

Vision for the
Sustainable Development



Sumitomo Forestry Group

CSR Report 2013

Activity Highlights

Introduction

The Origins of Sumitomo Forestry

The Great Reforestation Plan launched in 1894. The plan to restore the forests around the Besshi Copper Mine serves as the starting point for our CSR efforts.

Sumitomo Forestry has valued and honored the Sumitomo Spirit for generations. It is the attitude of seeking benefit for the individual, the nation and society, and of management that shall not pursue easy gains and takes a long-term perspective. The business spirit of Sumitomo that values fairness, integrity, and sound management serves as the source of the firm trust from society.

Sumitomo Forestry can trace its beginnings to the use of timber harvesting operations in neighboring forests to fortify the Besshi Copper Mine opened in Ehime Prefecture in 1691. Timber was crucial for the mining operation, as it was needed in construction, for the mine posts, and for the fuelwood to refine copper. However, by the end of the 19th century, the forests around the Besshi Copper Mine were facing severe degradation due to long periods of excessive harvesting and smoke pollution. The then principal of the mine, Teigo Iba, believed that "allowing this land to be degraded while moving forward with business made possible by its fruits runs counter to the proper course of our relationship with nature. We must return all the mountains of Besshi to their verdant state." With this belief, he launched the Great Reforestation Plan in 1894 to restore the forests that had been lost. Through a process of trial and error, and by implementing large-scale planting efforts of up to more than one million trees per year, the mountains were eventually returned to a state of rich greenery.

It is the sustainable forest management based on this spirit of repaying what has been reaped from the land that serves as the starting point for Sumitomo Forestry's business activities and for its corporate social responsibility (CSR) efforts.



Besshi Copper Mine before reforestation (Courtesy of the Sumitomo Historical Archives)

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.

CSR Report 2013 Activity Highlights

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Social issues like climate change and the rapid deforestation have been emerging on a global scale. In this climate, it is crucial to implement efforts such as the proactive use of renewable energy, initiatives aimed at the conservation of biodiversity, and responsible procurement of timber from sustainable forests.

Here, the Sumitomo Forestry Group will introduce some of the various efforts it is engaged in with the purpose of contributing to the resolution of these issues, and of using the power of the forests to empower the future through its business activities.

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Akira Ichikawa
President /
Representative Director

Ryu Yano
Chairman /
Representative Director

Mission of the Sumitomo Forestry Group; To contribute to society by leveraging our technology and the knowledge on wood cultivated through our businesses.

The Sumitomo Forestry Group traces its origins to the forests that supplied timber to the Besshi Copper Mine in Ehime Prefecture, started a little over 320 years ago. As our Group pursues the potential of wood, and utilizes timber in housing-related businesses, we continually ask ourselves if our operations are beneficial to society. For this reason, since the Great East Japan Earthquake, we are acting on a strong sense of duty to help facilitate a quick recovery in the disaster-affected Tohoku region.

Houses are filling increasingly diverse roles following the Great East Japan Earthquake. A house is a place where we can lead a healthy life in safety and with peace of mind. It is the smallest social unit fostering ties between family members and between people in the community. At the same time, houses are now playing a role in society's infrastructure for energy creation. A wide range of environmentally friendly equipment is now available with our new *Smart Solabo* house. We are focusing on offering energy-efficient houses, and also advancing development of Life Cycle Carbon Minus (LCCM) housing.

The remodeling of houses nationwide to strengthen basic performance parameters such as seismic resistance and insulation is an urgent issue in the development of a stock of good-quality houses that can be lived in well into the future. The Sumitomo Forestry Group offers a unique dual construction method for vibration control and seismic resistance. We have also entered full-scale renovation business to enhance the value of assets like condominiums and company housings.

In our apartment business, as part of our role to provide good-quality housing stock for the future, we have started various initiatives relating to residential styles. For example, in the wooden apartment sphere, we have started commercialization of share houses, which have been the focus of much interest in recent years.

Wood is always the foundation for the Group's business. We own 43,328 hectares of forests in Japan, around

1/900 of the country's land area, and manage around 200,000 hectares of forest overseas. We engage in wooden panel manufacturing and distribution of timber and building materials. We also operate wooden housing businesses in Japan, as well as in Australia, the United States and China.

