioration, and thus their effective use is an important challenge. In order to use wood left over from logging effectively as a source of unused biomass, Sumitomo Forestry Timberland Management Co., Ltd. took a leading role in the Model Demonstration Project for New Business Creation Using Wood Resources from fiscal 2008, and has researched the construction of a system to collect wood left over from logging, and provide wood biomass fuel.

This effort has been evaluated and, in fiscal 2009, it was decided that all wood left over from logging would be provided as biomass fuel to Sumitomo Joint Electric Power Co., Ltd., which will mix it with coal fuel to generate electricity in July 2010. By replacing a portion of the coal used to generate electric power with biomass chips, this initiative will cut CO<sub>2</sub> emissions by 6,900 tons annually and also contribute to preservation of local forests.

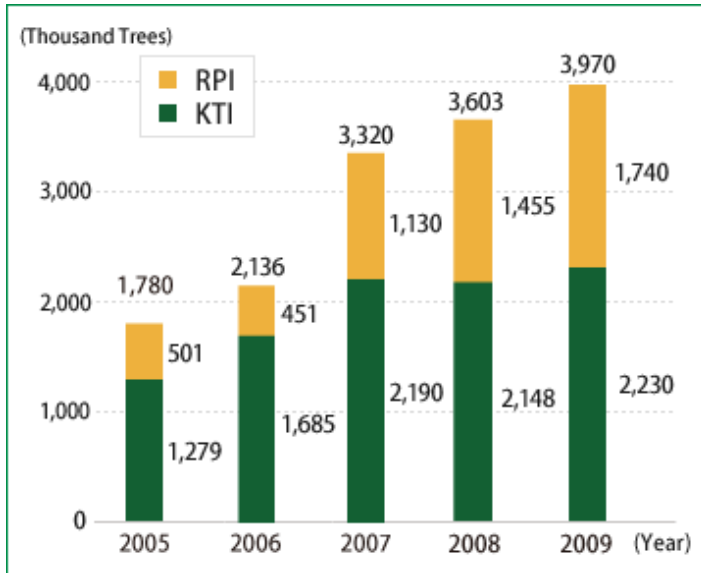
Going forward, the Company is aiming to further expand the business of supplying wood left over from logging across the nation.



## ○ Preservation and Sustainable Use of Overseas Forest Resources

Group companies outside Japan are increasing their use of plantation timber and promoting plantation forest operations to ensure a stable supply of raw materials while still protecting the environment. In fiscal 2009, PT. Kutai Timber Indonesia (KTI) planted 1,979 hectares, PT. Rimba Partikel Indonesia (RPI) planted 1,007 hectares, Nelson Pine Industries Ltd. in New Zealand planted 167 hectares, and Open Bay Timber Ltd. in Papua New Guinea planted 1,160 hectares. KTI, which produces plywood and other timber products, is working toward its goal of using plantation timber for all of its raw material in the near future.

### ■ Reforestation in Indonesia



## Contributions to Local Communities

In its plantation forest operation activities, Sumitomo Forestry cooperates with residents living in the vicinity of its projects to ensure that they receive the economic benefits of plantation forest operations. In 2000, the Company launched “social forestry” in Indonesia, a program for distributing seedlings to local residents free of charge. KTI and RPI then promise to buy the grown trees back in six to seven years, when the trees are ready for harvesting. Residents expect to benefit from this project, and supporting their independence and communicating with them builds strong relationships. KTI formed a reforestation cooperative in fiscal 2007, and acquired FSC FM certification in December 2008.

▶ Expanding the Handling of Timber from Certified Forests(P.30)

## Promoting the Use of Timber from Sustainable Forests

Sumitomo Forestry procures timber from forests all over the world and therefore has a major obligation to preserve the world's forests. The Timber & Building Materials Division's Forest Products Trading Department and Building Materials Department have acquired Forest Stewardship Council (FSC)<sup>1</sup> and the Programme for the Endorsement of Forest Certification (PEFC)<sup>2</sup> Chain of Custody (CoC)<sup>3</sup> certification to encourage the use of timber from sustainable forests. In addition, Sumitomo Forestry has established a system to survey timber suppliers to ensure that it only handles legally compliant timber. In June 2007, Sumitomo Forestry established the Sumitomo Forestry Group Timber Procurement Philosophy and Policy, and is currently implementing an action plan to promote the procurement of timber grown in sustainable forests. In fiscal 2009, Sumitomo Forestry revised the action plans for fiscal 2010 and beyond, and will from now advance its efforts based on the new action plans.

- 1 The FSC is a third-party organization that provides a global forestry certification system. Its Forest Management (FM) certification authenticates forest management, while FSC CoC certification of business organizations confirms that forest products from certified forests are appropriately separated and marked in the storage, processing and distribution processes.
- 2 The PEFC is a forestry certification program that promotes sustainable forest management by offering certification from third parties independent of stakeholders.
- 3 A system for certifying appropriate separation and labeling by operators during storage, processing and distribution of timber from forests.



## Expanding Imports of Plywood Made from Timber from Certified Forests and Plantations

In an effort to increase its usage of plywood made with timber from certified forests and plantation forests, which are eco-friendly materials, in September 2008, Sumitomo Forestry decided to expand its imports of plywood made with timber from certified forests. The Company is aiming for about 50% of its imported plywood to be made with timber from certified forests and plantation forests within three years, mainly by importing FSC-certified plywood manufactured by the ALAS Kusuma Group in Indonesia. In fiscal 2009, imported plywood made from certified and plantation timber was approximately 120,000 m<sup>3</sup>, or roughly 28% of total handled volume.

### Launch of Large-Scale Commercial Forest Plantation Business

As forecasts for global timber consumption continue to rise, loss of forests and destruction of ecosystems are accelerating at a dramatic pace due to forest fires, illegal logging, and slash-and-burn farming in Southeast Asia and other parts of the world. In this environment, Sumitomo Forestry jointly launched a large-scale commercial forest plantation business in cooperation with ALAS Kusuma Group, a company involved in the forestry and plywood manufacturing businesses in Indonesia. This initiative not only contributes to the economic development of the local community by providing employment for local residents in commercial forest plantation operations, but also to the preservation of biodiversity and the reduction of greenhouse gas emissions.

This initiative classified Indonesia's lowland forests and peat-swamp forests, which have been degraded by illegal logging and slash-and-burn farming, into three areas: (1) forest preservation zones, (2) buffer zones, and (3) forestation zones. By further classifying plantation areas by environmental factors such as soil composition and moisture content, the initiative is able to optimize forestation operations to local environmental conditions. Forestation program planning utilizes leading-edge satellite information technology acquired through joint research with the Japan Aerospace Exploration Agency (JAXA)'s Space Open Lab system.

The aim is to enable sustainable commercial plantation forestry that contributes to the preservation of biodiversity through appropriate designation of forest preservation zones, mosaic planting wherein forestation is undertaken only in designated areas suited for that purpose, and the aggressive introduction of indigenous species. An experimental plantation was launched in October 2009, and full plantation operations will begin in 2010. The plan calls for 40,000 hectares to start with, rising ultimately to 280,000 hectares.



Plantation tree seedlings

▶ Plantation Forest Operation Using Satellite Information(P.168)



I expect the Company to both reduce CO<sub>2</sub> emissions and absorb CO<sub>2</sub> through its plantation forests. (Student)

## Preserving Biodiversity

Biodiversity is an essential condition that forms the very foundation for supporting human life. Currently, however, biodiversity is being lost at a rapid pace around the world due to human activity. As a company with a deep relationship with forests, Sumitomo Forestry focuses its resources on the preservation and sustainable use of biodiversity.

▶ Initiatives to Preserve Biodiversity(P.59)

### Policy on Biodiversity Preservation in Company-Owned Forests in Japan

The Company's Policy on Biodiversity Preservation in Company-owned Forests in Japan was established in September 2006.

#### 1. Diversity of ecosystems

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

#### 2. Diversity of species

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

#### 3. Genetic diversity

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

### Initiatives for Biodiversity Preservation in Company-Owned Forests

The Company also created the *Sumitomo Forestry Red Data Book* to list the rare flora and fauna that might exist in Company-owned forests, and provides training to those who work in these forests. As a result of this training, consideration of biodiversity is enhanced: for example, when a plant was confirmed as an endangered species in the forests of Kyushu, the plant was transplanted to neighboring forests with similar growth environment and protected there. The Company has been conducting monitoring surveys to determine the inhabitation situation of mammalian and avian species in Company-owned forests since fiscal 2008. Going forward, the Company plans to assess the long-term impact of logging and plantation operations on mammalian and avian species by conducting annual surveys of one of four regions: Hokkaido, Shikoku, Kyushu, or Wakayama, and then repeating the cycle so that each region is surveyed every four years.



*Sumitomo Forestry Red Data Book*  
(Hyuga Forestry Office, Miyazaki Prefecture Edition)

## Monitoring Survey of Mammalian and Avian Species in Company-Owned Forests in Kyushu

As part of a monitoring program for SGEC forestry certification, Sumitomo Forestry conducted a monitoring survey of Company-owned forests in Kyushu in June 2009. Mammalian and avian species were surveyed and photographed at fixed locations to obtain the basic information needed to preserve biodiversity in Company-owned forests and determine the impact of logging on the surrounding environment.

### [Survey Results]

The survey confirmed the presence of a wide variety of mammalian and avian species.

#### ■ Mammalian and avian species confirmed

Mammalian	Japanese Mole ( <i>Mogera wogura</i> ), Japanese Hare ( <i>Lepus brachyurus</i> ), mouse family, Raccoon Dog ( <i>Nyctereutes procyonoides</i> ), Red Fox ( <i>Vulpes vulpes</i> ), Japanese Marten ( <i>Martes melampus</i> ), weasel family, Eurasian Badger ( <i>Meles meles</i> ), Japanese Wild Boar ( <i>Sus scrofa leucomystax</i> ), Sika Deer ( <i>Cervus nippon</i> ), Japanese serow ( <i>Capricornis crispus</i> or <i>Naemorhedus crispus</i> ). <sup>1</sup> (5 species, 8 families, 11 orders)
Avian	Black Kite ( <i>Milvus migrans</i> ), Hodgson's Hawk-eagle ( <i>Nisaetus nipalensis</i> , earlier treated under <i>Spizaetus</i> ), <sup>1</sup> Copper Pheasant ( <i>Symaticus soemmerringii</i> ), Oriental Turtle-dove ( <i>Streptopelia orientalis</i> ), White-bellied Green Pigeon ( <i>Treron sieboldii</i> ), Oriental Cuckoo ( <i>Cuculus saturatus</i> ), <sup>1</sup> Pacific Swift ( <i>Apus pacificus</i> ), Japanese Green Woodpecker ( <i>Picus awokera</i> ), White-backed Woodpecker ( <i>Dendrocopos leucotos</i> ), <sup>1</sup> Japanese Pygmy Woodpecker ( <i>Dendrocopos kizuki</i> ), Ashy Minivet ( <i>Pericrocotus divaricatus</i> ) <sup>1</sup> , Brown-eared Bulbul ( <i>Hypsipetes amaurotis</i> ), Winter Wren ( <i>Troglodytes troglodytes</i> ), Japanese Thrush ( <i>Turdus cardis</i> ), Asian Stubtail ( <i>Urosphena squameiceps</i> ), Japanese Bush Warbler ( <i>Cettia diphone</i> ), Eastern Crowned Warbler ( <i>Phylloscopus coronatus</i> ), Narcissus Flycatcher ( <i>Ficedula narcissina</i> ), Blue-and-white Flycatcher ( <i>Cyanoptila cyanomelana</i> ), <sup>1</sup> Long-tailed Tit ( <i>Aegithalos caudatus</i> ), Willow Tit ( <i>Parus montanus</i> ), Coal Tit ( <i>Parus ater</i> ), Varied Tit ( <i>Parus varius</i> ), Great Tit ( <i>Parus major</i> ), Eurasian Nuthatch ( <i>Sitta europaea</i> ), Japanese White-eye ( <i>Zosterops japonicus</i> ), Meadow Bunting ( <i>Emberiza cioides</i> ), Oriental Greenfinch ( <i>Carduelis sinica</i> ), Japanese Grosbeak ( <i>Eophona personata</i> ), Eurasian Jay ( <i>Garrulus glandarius</i> ), Jungle Crow ( <i>Corvus macrorhynchos</i> ), Chinese Bamboo Partridge ( <i>Bambusicola thoracica</i> ), Red-billed Leiothrix ( <i>Leiothrix lutea</i> ) (7 species, 20 families, 33 orders)