As trees grow, they absorb carbon dioxide and continue to store it as carbon even after they are processed. Our Group undertakes responsible timber procurement based upon our Timber Procurement Philosophy. By promoting sustainable forestry management, we are contributing to the prevention of global warming. Addressing the question of how the merits of forests could be employed to reduce greenhouse gases, we are engaging in feasibility studies of bilateral offset credit mechanisms (REDD+) in Vietnam. At the same time, we are advancing the conservation of forests as plant resources and as the source of life, through initiatives in line with the Sumitomo Forestry Group Declaration of Biodiversity.

Our philosophy is upheld by Sumitomo Forestry Group employees. We are taking active steps to create workplaces where female employees and junior employees can better apply their talents, to ensure the right environments are in place to support childcare, and to establish frameworks where employees can flourish regardless of disabilities or age.

Over the past few years, we have sensed the mounting expectations of our stakeholders. Those expectations come from an understanding of our Corporate Philosophy and trust in the legacy we have built. We intend to meet those expectations by making our knowledge and technologies available in as many countries and regions as possible and through businesses that benefit society. We believe that is the Sumitomo Forestry Group's responsibility and duty as we aim to be the world's leading forestry company.

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Vision for the Sustainable Development
The Power of Forests Empowers the Future



Theme: Creating Sustainable Homes

The Potential of New Smart Solabo

Offering Smart Houses with the unique appeals of wooden homes

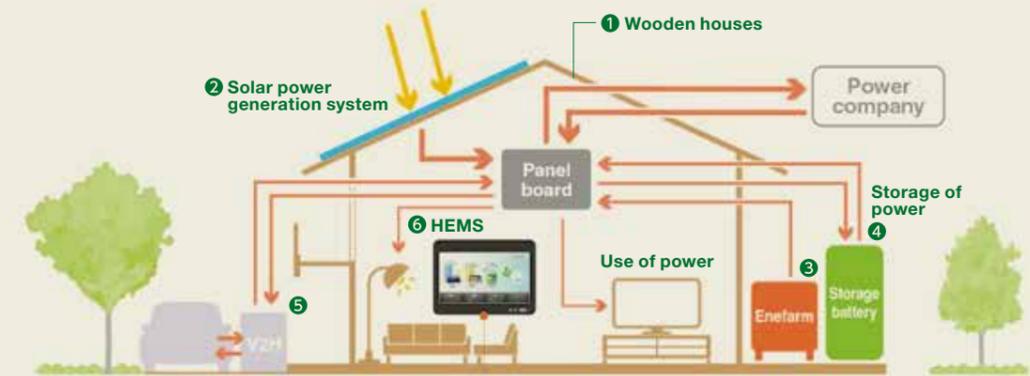
In the summer, a cool breeze blows through the house relieving the heat, and in the winter, sunlight provides warmth against the cold.

Through its *Ryouonbou* design concept, which utilizes natural blessings including the wind, sun, trees, and plants, Sumitomo Forestry creates homes that allow residents to live comfortably year-round without having to rely excessively on heating and cooling systems.

These sustainable homes add new technologies for generation, storage, and efficient energy use to wooden houses, which decrease environmental impact by taking advantage of the blessings of nature.

This is what Sumitomo Forestry offers in its *Smart Solabo* Smart Houses.

Six Features of Sumitomo Forestry's Smart Houses



1 Energy-efficient wooden houses

The homes are cool in the summer and warm in the winter, utilizing the power of nature to reduce CO₂ emissions and control environmental impact.

2 Solar power generation system

Through power generation using natural sunlight, these homes supply clean energy and significantly reducing energy bills.

3 The residential fuel cell unit Enefarm

This technology generates energy by creating a chemical reaction between hydrogen extracted from gas and oxygen in the air, while also utilizing the heat created through this reaction to produce hot water for underfloor heating, and other systems.

4 Residential storage battery system

By allowing residents to store power in their homes, this system reduces energy bills by using the more inexpensive midnight power service, while also helping maintain power during blackouts.

5 Vehicle to Home (V2H) system

This system allows the storage batteries in electronic vehicles (EV), which are expected to become more widespread in the future, to be used as a power source for homes.

6 Home Energy Management System (HEMS)

The HEMS visualizes the amounts of energy generated and used, and leads to both efficient conservation of energy and fostering of awareness about saving energy.



Launch of new Smart Solabo utilizing a V2H system for use of EV power at home

Due to the rise in concern about the supply of energy and in the calls to save electricity after the Great East Japan Earthquake, there has been an increase in demand for sustainability in housing, which is at the foundation of our lives. Because of this, Smart Houses have been gaining attention. These houses generate electricity, store it, and then employ IT to use it efficiently. With the stimulus created by the Japanese government through the Feed-in Tariff for renewable energy and subsidy programs for solar power generation systems, demand for Smart Houses is certain to grow in the future.

In response to this growing social need, Sumitomo Forestry has strived to enhance its housing offerings. They



provide even greater efficiency in energy utilization in order to be environmentally friendly, inexpensive, and also useful in preparing for natural disasters. *Smart Solabo*—launched in February 2012—is a Smart House unique to Sumitomo Forestry that integrates such features as a solar power generation system, the residential fuel cell unit Enefarm, a 12kWh storage battery system optimized for residential use, and HEMS, into wooden houses that conserve energy by utilizing the natural elements.

Furthermore, in July 2012, Sumitomo Forestry announced the new *Smart Solabo*, which offers an even greater lineup of environmentally-friendly systems and fixtures for consumers to choose from. In addition to being among the first to adopt a V2H system which allows power from EVs to be used within the home based on its expectation that EV use will become more widespread, Sumitomo Forestry also added a 4.8kWh residential rechargeable battery that allows for coordination with a solar power generation system to its new technologies. By offering combinations of its replete lineup of environmentally-friendly technologies that best match customers' lifestyles and needs, Sumitomo Forestry has revolutionized *Smart Solabo* houses so that they allow residents to achieve even more efficient energy usage.

In the future, Sumitomo Forestry will continue building sustainable houses through *Smart Solabo*, and will also utilize the expertise gained with *Smart Solabo* in order to develop Life Cycle Carbon Minus (LCCM) Houses that reduce CO₂ emissions throughout the lifecycle of a house.

Offsetting CO₂ emissions from housing through forestation

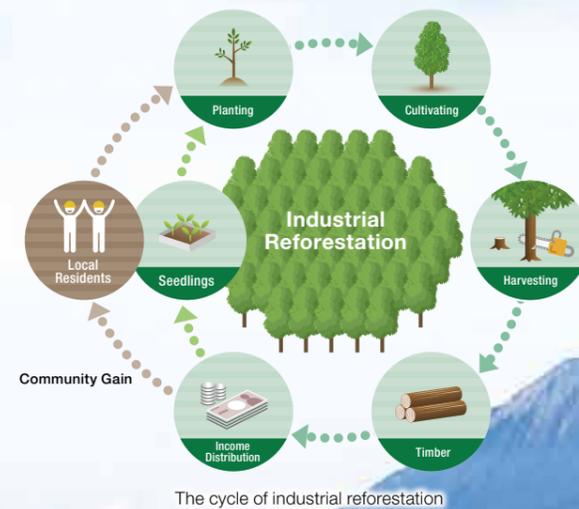
Sumitomo Forestry aims to contribute to the conservation of the global environment through the Project EARTH and is promoting a carbon offset program in Indonesia—a country facing continued forest degradation—through forestation efforts that will offset CO₂ generated during the process of house development, from the harvesting of logs to the construction of the buildings. Looking at the principal structural materials of the 10,000 houses which Sumitomo Forestry annually builds in Japan, approximately 60,000 tons of CO₂ are produced. This project is a long-term plan to offset a total of 300,000 tons, equivalent to five years of CO₂ emissions, by planting approximately 1,500,000 trees in a total of 1,500 hectares of land. The project will then cultivate the area for 10 years. Through this project, Sumitomo Forestry will ensure that customers who purchase its houses will be able to live with peace of mind in homes that create little environmental impact.