<sup>1</sup> Important species: Species included in Red Data Book by national or regional stipulation (designated as endangered species) under the Act for Protection of Cultural Properties, Act for Preservation of Species, Miyazaki Prefectural Ordinance, and other laws and ordinances.

Regional Environmental Planning, Inc., the company that conducted the survey, made the following observations on the impact of clear-cutting upon mammalian and avian species.

#### 1. Mammalian Species

In the Company-owned forests in Kyushu, the presence of Japanese serow, whose habitat is limited to the Kyushu forests, was confirmed, as was the existence of deep mountain environments in the area. Compared to regions where clear-cutting was conducted, the number of confirmed mammal species was high in the surrounding forests, and that difference was particularly evident among medium-sized mammals including hares, raccoon dogs, foxes, and martens. Further, while mammal habitats and evidence of comings and goings were reduced, medium- and large-sized mammals are active across broad areas, and diversity is expected to advance as vegetation is regenerated and clear-cut areas are used as habitats.

#### 2. Avian Species

The impact of clear-cutting operations on bird life is significant, as shown by the number and types of species and territories. In clear-cut areas, however, even the Meadow Bunting, whose habitat is low in bushes or on the ground, and tree forest species<sup>1</sup> such as the Blue-and-white Flycatcher, Narcissus Flycatcher, and Eurasian Jay were confirmed. That these species were confirmed is thought due to the clear-cut areas being surrounded by trees that protected the continuity of tree forests. Further, the presence of tree forest species, such as the Blue-and-white Flycatcher in young forests was confirmed, and recovery of the number and types of species was observed. From these observations, it is thought that, going forward, habitat species will increase as plant life recovers, as will the diversity of constituent species.

### 3. Shared

Of the species confirmed, foxes and Hodgson's Hawk-eagle are umbrella species<sup>2</sup>, and it can be thought that habitats capable of supporting a diverse range of mammalian and avian species are preserved in Company-owned forests. Further, Sumitomo Forestry and Regional Environmental Planning, Inc. will both continue to observe and monitor the impact of operations upon the confirmed endangered species and do what is necessary to protect them.

1 Species whose habitat is tree forests

2 Species whose position is at the top of the food chain



Japanese serow confirmed by unmanned photography



Copper Pheasant



I expect Sumitomo Forestry to preserve biodiversity through its forestry operations (Expert)

## Management of Hazardous Materials

Sumitomo Forestry endeavors to identify, appropriately manage, and reduce the amount of hazardous chemical materials used and emitted in its business operations. In November 2008, the Pollutant Release and Transfer Register (PRTR) Act was revised, including the target substances that must be identified by emitted or transported amount beginning in fiscal 2010. The Sumitomo Forestry Group strictly complies with the revised law and continues to properly manage all hazardous materials.

### Management of Chemical Substances at Research Institute and Plants

The Sumitomo Forestry Tsukuba Research Institute and the plants belonging to Sumitomo Forestry Crest Co., Ltd. use chemical substances in laboratory work and production. The Tsukuba Research Institute prepared the *Chemical Substance Management Manual* based on a pollution prevention agreement it entered into with the city of Tsukuba. The institute established an organizational structure for chemical substances management in accordance with the manual and prescribed methods for receiving, storing, using, and disposing of chemical substances.

Sumitomo Forestry Crest produces structural lining and interior materials for use in housing construction. The company's seven plants take precautions to prevent chemical leaks and other environmental accidents. They have prepared environment-related operations manuals that prescribe methods for waste disposal, water treatment, and the handling of organic solvents, among other matters. The plants are also measuring concentrations of air and water pollutants and organic solvents in exhaust gas.

■ Emissions and Transfers of PRTR Substances<sup>1</sup> (Tsukuba Research Institute and Sumitomo Forestry Crest)  
<sup>1</sup> PRTR substances: substances controlled under the Pollutant Release and Transfer Register Act

Unit: kg (excluding dioxins, which is shown in mg-TEQ)

Substance No. (PRTR Law)	Chemical substance	Volume used									Consumed*
			Emissions to air	Emissions to public sewage system	Emissions to soil	On-site landfill	Total emissions	Transfer as waste	Transfers to sewage	Total transfers	
2	Acrylamide	0.15	0.00	0.00	0.00	0.00	0.00	0.15	0.00	0.15	0.00
3	Acrylic acid	2,701.00	0.00	9.50	0.00	0.00	9.50	0.00	0.00	0.00	2,684.50
12	Acetonitrile	0.93	0.00	0.00	0.00	0.00	0.00	0.93	0.00	0.93	0.00
30	Bisphenol A type epoxy resin	28,600.00	0.00	0.00	0.00	0.00	0.00	140.00	0.00	140.00	28,460.00
43	Ethylene glycol	1,152.00	0.00	6.50	0.00	7.00	13.50	5.00	0.00	5.00	1,133.50
65	Glyoxal	3,407.00	0.00	0.00	0.00	0.00	0.00	6.80	0.00	6.80	3,400.20
68	Chromium and chromium (III) compounds	30.60	30.60	0.00	0.00	0.00	30.60	0.00	0.00	0.00	0.00
95	Chloroform	0.13	0.00	0.00	0.00	0.00	0.00	0.13	0.00	0.13	0.00
102	Vinyl acetate	1,899,855.00	3,300.00	1.60	0.00	0.00	3,301.60	0.00	0.00	0.00	1,896,553.40
145	Dichloromethane	62,883.94	60,574.11	0.00	0.00	0.00	60,574.11	2,309.83	0.00	2,309.83	2,402.16
179	Dioxins	69.36	69.20	0.00	0.00	0.00	69.20	0.17	0.00	0.17	0.00
227	Toluene	5,000.00	5,000.00	0.00	0.00	0.00	5,000.00	0.00	0.00	0.00	0.00
266	Phenol	21,960.00	0.00	0.40	0.00	0.00	0.40	610.00	0.00	610.00	21,349.60
307	Poly(oxyethylene) alkyl ether (alkyl C=12-15)	1,283.00	0.00	13.00	0.00	0.00	13.00	14.00	0.00	14.00	1,256.00
310	Formaldehyde	155,474.00	50.00	11.00	0.00	0.00	61.00	350.00	0.00	350.00	155,413.00
314	Methacrylic acid	1,392.00	0.00	1.00	0.00	0.00	1.00	0.00	0.00	0.00	1,391.00
320	Methyl methacrylate	2.84	2.84	0.00	0.00	0.00	2.84	0.00	0.00	0.00	0.00
453	Ammonium molybdate tetrahydrate	0.82	0.00	0.00	0.00	0.00	0.00	0.82	0.00	0.82	0.00

<sup>1</sup> “Consumed” is the amount of substances stipulated under the PRTR Law transformed through chemical reaction, included in or accompanying manufactured products, and transported off site.



■ Emissions of NOx and SOx (Sumitomo Forestry Crest Co., Ltd.)

Substance	Emissions (Unit: kg)
Sulfur oxides (SOx)	4,549
Nitrogen oxides (NOx)	62,859
Soot and dust	22,511

■ Effluent Water Quality Survey Results  
Sumitomo Forestry Crest Co., Ltd. No.2 Kyushu plant

Item <sup>1</sup>	Unit	Measured	Effluent Standards <sup>2</sup>
pH	-	6.9	5.0~9.0
COD	mg/l	23.2	40
SS	mg/l	3	50
T-N	mg/l	3.64	60
T-P	mg/l	0.02	8

■ Effluent Water Quality Survey Results  
Tsukuba Research Institute

Item	Unit	Measured	Effluent Standards <sup>3</sup>
pH	-	7.8	5.8~8.6
BOD <sup>4</sup>	mg/l	8	160
SS	mg/l	14	200
Total n-hexane extract substances (total mineral oils)	mg/l	Less than 1	5
Total n-hexane extract substances (total plant and animal fats/oils)	mg/l	Less than 1	30
Total Phenols	mg/l	Less than 0.025	0.5 or less

1 pH = concentration of hydronium ions

COD = Chemical Oxygen Demand

SS = Suspended Solids

T-N = Total Nitrogen

T-P = Total Phosphorous

2 Effluent standards uses values stipulated by prefectural ordinance.

3 Effluent Standards uses values stipulated by the Water Pollution Control Act.

Total Phenols uses standards required by the Tsukuba City Pollution Prevention Agreement.

4 BOD = Biological Oxygen Control

## Proper Treatment of Building Materials Containing Asbestos

Revisions made to the Waste Management and Public Cleansing Law in July 2006 required changes to the handling of asbestos and how information is recorded in industrial waste management forms. Sumitomo Forestry has secured appropriate disposal routes in order to comply with the revisions. Countermeasures for prevention of asbestos being released into the air during demolition work are detailed in the Guide for Appropriate Measures During Demolition Work, which sets forth policies for construction management. The Company also discloses information about asbestos use and countermeasures via its website.

## Storage of Polychlorinated Biphenyls (PCBs)

Sumitomo Forestry properly manages polychlorinated biphenyl (PCB) waste and prevents leakage to the soil by keeping it in sealed metal containers inside designated, locked steel warehouses marked for stored goods. Each branch and division has arranged to gradually dispose of stored PCBs based on proper disposal implementation plans.

## Measures against Volatile Organic Compounds (VOCs)

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Only “F☆☆☆☆” -rated building materials, furniture, lighting systems, and curtains—which have the lowest level of formaldehyde emissions—are used in Sumitomo Forestry Home houses in order to reduce emissions of volatile organic compounds (VOCs), which have been identified as a cause of “sick house” syndrome. Cosmetic plasterboards that absorb and break down formaldehyde are used inside closets. Only *tatami* mats that do not contain foamed polystyrene are used. Efforts are also being made to reduce toluene and xylene.

## Use of Chromium-Free Materials

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With the enforcement of Europe's WEEE<sup>1</sup> and RoHS<sup>2</sup> directives, companies are required to reduce the amount of harmful substances such as hexavalent chromium, lead, and cadmium contained in their products. In fiscal 2009, Sumitomo Forestry achieved the goal of “100% chromium-free” for all metals used. This is the result of efforts to shift to use of only non-chromium surface-treated structural metals to reduce the use of hazardous materials.

1 Waste Electrical and Electronic Equipment

2 Restriction of the Use of Certain Hazardous Substances in Electrical and Electronic Equipment

## Efficient Use of Water Resources

The world's limited water resources make it essential that we use this water efficiently. Sumitomo Forestry is therefore working to reduce its water use at its factories and offices.

### Efficient Use of Water Resources at Plants

Of the Sumitomo Forestry Group's 10 domestic manufacturing facilities, the No. 2 Kyushu Plant of Sumitomo Forestry Crest Co., Ltd. (former Toyo Plywood Co., Ltd. plant), which manufactures synthetic resin adhesives, etc., is a designated facility under the stipulations of the Water Pollution Control Act. The other factories manufacture primarily processed wood products such as plywood and housing interior materials and thus do not use large amounts of water. Nonetheless, efforts to use water as efficiently as possible are being made at all Sumitomo Forestry manufacturing facilities.

The No. 2 Kyushu Plant of Sumitomo Forestry Crest Co., Ltd. uses industrial water primarily to cool manufacturing equipment and to dilute plant effluents. In order to reduce the amount of water used, the following initiatives were continued to fiscal 2009.

1. Wastewater was reduced by redesigning production plans to match the actual production sequence in order to decrease the number of times equipment is washed.
2. Wastewater was reduced by re-circulating some of the water used to wash equipment and was re-used as a raw material.
3. A storage pool for effluent and raw water was covered with a roof to prevent rainwater from increasing wastewater volume.

Strengthening the efforts for items 1 and 2 above resulted in a reduction in the volume of wastewater generated by the manufacturing division. The installation and maintenance of the roof covering the storage pool in item 3 above resulted in an approximately 10% decrease compared to fiscal 2008 in water sent to wastewater treatment facilities. Strict management of the effluent standard (COD) and control of the discharged amount of treated wastewater resulted in a reduction of the industrial water used. As a result of these efforts, a 12% reduction in industrial water used per base unit of production was achieved in fiscal 2009, greatly exceeding the target of a 6% reduction compared to fiscal 2008.

To effectively use precious water resources, Sumitomo Forestry Crest Co., Ltd. is promoting the use of recycled water resources at its No. 2 Kyushu Plant, Niihama Plant, and Komatsushima Plant. In fiscal 2009, approximately 851,000 m<sup>3</sup> of recycled and re-used water was utilized through such efforts as recycling the water used in water curtain spray booth and re-using treated wastewater to wash filters of dehydrating machines used at wastewater treatment facilities.



Roof covering treated water storage pool



Roof Installation at No. 2 Plant Pit



Roof Installation at No. 1 Plant

## Environmental Management

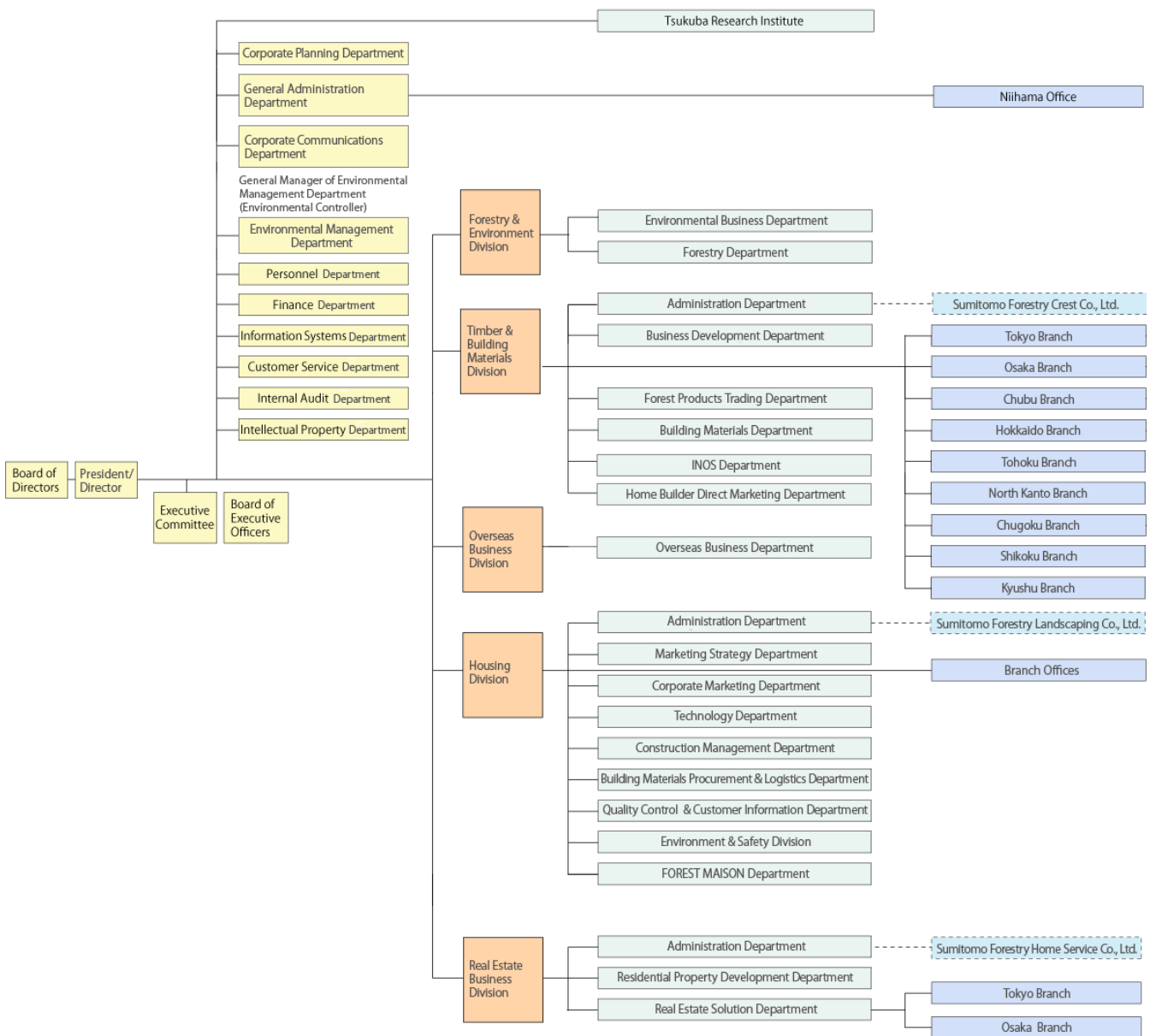
Sumitomo Forestry was among the first in the housing industry to obtain ISO 14001 certification for its environmental management system, and is pushing forward to reduce its environmental impact with a Group-wide integrated system.

### Promoting Environmental Management

#### Environmental Management System

##### ■ Environmental Management Structure

The following organization consider the environment in business activities through activities carried out by respective divisions and in keeping with the Company's Environmental Policy of contributing to the realization of a sustainable society



ISO 14001-certified premises not included in Integrated certification  
 • Alpine MDF Industries Pty Ltd., Nelson Pine Industries Ltd.; PT. Kutal Timber Indonesia; PT. Rimba Partikel Indonesia; and PT. AST Indonesia

In fiscal 1995, Sumitomo Forestry adopted an environmental management system (EMS), and in fiscal 1997, its Housing Division was the first organization in Japan's housing industry to acquire ISO 14001 certification. In fiscal 2002, the certification was upgraded to encompass the entire Company. Efforts were taken to extend this certification to Group companies, and by the end of fiscal 2009, three companies were included in the integrated ISO 14001 certification: Sumitomo Forestry Landscaping Co., Ltd.; Sumitomo Forestry Home Service Co., Ltd.; and Sumitomo Forestry Crest Co., Ltd.<sup>1</sup>

Companies that have obtained ISO 14001 certification independent of the Group-wide integrated ISO 14001 certification are: Alpine MDF Industries Pty Ltd. (ALPINE MDF); Nelson Pine Industries Ltd. (NPIL); PT. Kutai Timber Indonesia (KTI); PT. Rimba Partikel Indonesia (RPI); and PT. AST Indonesia (ASTI).

1 Each plant of the former Toyo Plywood Co., Ltd. (Nagoya plant, Kyushu plant, No. 2 Kyushu plant) had obtained ISO certification independently. Due to the merger with Sumitomo Forestry Crest Co., Ltd. and following an inspection in July 2010, all of the systems of the former Toyo Plywood Co., Ltd. have been integrated into the certification held by Sumitomo Forestry.

## Internal Environmental Audits

Different departments of Group companies conduct audits of each other to reliably and efficiently progress with environmental conservation efforts. In fiscal 2009, the number of departments conducting mutual audits increased to 85. Internal environmental auditors evaluate initiatives, propose improvements, and check compliance frameworks. The results of internal audits are reported to management, which prescribes improvements as needed. Employees are qualified as internal environmental auditors by passing an examination upon completion of a training course held twice a year. As of the end of fiscal 2009, a total of 1,051 employees including 370 from Group companies have qualified as such auditors.

## Audits by External Certification Bodies

ISO 14001 certification reviews are conducted annually and renewal examinations are held every three years by external certification bodies. The fiscal 2009 renewal examination recommended nine proposals for improvement. These proposals were studied by relevant departments, which decided on appropriate actions to take, and internal environmental audits were conducted to determine the effectiveness of initiatives.

## Promoting Environmental Education and Training

The Company conducts environmental education programs to foster awareness of environmental issues among employees and to encourage them to take action of their own accord.

Examples of these activities include distribution of a monthly email newsletter on environmental topics sent to all employees, as well as the intranet portal for environmental understanding, which provides greater depth than the email newsletter, including Q&As on industrial waste and other topics. The portal encourages employees to educate themselves about the environment through a wide array of information, ranging from familiar environmental topics to specialized knowledge.



During training for new employees on entry to the Company, employees are given a lecture on the Group's environmental initiatives. In addition to this, they are taken on a training trip to the Besshiyama Company-owned forest—the Company's birthplace—in the city of Niihama, Ehime Prefecture, to provide the opportunity to consider the environment while experiencing a regenerated forest firsthand.

The Company also gives lectures on proper treatment and recycling to employees in charge of industrial waste, and regularly provides technical environmental education, including courses to train internal ISO 14001 environmental auditors. In fiscal 2009, the Company continued the introductory course on environmental management for new environmental representatives, a program started in fiscal 2008.