The project launched in fiscal 2009 includes both environmental reforestation aimed at regenerating degraded forests in Bromo Tengger Semeru National Park, and industrial reforestation with which trees are planted together with local residents and are then harvested when matured to be utilized as a material for construction or furniture. As of fiscal 2012, a total of approximately 1,090 hectares have been afforested, with approximately 250 hectares used for environmental reforestation.

With its industrial reforestation, the company provides

seedlings for the forestation of lands owned by local residents but unsuited for cultivation. By splitting revenues from harvested trees between residents and the project, residents gain income, and the project uses revenues for the next stage of forestation. This is a new model for comprehensive forest management that uses housing business in Japan to enable sustainable forest management in developing countries as well as economic contribution to local areas.

The Sumitomo Forestry Group company Kutai Timber Indonesia has been implementing community-based reforestation for more than 10 years. The company has received strong praise within the local community, and it won the platinum category of the Indonesia Green Awards given by the Indonesian Ministry of Forestry in 2012.



2 Vision for the Sustainable Development The Power of Forests Empowers the Future

Theme: Climate Change and Forest Conservation

Preventing Global Warming through the Power of Forests

Activities aimed at sustainable forest management together with local communities

In the effort to prevent global warming, there has been a reevaluation of the capacity of forests to absorb and retain CO₂ from the atmosphere, yet forests, especially in developing countries, are currently being lost at a rapid rate.

Sumitomo Forestry is engaged in sustainable planting activities in cooperation with local communities across Asia, based on its philosophy of sustainable forestry in which it plants trees and nurtures forests while continuing to utilize wood.

While preventing global warming, the Company is also contributing to the development of local communities.

Contributing to the creation of the international mechanisms for forests protection through survey business

The Bilateral Credit Mechanism is one of the new mechanisms championed by the Japanese government within the international community for the prevention of global warming. The Northwestern Vietnamese Degraded Forest Conservation and Regeneration Project proposed by Sumitomo Forestry has been adopted since fiscal 2011 for the survey efforts of the Ministry of the Environment of the Japanese government (head office: Global Environment Centre Foundation^{*1}) as a project that will contribute to the examination of the Bilateral Credit System. This project is also expected to contribute to the creation of frameworks for REDD+^{*2}, which works to conserve forests in developing countries as a way to counter climate change. Sumitomo Forestry has been developing calculation methods for the reduction effect of CO₂ achieved through reforestation of forests and by implementing biomass power generation using past survey results.

In order to protect and sustainably manage forests that are currently being lost in developing countries, it is crucial to improve the lives of the people living in these regions. Sumitomo Forestry plans on continuing to collaborate with the Japan International Cooperation Agency (JICA), and to promote modeled activities from two aspects: forest management activities including forestation and protection of natural forests, and livelihood improvement activities that support local vocations including pig and fish farming. For villages in Dien Bien Province—one of Vietnam's poorest

regions—the Company will support initiatives by local governmental agencies and residents of the villages while also establishing a model for forest management that allows for both the conservation of forests and the sustainable development of local communities. Sumitomo Forestry aims to accomplish these as a countermeasure to global warming, and in particular as one way to address climate change in Japan.

***1 Global Environment Centre (GEC) Foundation**
Established in 1992 to support the International Environmental Technology Centre (IETC), which is the technological division of the United Nations Environment Programme (UNEP). The Centre strives to contribute to the conservation of the environment in developing countries and across the world through activities including the promotion of international cooperation aimed at global environmental conservation.