## Environmental Risk Management

### Efforts to Reduce Environmental Risks

Sumitomo Forestry identifies important risks relating to its business activities, such as risks associated with industrial waste, soil contamination, and illegal logging, etc., and develops appropriate countermeasures. In particular, the Sumitomo Forestry Group regards industrial waste from its various business activities as its most serious environmental risk, and accordingly continues to ensure proper disposal. The Group also recognizes illegal logging as a major risk, and is working to prevent the handling of illegally logged timber by any Group company.

In fiscal 2009, there were no significant violations of any environment-related laws or ordinances.

### Proper Treatment of Industrial Waste

Approximately 70% of illegally dumped industrial waste in Japan is construction waste. It is essential, therefore, that Sumitomo Forestry proceed with appropriate waste treatment as a responsible company.

In fiscal 2008, the Company reviewed its management systems with the aim to further improve the appropriate treatment of industrial waste. As a result, it appointed personnel in charge of industrial waste treatment to all Group companies, and decided to carry out voluntary compliance audits concerning industrial waste at each company as well as comprehensive site inspections of intermediate treatment plants.

Starting in fiscal 2006, Sumitomo Forestry made a Group-wide switch to an electronic manifest system in order to improve compliance in waste management. This system has helped the Group outsource waste treatment to only the best contractors. All intermediate treatment contractors working with the Housing Division's branches and new housing construction sites have adopted electronic manifest systems. During fiscal 2009, 97% of all manifests, including those for housing demolition waste, were electronic and the Group is aiming for 100% in fiscal 2010.

Sumitomo Forestry will continue to ensure proper disposal of industrial waste by carrying out internal audits of industrial waste management at the division and Company levels, and by inspecting disposal sites.

### Countermeasures against Soil Contamination

In September 2005, the Company issued the Guidebook on Soil Contamination Countermeasures for the purpose of averting soil contamination risk when purchasing land or selling housing lots on behalf of others. Land purchases are made only after confirming that the land is safe following a land history survey. The Property Development Business Division, which operates a subdivision business, conducts soil contamination inspections prior to the purchase of new land as a standard procedure, and has put in place a system that prohibits the use of contaminated land.

In May 2006, the Company drew up the Guidelines on Soil Contamination Countermeasures for Land Owned or Administered by the Sumitomo Forestry Group, for employment in Group-wide efforts to determine the presence of soil contamination.

In fiscal 2008, Sumitomo Forestry Crest's Kashima Plant conducted a soil contamination survey on its grounds as a voluntary initiative to address environmental risk. As a result, the groundwater was found to slightly exceed the standards set for VOC (volatile organic compound) contamination.

The Soil Contamination Countermeasures Act mandates purification only when the land is to be sold or returned to the owner. In order to reduce risk, soil purification using bioremediation<sup>1</sup> was carried out in fiscal 2009. Subsequently, no values exceeding the relevant standards have been detected at observation wells established as part of a continuing monitoring program.

<sup>1</sup> A method for purifying soil contaminated with VOCs by activating microorganisms native to the soil.



Stakeholder  
Comment

I would like Sumitomo Forestry to address soil contamination issues in parallel with plantation forests. (Student)

### Countermeasures against Water Pollution

At facilities designated under the stipulations of the Water Pollution Control Law, the Company conducts regular water quality surveys of discharged water, and strictly manages to target standards.

▶ Effluent Water Quality Survey Results(P.156)



## Preventing the Use of Illegally Logged Timber

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Since illegal logging leads to deforestation, it has become a major issue of public concern. Sumitomo Forestry performs checks of all overseas suppliers of raw timber, lumber, and wood products to confirm legal compliance and to ensure that the Group does not handle any illegally logged timber. To improve reliability, the Group sends local Sumitomo Forestry representatives and inspectors to visit logging sites and confirm compliance when necessary. In fiscal 2009, the Group continued to confirm the legal compliance of suppliers outside Japan, and completed checking of 163 companies. Surveys conducted over the three years since fiscal 2006 show the Company achieved 100% compliance for all timber directly imported from overseas suppliers.

▶ Procuring Sustainable Raw Materials(P.87)

## Proper Management and Reduction of Hazardous Materials

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Sumitomo Forestry endeavors to identify, appropriately manage, and reduce the amount of hazardous chemical materials used and emitted in its business operations. In November 2008, the Pollutant Release and Transfer Register (PRTR) Act was revised, including the target substances that must be identified by emitted or transported amount beginning in fiscal 2010. The Sumitomo Forestry Group strictly complies with the revised law and continues to properly manage all hazardous materials.

▶ Management of Hazardous Materials(P.154)

## Preventing Air Pollution

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At facilities equipped with boilers, which are compliant with the Air Pollution Control Act, emissions and concentrations of NO<sub>x</sub>, SO<sub>x</sub>, and soot and dust are regularly measured to ensure that strict compliance with concentration standards is maintained.

▶ Emissions of NO<sub>x</sub> and SO<sub>x</sub>(P.156)

## Reducing Inconvenience to Local Residents

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The Company makes efforts to prevent noise and vibrations during construction of houses to reduce inconvenience to nearby residents.

## Research & Development

Sumitomo Forestry strives to create a sustainable society through enterprising R&D that capitalizes on its cutting-edge scientific expertise and broad range of knowledge on trees and wood.

### ● R&D Policy

In accordance with its long-term management strategy, the following research groups at the Tsukuba Research Institute work together on research and technology development to create future value, leveraging Sumitomo Forestry's strengths in a variety of areas from forestry to finished products, encompassing trees, wood and housing.

- The Biological Resources Group develops breeding and cultivation technologies as well as propagation technologies involving treasured and precious trees for reforestation projects in and outside Japan.
- To expand the use of plantation timber in and outside Japan, the Building Materials Group develops technologies for wood drying, new wood-based panels, and other applications. The group also develops technologies to strengthen the durability of housing materials.
- The Housing Group develops construction methods with excellent cost performance, and technologies that enhance living environments, enable more efficient use of resources for environmental symbiosis and energy conservation, effectively use trees and natural elements, incorporate universal design principles, improve durability of excellent long-term houses, and provide techniques for renovations.

### ● R&D For Sustainable Forest Management

#### Developing Technology to Propagate Treasured and Precious Trees

In every region of Japan, there are trees that have been treasured from long ago, and some are centuries old. To ensure these precious trees are passed down to subsequent generations, Sumitomo Forestry is working to develop propagation technology to reproduce the properties of the original trees, leveraging the Group's accumulated expertise in propagation through cutting, grafting, and biotechnology.

In 2009, cutting technology was successful in propagating the famous Japanese camellia tree at Reigan-ji Temple in Kyoto, as well as the *sasanqua* tree at Ankokuron-ji Temple in Kamakura. The *sasanqua* tree at Ankokuron-ji Temple is thought to be more than 350 years old, and previous efforts to use cutting technology failed to root. The application of a natural plant fatty acid called "KODA"<sup>1</sup> showed a remarkable effect on promotion of root growth, enabling the propagation of the tree.

In February 2010, tissue cultures, one type of biotechnology, were used to successfully propagate the famous *omurozakura* cherry trees of the Ninna-ji Temple in Kyoto. This is the first time that *omurozakura* trees have been propagated to the seedling stage, passing on the cherished double blossoms characteristic of this species for future generations to enjoy.

<sup>1</sup> KODA ( $\alpha$ -Ketol-OctadecaDienoic Acid): Natural Plant Fatty Acid

Shiseido first identified this natural plant fatty acid as an agent promoting bud formation of flowers and which is currently the subject of joint research with Sumitomo Forestry. KODA has been shown to have effects on rooting, flower bud formation, control of dormancy, and plant growth.



Flowers of the 350-year-old *sasanqua* tree

▶ Promoting Environment-Related Businesses(P.166)

## Development of Technology to use Plantation Timber

Sumitomo Forestry is developing technologies to use trees that have not been used previously, as well as fast-growing trees, to promote the growth of its overseas wooden panel business.

Kutai Timber Indonesia (KTI), a Group company, started plantation forestry of balsa trees in 2000, and has been developing technology to use the balsa, which is now nearing the harvesting stage, in its plywood and blockboard products. Conventional thinking held balsa to be difficult to use in board products but repeated R&D cycle resulted in two ways to do so. First, the Tsukuba Research Institute and KTI developed a blockboard plywood using bamboo as a surface veneer. When used as flooring, the high insulative properties of balsa are expected to lessen the coldness of floors in winter. The other use combines balsa with kamerere wood grown on plantations operated by Open Bay Timber Ltd., a Group company, as raw materials for structural plywood. Despite being broadleaf plywood, it can be manufactured at the same weights as the mainstream conifer plywood made from larch wood and Japanese cedar (*Cryptomeria japonica*), and contributes to improved workability. Patents are pending on these technologies at the current time.

In preparation for the start of particleboard (PB) manufacturing in Vietnam in 2012, the Tsukuba Research Institute has been investigating raw materials that can be sourced reliably in Vietnam and used to produce high-quality PB. Researchers examined the material characteristics of previously unused tree species, including plantation trees that can be sourced from neighboring regions and fruit trees, experimentally fabricated PB in laboratory settings, and test-fabricated full-size PB in cooperation with a Group company then conducting processing experiments. The year-long effort made possible the manufacture of high-quality PB using sustainable plantation timber and led to the decision to start operations.

## ○ R&D for Popularization of Environmentally Friendly Housing

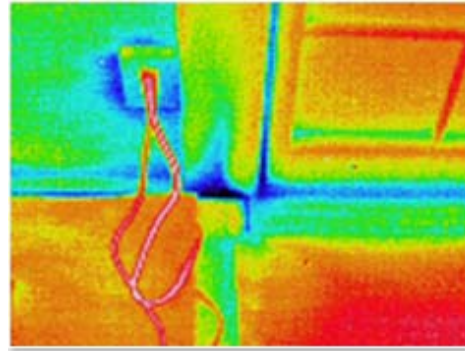
### Development of Energy-Saving Renovation Techniques

Energy-saving technologies for structures, centered on improvement of insulation and airtightness, not only make the living environment more comfortable, but also have the effect of reducing lighting and heating costs, and controlling CO<sub>2</sub> emissions. Sumitomo Forestry is developing a variety of renovation techniques that save energy in existing structures, meeting the demands of society and our customers for saving energy in the home.

In fiscal 2009, the Company developed a method for easily assessing the insulation of structures on site using a compact thermal camera. The Company also developed insulation panels that do not require demolition of the structure—the panels are easily installed over the existing walls. The Company will continue to promote energy-saving technologies and methods for existing structures.



Small gaps that allow outside air in cannot be seen with the naked eye



Thermographs taken with a compact thermal camera reveal outside air flowing in

## Development of Radiant Cooling and Heating System

The cooling and heating system—air conditioning—most commonly used today uses convection to control interior air temperatures. Air conditioning using convection is extremely energy-efficient but may have negative health effects such as discomfort from cold/hot air blowing directly on the body, the excess dryness of the air, or even causing what's commonly known as an “air conditioning cold” .

Sumitomo Forestry is developing radiant cooling and heating systems, specifically designed for nursing homes for senior citizens. Radiant cooling and heating systems control the surface temperature of the ceiling, have the same energy efficiencies as convection air conditioners, and aim to provide a comfortable and healthy indoor environment. Radiant cooling and heating systems are characterized as “the cool comfortable feeling you get inside a tunnel during the summer and the warmth you feel when sitting in a sunny spot during the winter” . Radiant systems do not generate uncomfortable air currents like air conditioners and place a small load on the body. In the past, however, radiant systems did not sufficiently dehumidify the air, resulting in problems with condensation. By using a system with a dehumidification system, this problem is solved.

The Company continues to research, develop, and test radiant cooling and heating systems, aiming for commercialization of the resulting products.

## Promoting Environment-Related Businesses

Sumitomo Forestry is capitalizing on its technology and experience in forests and trees built up over the years to expand its environment-related businesses. This reflects the Company's belief in the importance of using its resources for the larger public good.

### Ecosystem Network Fast Diagnostic Service for Corporate Land Begins

In 2010, the tenth meeting of the Conference of the Parties (COP 10) convention on biological diversity will be convened in Nagoya, Aichi Prefecture. In anticipation, activities related to business and biodiversity are becoming very active, including the publication in March 2009 of the Declaration of Biodiversity by Nippon Keidanren and the Ministry of the Environment's Guidelines for Private Sector Engagement in Biodiversity. As corporations are increasingly eager to start concrete initiatives, the Eco-Asset consulting service helps companies utilize corporate green spaces for socially responsible activity.

Sumitomo Forestry Landscaping Co., Ltd., in cooperation with InterRisk Research Institute & Consulting and Regional Environmental Planning developed "Ecosystem Network Fast Diagnostic Service" — the first service in Japan to offer corporations a fast way to assess the potential for their offices and other land holdings to preserve biodiversity. The service launched in March 2010.

The service was developed to meet the rising needs of corporations wishing to re-assess their company-owned land from the perspective of biodiversity. How can the land be used so as to contribute to preservation of local ecosystems? The service provides a fast assessment of the potential and possibilities. How does the current land utilization of plants, offices, and other places of work impact the local ecosystem? What conservation activities will contribute most to preservation of biodiversity? The service uses GIS (geographical information systems) to analyze land utilization, on-site surveys, and review of the academic body of knowledge to provide a fast diagnosis.

The service is expected to drive new environmental businesses by focusing on green spaces.



I would like to see Sumitomo Forestry play an active role in environmental planning for the entire region. (Expert)

### Ninna-ji Temple Omurozakura Research Project

In April 2007, a joint research project to ascertain the ecological history of the *Omurozakura* cherry blossoms was launched by the Ninna-ji Temple, Chiba University, and Sumitomo Forestry Group companies Sumitomo Forestry, Sumitomo Forestry Landscaping and the former Sumirin Base Techno Co., Ltd. The *omurozakura* are a cluster of *Satozakura* cherry trees measuring only two to three meters tall that grow inside the Ninna-ji Temple compound (the former Omuro Imperial Palace) in Kyoto's Ukyo Ward.

The trees had been weakening in recent years, indicated by prominent dead branches and late blossoming. This prompted a three-to-five-year study to survey and analyze soil and root conditions and devise recovery methods. Studies from 2007 had already determined that the clay-rich soil did not have enough carbon and nitrogen to nurture trees, making it difficult to retain moisture. In 2009, the study confirmed that the roots of the trees were only about one meter long, less than half the normal length, attributable to the difficulty in growing below this hard layer of earth. Following on these surveys, biotechnology, in the form of tissue culturing, was used successfully for the first time to propagate seedlings in February 2010, which will pass on to future generations the double-blossom characteristic for which the trees are renowned.

To enable the passing on of this precious variety, Sumitomo Forestry will conduct further research and investigation, aiming to explain the growing conditions for seedlings propagated through tissue culturing, establish DNA analysis technology for matching the strain, and explore the use of cultivated seedlings at nurseries to supplant stumps of trees that have withered and died.

▶ Developing Technology to Propagate Treasured and Precious Trees(P.163)

## Overseas Reforestation Consultancy

Sumitomo Forestry provided consulting services to Roland Corporation regarding a reforestation project. Roland has been importing wood from Indonesia for the cabinets of its electric pianos, and in fiscal 2007, it commissioned Indonesia's state-owned forest enterprise, Perum Perhutani, to carry out reforestation to produce the raw materials for the cabinets, as well as environmental reforestation, which is a type of reforestation that does not harvest trees, to contribute to the environment and the local community.

The industrial reforestation project began in January 2008 with the planting of trees across a total of 72.4 hectares. The planted trees are growing well and are on track to be harvested beginning in January 2012. The project timeframe is eight years, until March 2015.

Environmental reforestation accelerates the cultivation of water resources, contributes to local economies through the cultivation of fruit trees and medicinal plants, and contributes to the prevention of global warming through the absorption of CO<sub>2</sub> as the trees grow. With these objectives in mind, a total of 30.6 hectares were planted. In January 2009, supplemental planting was conducted for plantation trees that had dried out. The project timeframe is planned for five years.



Stakeholder  
Comment

I want Sumitomo Forestry to develop methods for using resources in a sustainable manner and show them to the world. (Expert)



There are fruit trees at the environmental plantation that can be harvested by local residents.



At the industrial plantation, the trees have grown to more than 10 meters in height.



## Plantation Forest Operation Using Satellite Information

Plantation forest operations in developing countries require information about the natural environment, such as the geography, vegetation, soil and climate, but in many cases this kind of environmental data and even accurate maps are often unavailable in developing economies. Without such data, however, it is impossible to develop plantations that are optimally suited to the location. Inevitably, in the absence of such data, the plantation will fail, potentially causing severe damage to the environment. Thus, it is necessary to devote much time and effort to the collection of basic data.

Accordingly, Sumitomo Forestry is developing a plantation forest operation model using information from land-observing satellites. By using satellite information, environmental data of the planned site stretching across a broad area can be obtained or estimated with a high degree of accuracy, which is extremely valuable for conducting reforestation projects in developing countries.

In cooperation with the Hiroshima Institute of Technology and Kyoto University, Sumitomo Forestry proposed this plantation forest operation model to the fiscal 2008 Space Open Lab, and it was selected as an Afforestation Business Model for Developing Nations Using Satellite Data. The Industrial Collaboration Department<sup>1</sup> of the Japan Aerospace Exploration Agency (JAXA), an independent administrative organization, administers the Space Open Lab project. The project is being conducted jointly with JAXA through the current fiscal year.

Large-scale industrial plantations established in degraded forests in tropical zones would help control global warming and contribute to local economies through the creation of new jobs. Further, the establishment of a stable supply of timber resources from plantation forests is expected to reduce dependence on timber resources from natural forests, thus contributing to the preservation of natural forests. The Clean Development Mechanism (CDM)<sup>2</sup> reforestation project, which is currently garnering significant attention, and REDD monitoring<sup>3</sup> will also play major roles.

In order to establish this plantation business model, the Company has begun to develop and test a plantation development support tool using satellite information in the Company's large-scale industrial plantation operation in plantation forest areas of West Kalimantan in Indonesia. Technological development will be completed by fiscal 2010 with full operations expected from 2011.

1 The department has been renamed the Industrial Collaboration and Coordination Center.

2 CDM is a system overseen by the United Nations Framework Convention on Climate Change (UNFCCC), in which developed countries contribute money and technology to projects in developing countries aimed at reducing emissions, and in turn, the developed countries receive certified emission reduction credits for any reductions.

3 REDD is a program overseen by the UNFCCC designed to reduce emissions resulting from forest depletion and degradation in developing countries.

► Preservation and Sustainable Use of Overseas Forest Resources(P.149)

## CDM Business Using Wood Biomass for Power Generation

At PT. Rimba Partikel Indonesia (RPI), a four-megawatt wood biomass power generation facility that primarily burns lumber mill-ends and sawdust was approved as a CDM project by the United Nation's CDM Executive Board and registered as such on May 23, 2008. This was the first wood biomass power station in Indonesia to be registered as a CDM business. By replacing its existing diesel generators with wood biomass generators, RPI expects to reduce its CO<sub>2</sub> emissions by about 15,000 tons a year.

From January 7, 2009, the system for counting CO<sub>2</sub> emission reduction volumes as carbon credits was established, and the Company reported its count start dates to the United Nations. The Company will report on its CO<sub>2</sub> emission reduction activities for the year 2009, which will be audited by the United Nations. The U.N. is scheduled to confirm the amount of CO<sub>2</sub> emissions reduced and issue a carbon credit during fiscal 2010.



Wood Biomass Boiler

## Establishment of Biomass Power Generation Company and Wood Fuel Chip Supply Company

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Sumitomo Joint Electric Power Co., Ltd., Fuluhashi EPO Corporation, and Sumitomo Forestry jointly established Kawasaki Biomass Power Co., Ltd. in April 2008 to operate a biomass electrical power generation facility using wooden chips as fuel. A woodchip supply company was also established in a nearby location to provide chips made mainly from timber generated through construction. The woodchip supply company is jointly owned by Fuluhashi EPO Corporation and Sumitomo Forestry.

By operating a biomass power generation facility that uses wooden industrial wastes generated by thinning forests or demolition of buildings, the Company promotes recycling of timber, efficient use of forest resources, and contributes to stopping global warming by reducing CO<sub>2</sub> emissions.

Construction of the power generation facility began in September 2009, and construction of the woodchip supply facility began in March 2010. Test operations will begin in autumn 2010, with full operation of the facilities slated to start in fiscal 2010.

## Research on Germination of Yoshino Cherry Trees Using KODA

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In February 2009, Shiseido Co., Ltd. and Sumitomo Forestry's joint research led to the discovery that Ketol-OctadecaDienoic Acid (KODA), a natural plant fatty acid, promotes rooting of the Yoshino cherry tree when propagating the tree from cuttings.

Observations of growth after stem cuttings of the Yoshino cherry tree were sprayed with KODA revealed that the development rate was two to three times higher than normal.

When KODA was used with cutting technology on the Japanese camellia tree at Reigan-ji temple in Kyoto, as well as the *sasanqua* tree at Ankokuron-ji temple in Kamakura, remarkable root development and enhanced growth were observed and the cultivation was a success. Going forward, the Company will aim for commercialization of KODA while validating its effects on endangered plants.

KODA itself does not induce rooting, but rather interrupts dormancy after buds and seeds are complete, and stimulates the cells' original functions. The Company will conduct further research to fully explain this process.

▶ Developing Technology to Propagate Treasured and Precious Trees(P.163)

## First Private-sector Forest Absorption-type Offset Credit Sale

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The J-VER system, promoted by the Ministry of the Environment as a measure to combat global warming, authorizes carbon offset credits to domestic projects that reduce emissions of or absorb greenhouse gases, in an amount equivalent to the amount of emissions reduced or gases absorbed.

In July 2009, a Company-owned forest was registered under the J-VER system as the first Sustainable Forestry Management Promotion-Type Project. Following validation, an offset credit of 2,083 t-CO<sub>2</sub> was issued, equivalent to the amount of CO<sub>2</sub> absorbed by the forest annually.

The Group's carbon offset initiatives also included the first private-sector sale of an issued offset credit in October of the same year.

Registration in the J-VER system, which underscores Sumitomo Forestry's reputation for sustainable forestry management, and the business model of utilizing offset credits to improve profitability of forestry, both contribute to the revitalization of Japan's forests.

## Environmental Activities in Offices

Sumitomo Forestry is focusing on green purchasing and efforts to reduce paper, electricity, and gasoline consumption in order to reduce the environmental impact from office work.

### Promoting Green Purchasing

Sumitomo Forestry has been encouraging its offices to conduct green purchasing—the priority purchasing of products that have a low environmental impact. Office Product and Company Vehicle Purchasing Guidelines were established in 2006, laying down a clear set of standards for progressing with green purchasing.

Leased vehicles operated by Group companies are being replaced with select high-fuel-efficiency vehicles based on Group standards. In July 2009, the re-evaluation of the high-fuel-efficiency vehicles was set forth in the guidelines. The re-evaluation of the high-fuel-efficiency vehicles will be conducted at least once a year from the perspective of both cost and environmental considerations

To increase the share of high-fuel-efficiency vehicles across the Sumitomo Forestry Group, in fiscal 2009, the Group publicized the guidelines comprehensively and communicated with business units whose vehicle leases were due to expire. As a result of these efforts, the share of fuel-efficient standard models among new vehicles leased was 79.7%, an improvement from 63.6% the previous fiscal year. The share of high-fuel-efficiency vehicles among the Group's total vehicles, including existing vehicles, was 45.2% as of March 2010. From October 2009, the Group began switching to high-fuel-efficiency tires whenever leased vehicles undergo scheduled maintenance.

The Group unified its procurement of office supplies, enabling accurate calculation of the Group's green purchasing ratio. The Group's green purchasing ratio in fiscal 2009 was 67.6%. Each department of each Group company will continue efforts to increase green purchasing in the future.

### Energy Conservation in Offices

In fiscal 2009, the Company set a target of a year-on-year 10% reduction in the amount of electricity and gasoline used to further advance energy conservation efforts in offices.

Surveys of energy conservation were conducted at each office of the Sumitomo Forestry Group and focus areas were prioritized. Energy Conservation Meetings were held at certain locations within the Group focusing on further intensification of energy conservation activities. Measures to reduce consumption of electricity included “visualization” of room temperatures—in order to allow setting of temperatures at optimal levels—through the distribution of “thermometer posters,” as well as setting computer monitors to automatically shut off when the computer is not in use. To reduce gasoline consumption, the Group encouraged employees to attend seminars and hands-on workshops sponsored by the Japan Automobile Federation (JAF) to provide instruction in environmentally sound driving.



Poster with thermometer attached

## Initiatives at Branch Offices and Plants

### PT. Rimba Partikel Indonesia (RPI)



Location : Kendal, Central Java, Indonesia  
Number of employees : 501 (as of December 31, 2009)  
Business : Manufacture and sale of particleboard



Satoshi Kawanami  
President

#### Comment from President Kawanami

RPI has planted 5.8 million trees across approximately 3,000 hectares as of January 2010. The majority of the plantation forests will provide raw materials for our businesses and the remainder will be environmental plantation forests that will never be harvested. We've distributed seedlings free of charge as part of our CSR activities, but the scale of this reforestation is unprecedented. This is a fitting way to commemorate the 20<sup>th</sup> anniversary of our founding and we believe it will be linked with enhancement of corporate environmental value.



DJunarko  
Director

#### Comment from Director DJunarko

RPI's plantation forests are based on a system whereby seedlings are distributed to the community free of charge and then five years later we buy back the plantation trees they've grown at market prices. This provides our business with raw materials but also creates employment opportunities. The implementation of this environmental plantation forestry system in the Gobon area also helps local residents, who previously cut down trees secretly to burn as fuel, to appreciate the environment.

We will continue to strive to be a company that contributes to the local community.

## ● RPI to Commemorate 20<sup>th</sup> Anniversary with 100-hectare Environmental Forestry Plantation

RPI will establish environmental plantation forests on approximately 100 hectares of land, as part of the commemoration of the 20<sup>th</sup> anniversary of its founding.

The joint project with Perhutani, the national forestry public corporation, will take place on devastated land in central Java's Gobon district. Previously a teak plantation, the land became arid after years of local residents illegally cutting down trees and exposure of the soil to salt air, with the result that no plants could grow.



Gobon, site of the planned plantation



Nyamplung trees (plantation forest)

The trees to be planted are of the Nyamplung (*Calophyllum inophyllum*) species. Nyamplung is an ideal tree for establishing water resources in an area that is suffering from severe water shortages. Further, the oil extracted from the seeds can potentially be used for bio-energy. Local residents will sell the seeds from trees planted and cultivated by RPI to Perhutani, providing the basis for development of the local economy.

Contributing to the community is integral to RPI's action plan, and we will continue to engage in activities that contribute to the local community.



## Initiatives at Branch Offices and Plants

### PT. AST Indonesia (ASTI)



- Location : Semarang, Central Java, Indonesia
- Number of employees : 949 (as of December 31, 2009)
- Business : Started out as a manufacturer of audio speaker cabinets using particleboard produced by nearby Rimba Partikel Indonesia (RPI), a Sumitomo Forestry Group company. Currently, ASTI's primary businesses are OEM production of electronic musical instruments (drums and pianos) and home interior materials.



**Shinichi Kawazoe**  
President

#### Comments from President Kawazoe

It's been two years since I was appointed president in April 2008. During that time, our top priority has remained unchanged: "Safety First" - because thinking about the happiness of our employees is truly local CSR. Since our last report, we've expanded and enhanced the education and training menu, supported sports activities, and implemented many initiatives. The pursuit of safety and happiness for our employees, however, is unending. The Company and our employees are united as one in striving every day to make things better, to become the kind of company we aspire to be.



**Yungyun Ken A**  
Deputy Department Head  
Safety and Environment Department

#### Comments from Employees

##### Employee Education

The Safety and Environment Department was established in October 2008 with the objective of contributing to the improvement of safety in the workplace and the preservation and enhancement of the environment through our business activities. Employee education and training is focused on safety and health in the workplace, fire-fighting training including use of fire hoses, knowledge of cutting machines necessary for our operations (used correctly, there is no danger), and motorbike safety (safe driving techniques and traffic laws). Through these activities, we are contributing to increased awareness of safety for employees, and building a safety-centric culture across the company.





Untoro  
Futsal Club Advisor

## Sports Activities

Soccer is by far the most popular sport in Indonesia because many people can have fun with just one ball. Futsal is also popular because it requires less space to play than soccer and if you have 10 people, you can start a game. Every Friday after work is done, teams comprised of people from different departments gather to play futsal and refresh their spirits and recharge their stamina after a long week of work. And it's a great opportunity to meet people and make friends from other departments that you don't normally have contact with in the course of daily business. Going forward, we hope to increase cooperative and friendly relationships by arranging futsal matches with our neighbors, suppliers, and other Japanese companies.

## Employee Education and Training

We are focused on safety education and training in order to not cause accidents and not allow accidents to happen. In the manufacturing workplace, we provide training in the safe use of cutting machines, which are essential tools. Since so many of our employees commute by motorbike, we offer safe driving education. We also conduct fire drills regularly including the use of fire hoses.



Fire Hose Training



Safe Driving for Motorbikes Seminar

## Employee Welfare

As part of our employee welfare activities, we provide support to sports activities. Soccer is very popular in Indonesia, so we support weekly futsal matches on Fridays after work by renting a futsal field located close by. Volleyball is another popular sport and we provide a volleyball court on the factory grounds, with activities beginning in May.

Looking ahead, we will continually improve and enhance our employee welfare activities, including hosting a festival to commemorate the founding of the company and a scholarship fund for children of employees.



Members of the Futsal Team

# G3 Content Index

G3 Disclosure	Description	Location
1. Strategy and Analysis		
1.1	Statement from the most senior decisionmaker of the organization (e.g., CEO, chair, or equivalent senior position) about the relevance of sustainability to the organization and its strategy.	<ul style="list-style-type: none"> <li>▶ Our Top Commitment(P.6)</li> <li>▶ Overview of Sumitomo Forestry Business Units and Messages from Directors in Charge(P.9)</li> </ul>
1.2	Description of key impacts, risks, and opportunities.	<ul style="list-style-type: none"> <li>▶ Overview of Sumitomo Forestry Business Units and Messages from Directors in Charge(P.9)</li> <li>▶ Annual Report (PDF : 8,832KB) (<a href="http://sfc.jp/information/ir/library/pdf/annual/ar2010eng.pdf">http://sfc.jp/information/ir/library/pdf/annual/ar2010eng.pdf</a>)</li> </ul>
2. Organizational Profile		
2.1	Name of the organization.	▶ Corporate Profile( <a href="http://sfc.jp/english/information/aboutus/">http://sfc.jp/english/information/aboutus/</a> )
2.2	Primary brands, products, and/or services.	▶ Corporate Profile( <a href="http://sfc.jp/english/information/aboutus/">http://sfc.jp/english/information/aboutus/</a> )
2.3	Operational structure of the organization, including main divisions, operating companies, subsidiaries, and joint ventures.	▶ Overview of Sumitomo Forestry Business Units and Messages from Directors in Charge(P.9)
2.4	Location of organization's headquarters.	▶ Corporate Profile( <a href="http://sfc.jp/english/information/aboutus/">http://sfc.jp/english/information/aboutus/</a> )
2.5	Number of countries where the organization operates, and names of countries with either major operations or that are specifically relevant to the sustainability issues covered in the report.	▶ Our Business( <a href="http://sfc.jp/english/information/jigyuu/">http://sfc.jp/english/information/jigyuu/</a> )
2.6	Nature of ownership and legal form.	▶ Corporate Profile( <a href="http://sfc.jp/english/information/aboutus/">http://sfc.jp/english/information/aboutus/</a> )
2.7	Markets served (including geographic breakdown, sectors served, and types of customers/beneficiaries).	▶ Corporate Profile( <a href="http://sfc.jp/english/information/aboutus/">http://sfc.jp/english/information/aboutus/</a> )
2.8	Scale of the reporting organization, including: <ul style="list-style-type: none"> <li>▪ Number of employees;</li> <li>▪ Net sales (for private sector organizations) or net revenues (for public sector organizations);</li> <li>▪ Total capitalization broken down in terms of debt and equity (for private sector organizations); and</li> <li>▪ Quantity of products or services provided.</li> </ul>	<ul style="list-style-type: none"> <li>▶ Corporate Profile(<a href="http://sfc.jp/english/information/aboutus/">http://sfc.jp/english/information/aboutus/</a>)</li> <li>▶ Financial Factbook(<a href="http://sfc.jp/english/information/ir/zaimu/index.html">http://sfc.jp/english/information/ir/zaimu/index.html</a>)</li> </ul>
2.9	Significant changes during the reporting period regarding size, structure, or ownership including: <ul style="list-style-type: none"> <li>▪ The location of, or changes in operations, including facility openings, closings, and expansions; and</li> <li>▪ Changes in the share capital structure and other capital formation, maintenance, and alteration operations (for private sector organizations).</li> </ul>	▶ Editorial Policy for Environmental and Social Report 2010(P.4)

G3 Disclosure	Description	Location
2.10	Awards received in the reporting period.	<ul style="list-style-type: none"> <li>▶ Pursuing Universal Design(P.78)</li> <li>▶ Promoting Renovation Projects(P.80)</li> <li>▶ Plants with Safe and Healthy Workplaces(P.102)</li> <li>▶ Passing on Skills(P.105)</li> <li>▶ Sumitomo Forestry's Corporate Advertising Wins Awards(P.107)</li> <li>▶ The 3<sup>rd</sup> Annual Kids Design Award(P.107)</li> </ul>
<b>3. Report Parameters</b>		
Report Profile		
3.1	Reporting period (e.g., fiscal/calendar year) for information provided.	▶ Reporting Period(P.4)
3.2	Date of most recent previous report (if any).	▶ Publication Date(P.5)
3.3	Reporting cycle (annual, biennial, etc.)	▶ Publication Date(P.5)
3.4	Contact point for questions regarding the report or its contents.	▶ Publication Team(P.5)
Report Scope and Boundary		
3.5	Process for defining report content, including: <ul style="list-style-type: none"> <li>▪ Determining materiality;</li> <li>▪ Prioritizing topics within the report; and</li> <li>▪ Identifying stakeholders the organization expects to use the report.</li> </ul>	▶ Process for Formulating the Material Issues(P.19)
3.6	Boundary of the report (e.g., countries, divisions, subsidiaries, leased facilities, joint ventures, suppliers).	▶ Editorial Policy for Environmental and Social Report 2010(P.4)
3.7	State any specific limitations on the scope or boundary of the report.	-
3.8	Basis for reporting on joint ventures, subsidiaries, leased facilities, outsourced operations, and other entities that can significantly affect comparability from period to period and/or between organizations.	-
3.9	Data measurement techniques and the bases of calculations, including assumptions and techniques underlying estimations applied to the compilation of the Indicators and other information in the report.	<ul style="list-style-type: none"> <li>▶ FY2009 Environmental Accounting(P.124)</li> <li>▶ Environmental Impact of Business Activities(P.126)</li> </ul>
3.10	Explanation of the effect of any re-statements of information provided in earlier reports, and the reasons for such re-statement (e.g., mergers/ acquisitions, change of base years/periods, nature of business, measurement methods).	-
3.11	Significant changes from previous reporting periods in the scope, boundary, or measurement methods applied in the report.	Not applicable
GRI content index		
3.12	Table identifying the location of the Standard Disclosures in the report.	▶ G3 Content Index(P.176)
Assurance		
3.13	Policy and current practice with regard to seeking external assurance for the report. If not included in the assurance report accompanying the sustainability report, explain the scope and basis of any external assurance provided. Also explain the relationship between the reporting organization and the assurance provider(s).	▶ Reliability of Report Content(P.4)

G3 Disclosure	Description	Location
4. Governance, Commitments, and Engagement		
Governance		
4.1	Governance structure of the organization, including committees under the highest governance body responsible for specific tasks, such as setting strategy or organizational oversight.	<ul style="list-style-type: none"> <li>▶ Corporate Governance(P.67)</li> <li>▶ Annual Report (PDF : 8,832KB) (<a href="http://sfc.jp/information/ir/library/pdf/annual/ar2010eng.pdf">http://sfc.jp/information/ir/library/pdf/annual/ar2010eng.pdf</a>)</li> </ul>
4.2	Indicate whether the Chair of the highest governance body is also an executive officer (and, if so, their function within the organization's management and the reasons for this arrangement).	<ul style="list-style-type: none"> <li>▶ Annual Report (PDF : 8,832KB) (<a href="http://sfc.jp/information/ir/library/pdf/annual/ar2010eng.pdf">http://sfc.jp/information/ir/library/pdf/annual/ar2010eng.pdf</a>)</li> </ul>
4.3	For organizations that have a unitary board structure, state the number of members of the highest governance body that are independent and/or non-executive members.	-
4.4	Mechanisms for shareholders and employees to provide recommendations or direction to the highest governance body.	<ul style="list-style-type: none"> <li>▶ Corporate Governance(P.67)</li> </ul>
4.5	Linkage between compensation for members of the highest governance body, senior managers, and executives (including departure arrangements), and the organization's performance (including social and environmental performance).	<ul style="list-style-type: none"> <li>▶ Corporate Governance(P.67)</li> </ul>
4.6	Processes in place for the highest governance body to ensure conflicts of interest are avoided.	-
4.7	Process for determining the qualifications and expertise of the members of the highest governance body for guiding the organization's strategy on economic, environmental, and social topics.	-
4.8	Internally developed statements of mission or values, codes of conduct, and principles relevant to economic, environmental, and social performance and the status of their implementation.	<ul style="list-style-type: none"> <li>▶ Sumitomo Forestry's CSR and Four Material Issues(P.15)</li> </ul>
4.9	Procedures of the highest governance body for overseeing the organization's identification and management of economic, environmental, and social performance, including relevant risks and opportunities, and adherence or compliance with internationally agreed standards, codes of conduct, and principles.	<ul style="list-style-type: none"> <li>▶ Environmental Management(P.159)</li> </ul>
4.10	Processes for evaluating the highest governance body's own performance, particularly with respect to economic, environmental, and social performance.	<ul style="list-style-type: none"> <li>▶ Corporate Governance(P.67)</li> </ul>
Commitments to External Initiatives		
4.11	Explanation of whether and how the precautionary approach or principle is addressed by the organization.	<ul style="list-style-type: none"> <li>▶ Compliance and Risk Management(P.69)</li> <li>▶ Environmental Management(P.159)</li> </ul>
4.12	Externally developed economic, environmental, and social charters, principles, or other initiatives to which the organization subscribes or endorses.	<ul style="list-style-type: none"> <li>▶ Global Compact(P.62)</li> </ul>
4.13	Memberships in associations (such as industry associations) and/or national/international advocacy organizations in which the organization: <ul style="list-style-type: none"> <li>▪ Has positions in governance bodies;</li> <li>▪ Participates in projects or committees;</li> <li>▪ Provides substantive funding beyond routine membership dues; or</li> <li>▪ Views membership as strategic.</li> </ul>	<ul style="list-style-type: none"> <li>▶ Contributions to Public Policy(P.113)</li> </ul>
Stakeholder Engagement		
4.14	List of stakeholder groups engaged by the organization.	<ul style="list-style-type: none"> <li>▶ Sumitomo Forestry Stakeholders(P.18)</li> </ul>
4.15	Basis for identification and selection of stakeholders with whom to engage.	-
4.16	Approaches to stakeholder engagement, including frequency of engagement by type and by stakeholder group.	<ul style="list-style-type: none"> <li>▶ Process for Formulating the Material Issues(P.19)</li> </ul>

G3 Disclosure	Description	Location
4.17	Key topics and concerns that have been raised through stakeholder engagement, and how the organization has responded to those key topics and concerns, including through its reporting.	<ul style="list-style-type: none"> <li>▶ Providing Timber Products and Materials from Sustainable Forests(P.21)</li> <li>▶ Providing Environmentally Friendly Homes(P.34)</li> <li>▶ Promoting Global Warming Countermeasures through Our Business(P.43)</li> <li>▶ Promoting Family-Centered Employee Lifestyles(P.50)</li> </ul>
<b>5. Management Approach and Performance Indicators</b>		
Economic		
	Disclosure on Management Approach	<ul style="list-style-type: none"> <li>▶ Economic Report(P.71)</li> <li>▶ Annual Report (PDF : 8,832KB) (<a href="http://sfc.jp/information/ir/library/pdf/annual/ar2010eng.pdf">http://sfc.jp/information/ir/library/pdf/annual/ar2010eng.pdf</a>)</li> </ul>
Aspect: Economic Performance		
EC1	Direct economic value generated and distributed, including revenues, operating costs, employee compensation, donations and other community investments, retained earnings, and payments to capital providers and governments.	<ul style="list-style-type: none"> <li>▶ Financial Performance(P.71)</li> <li>▶ Funds Allocated to Social Contribution Activities(P.110)</li> <li>▶ Annual Report (PDF : 8,832KB) (<a href="http://sfc.jp/information/ir/library/pdf/annual/ar2010eng.pdf">http://sfc.jp/information/ir/library/pdf/annual/ar2010eng.pdf</a>)</li> </ul>
EC2	Financial implications and other risks and opportunities for the organization's activities due to climate change.	▶ Annual Report (PDF : 8,832KB) ( <a href="http://sfc.jp/information/ir/library/pdf/annual/ar2010eng.pdf">http://sfc.jp/information/ir/library/pdf/annual/ar2010eng.pdf</a> )
EC3	Coverage of the organization's defined benefit plan obligations.	▶ Annual Report (PDF : 8,832KB) ( <a href="http://sfc.jp/information/ir/library/pdf/annual/ar2010eng.pdf">http://sfc.jp/information/ir/library/pdf/annual/ar2010eng.pdf</a> )
EC4	Significant financial assistance received from government.	-
Aspect: Market Presence		
EC5	Range of ratios of standard entry level wage compared to local minimum wage at significant locations of operation.	-
EC6	Policy, practices, and proportion of spending on locally-based suppliers at significant locations of operation.	▶ Using Japanese Timber in Homes(P.146)
EC7	Procedures for local hiring and proportion of senior management hired from the local community at locations of significant operation.	▶ Hiring Policies at Group Companies Outside Japan(P.95)
Aspect: Indirect Economic Impacts		
EC8	Development and impact of infrastructure investments and services provided primarily for public benefit through commercial, in-kind, or pro bono engagement.	<ul style="list-style-type: none"> <li>▶ Contributing to the Community by Improving Social Infrastructure(P.72)</li> <li>▶ Using Japanese Timber in Homes(P.146)</li> </ul>
EC9	Understanding and describing significant indirect economic impacts, including the extent of impacts.	-
Environmental		
	Disclosure on Management Approach	▶ Environmental Report(P.114)
Aspect: Materials		
EN1	Materials used by weight or volume.	▶ Balance of Input and Output(P.126)
EN2	Percentage of materials used that are recycled input materials.	-



G3 Disclosure	Description	Location
Aspect: Energy		
EN3	Direct energy consumption by primary energy source.	▶ Balance of Input and Output(P.126)
EN4	Indirect energy consumption by primary source.	▶ Balance of Input and Output(P.126)
EN5	Energy saved due to conservation and efficiency improvements.	-
EN6	Initiatives to provide energy-efficient or renewable energy based products and services, and reductions in energy requirements as a result of these initiatives.	▶ Providing Environmentally Friendly Homes(P.34) ▶ Reducing CO <sub>2</sub> Emissions(P.130)
EN7	Initiatives to reduce indirect energy consumption and reductions achieved.	▶ Reducing CO <sub>2</sub> Emissions from Offices(P.132)
Aspect: Water		
EN8	Total water withdrawal by source.	▶ Balance of Input and Output(P.126)
EN9	Water sources significantly affected by withdrawal of water.	-
EN10	Percentage and total volume of water recycled and reused.	▶ Efficient Use of Water Resources(P.158)
Aspect: Biodiversity		
EN11	Location and size of land owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas.	▶ Management of Company-Owned Forests(P.144)
EN12	Description of significant impacts of activities, products, and services on biodiversity in protected areas and areas of high biodiversity value outside protected areas.	▶ Initiatives to Preserve Biodiversity(P.59) ▶ Preserving Biodiversity(P.151)
EN13	Habitats protected or restored.	▶ Mt. Fuji <i>Manabi no Mori</i> Project(P.108) ▶ Launch of Large-Scale Commercial Forest Plantation Business(P.150)
EN14	Strategies, current actions, and future plans for managing impacts on biodiversity.	▶ Policy and Plans for Biodiversity Preservation(P.59)
EN15	Number of IUCN Red List species and national conservation list species with habitats in areas affected by operations, by level of extinction risk.	-
Aspect: Emissions, Effluents, and Waste		
EN16	Total direct and indirect greenhouse gas emissions by weight.	▶ Sumitomo Forestry Group: FY2009 CO <sub>2</sub> Emission Volume(P.46)
EN17	Other relevant indirect greenhouse gas emissions by weight.	▶ Sumitomo Forestry Group: FY2009 CO <sub>2</sub> Emission Volume(P.46)
EN18	Initiatives to reduce greenhouse gas emissions and reductions achieved.	▶ Promoting Global Warming Countermeasures through Our Business(P.43) ▶ Reducing CO <sub>2</sub> Emissions(P.130)
EN19	Emissions of ozone-depleting substances by weight.	-
EN20	NO, SO, and other significant air emissions by type and weight.	▶ Management of Chemical Substances at Research Institute and Plants(P.154)
EN21	Total water discharge by quality and destination.	▶ Balance of Input and Output(P.126) ▶ Management of Chemical Substances at Research Institute and Plants(P.154)
EN22	Total weight of waste by type and disposal method.	▶ Zero Emissions Initiatives(P.138)
EN23	Total number and volume of significant spills.	-

G3 Disclosure	Description	Location
EN24	Weight of transported, imported, exported, or treated waste deemed hazardous under the terms of the Basel Convention Annex I, II, III, and VIII, and percentage of transported waste shipped internationally.	-
EN25	Identity, size, protected status, and biodiversity value of water bodies and related habitats significantly affected by the reporting organization's discharges of water and runoff.	▶ Efficient Use of Water Resources at Plants(P.158)
Aspect: Products and Services		
EN26	Initiatives to mitigate environmental impacts of products and services, and extent of impact mitigation.	<ul style="list-style-type: none"> <li>▶ Providing Timber Products and Materials from Sustainable Forests(P.21)</li> <li>▶ Providing Environmentally Friendly Homes(P.34)</li> <li>▶ Promoting Global Warming Countermeasures through Our Business(P.43)</li> <li>▶ Reducing the Environmental Impact of Households(P.133)</li> </ul>
EN27	Percentage of products sold and their packaging materials that are reclaimed by category.	-
Aspect: Compliance		
EN28	Monetary value of significant fines and total number of non-monetary sanctions for noncompliance with environmental laws and regulations.	▶ Efforts to Reduce Environmental Risks(P.161)
Aspect: Transport		
EN29	Significant environmental impacts of transporting products and other goods and materials used for the organization's operations, and transporting members of the workforce.	▶ Reducing CO2 Emissions from Transportation(P.132)
Aspect: Overall		
EN30	Total environmental protection expenditures and investments by type.	▶ FY2009 Environmental Accounting(P.124)
Labor Practices and Decent Work		
	Disclosure on Management Approach	▶ Together with Our Employees(P.94)
Aspect: Employment		
LA1	Total workforce by employment type, employment contract, and region.	▶ Basic Personnel Policy(P.94)
LA2	Total number and rate of employee turnover by age group, gender, and region.	-
LA3	Benefits provided to full-time employees that are not provided to temporary or part-time employees, by major operations.	▶ Creating a Workplace in which a Diverse Range of Employees Can Work Together with Enthusiasm(P.94)
Aspect: Labor/Management Relations		
LA4	Percentage of employees covered by collective bargaining agreements.	▶ Relations with the Labor Union(P.100)
LA5	Minimum notice period(s) regarding operational changes, including whether it is specified in collective agreements.	-
Aspect: Occupational Health and Safety		
LA6	Percentage of total workforce represented in formal joint management—worker health and safety committees that help monitor and advise on occupational health and safety programs.	-
LA7	Rates of injury, occupational diseases, lost days, and absenteeism, and number of workrelated fatalities by region.	▶ Improving Quality and Workplace Safety at Housing Construction Sites(P.91)

G3 Disclosure	Description	Location
LA8	Education, training, counseling, prevention, and risk-control programs in place to assist workforce members, their families, or community members regarding serious diseases.	▶ Creating a Safe and Healthy Workplace(P.101)
LA9	Health and safety topics covered in formal agreements with trade unions.	▶ Relations with the Labor Union(P.100)
Aspect: Training and Education		
LA10	Average hours of training per year per employee by employee category.	▶ Multifaceted Training(P.104)
LA11	Programs for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings.	▶ Development of Sumitomo Forestry's Human Resources(P.103)
LA12	Percentage of employees receiving regular performance and career development reviews.	▶ Development of Sumitomo Forestry's Human Resources(P.103)
Aspect: Diversity and Equal Opportunity		
LA13	Composition of governance bodies and breakdown of employees per category according to gender, age group, minority group membership, and other indicators of diversity.	▶ Employee Hiring and Promotion Policies(P.95) ▶ Promoting Affirmative Action(P.98)
LA14	Ratio of basic salary of men to women by employee category.	-
Human Rights		
	Disclosure on Management Approach	▶ Our Values and Ideals(P.17)
Aspect: Investment and Procurement Practices		
HR1	Percentage and total number of significant investment agreements that include human rights clauses or that have undergone human rights screening.	-
HR2	Percentage of significant suppliers and contractors that have undergone screening on human rights and actions taken.	-
HR3	Total hours of employee training on policies and procedures concerning aspects of human rights that are relevant to operations, including the percentage of employees trained.	▶ Human Rights Programs(P.99) ▶ Prevention of Sexual and Power Harassment(P.99)
Aspect: Non-Discrimination		
HR4	Total number of incidents of discrimination and actions taken.	-
Aspect: Freedom of Association and Collective Bargaining		
HR5	Operations identified in which the right to exercise freedom of association and collective bargaining may be at significant risk, and actions taken to support these rights.	-
Aspect: Child Labor		
HR6	Operations identified as having significant risk for incidents of child labor, and measures taken to contribute to the elimination of child labor.	▶ Prevention of Child Labor and Forced Labor(P.102)
Aspect: Forced and Compulsory Labor		
HR7	Operations identified as having significant risk for incidents of forced or compulsory labor, and measures to contribute to the elimination of forced or compulsory labor.	▶ Prevention of Child Labor and Forced Labor(P.102)
Aspect: Security Practices		
HR8	Percentage of security personnel trained in the organization's policies or procedures concerning aspects of human rights that are relevant to operations.	-

G3 Disclosure	Description	Location
Aspect: Indigenous Rights		
HR9	Total number of incidents of violations involving rights of indigenous people and actions taken.	-
Society		
	Disclosure on Management Approach	<ul style="list-style-type: none"> <li>▶ Our Values and Ideals(P.17)</li> <li>▶ Compliance and Risk Management(P.69)</li> <li>▶ Contributing to the Community by Improving Social Infrastructure(P.72)</li> <li>▶ Together with Society(P.106)</li> <li>▶ Preservation and Sustainable Use of Overseas Forest Resources(P.149)</li> </ul>
Aspect: Community		
S01	Nature, scope, and effectiveness of any programs and practices that assess and manage the impacts of operations on communities, including entering, operating, and exiting.	<ul style="list-style-type: none"> <li>▶ Contributing to the Community by Improving Social Infrastructure(P.72)</li> <li>▶ Preservation and Sustainable Use of Overseas Forest Resources(P.149)</li> </ul>
Aspect: Corruption		
S02	Percentage and total number of business units analyzed for risks related to corruption.	▶ Compliance and Risk Management(P.69)
S03	Percentage of employees trained in organization's anti-corruption policies and procedures.	▶ Compliance and Risk Management(P.69)
S04	Actions taken in response to incidents of corruption.	▶ Compliance and Risk Management(P.69)
Aspect: Public Policy		
S05	Public policy positions and participation in public policy development and lobbying.	▶ Contributions to Public Policy(P.113)
S06	Total value of financial and in-kind contributions to political parties, politicians, and related institutions by country.	-
Aspect: Anti-Competitive Behavior		
S07	Total number of legal actions for anticompetitive behavior, anti-trust, and monopoly practices and their outcomes.	Not applicable
Aspect: Compliance		
S08	Monetary value of significant fines and total number of non-monetary sanctions for noncompliance with laws and regulations.	-
Product Responsibility		
	Disclosure on Management Approach	<ul style="list-style-type: none"> <li>▶ Together with Our Customers(P.76)</li> <li>▶ Together with Our Business Partners(P.87)</li> </ul>
Aspect: Customer Health and Safety		
PR1	Life cycle stages in which health and safety impacts of products and services are assessed for improvement, and percentage of significant products and services categories subject to such procedures.	<ul style="list-style-type: none"> <li>▶ Providing High-Quality Homes with Excellent All-Round Balance(P.76)</li> <li>▶ Providing High-Quality Timber and Building Materials(P.87)</li> </ul>
PR2	Total number of incidents of non-compliance with regulations and voluntary codes concerning health and safety impacts of products and services during their life cycle, by type of outcomes.	-

G3 Disclosure	Description	Location
Aspect: Product and Service Labeling		
PR3	Type of product and service information required by procedures, and percentage of significant products and services subject to such information requirements.	<ul style="list-style-type: none"> <li>▶ Providing Timber Products and Materials from Sustainable Forests(P.21)</li> <li>▶ Adherence to Housing Performance Indication System(P.79)</li> <li>▶ Timber Used for Housing(P.78)</li> <li>▶ Providing High-Quality Timber and Building Materials(P.87)</li> </ul>
PR4	Total number of incidents of non-compliance with regulations and voluntary codes concerning product and service information and labeling, by type of outcomes.	-
PR5	Practices related to customer satisfaction, including results of surveys measuring customer satisfaction.	▶ Promoting Communication with Customers(P.83)
Aspect: Marketing Communications		
PR6	Programs for adherence to laws, standards, and voluntary codes related to marketing communications, including advertising, promotion, and sponsorship.	▶ Standards for Advertising(P.85)
PR7	Total number of incidents of non-compliance with regulations and voluntary codes concerning marketing communications, including advertising, promotion, and sponsorship by type of outcomes.	▶ Standards for Advertising(P.85)
Aspect: Customer Privacy		
PR8	Total number of substantiated complaints regarding breaches of customer privacy and losses of customer data./th>	▶ Compliance and Risk Management(P.69)
Aspect: Compliance		
PR9	Monetary value of significant fines for noncompliance with laws and regulations concerning the provision and use of products and services.	Not applicable