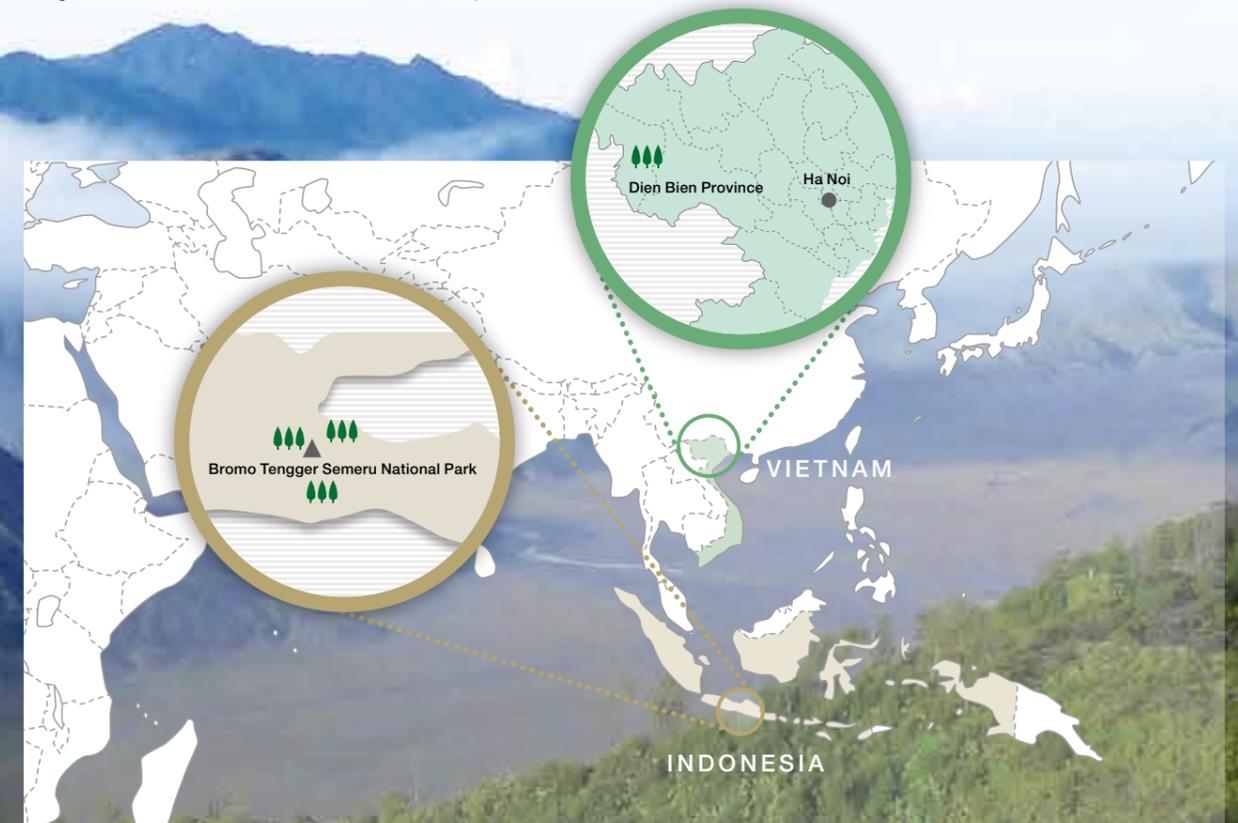
***2 REDD+**
Reducing Emissions from Deforestation and Forest Degradation in developing countries; and the role of conservation, sustainable management of forests and enhancement of forest carbon stocks in developing countries. Currently frameworks are under consideration by the United Nations and other entities for the international promotion of REDD+.



A local inspection



A briefing session for local residents



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Theme: Initiatives for Biodiversity Preservation

Protecting Ecosystems with Our Expertise on Greening

Developing biodiversity consulting through the Eco-Asset™ Consortium

Forests not only serve as a source for the timber and building materials needed in industrial societies, they also provide a variety of other public benefits including the absorption of CO₂, the replenishment of water resources, the prevention of landslides, and so on.

One benefit that has been gathering attention in recent years is the ability of forests to protect a variety of living organisms and foster an environment for them, or in other words to preserve biodiversity.

In order to utilize expertise the Sumitomo Forestry has accumulated through ventures including its greening business to help create a society that exists in harmony with nature, and to contribute to the preservation of ecosystems, the Group has formed the Eco-Asset™ Consortium*1 together with other companies that possess advanced expertise and technology related to biodiversity preservation.

The Consortium conducts consulting activities across Japan that contribute to biodiversity preservation, including the creation of green cities, the increasing of the value of corporate green zones, and the revitalization of *satoyama* (mountain areas linked to local communities).

*1 A consortium jointly operated by InterRisk Research Institute & Consulting, Inc., Regional Environmental Planning Inc., Sumitomo Forestry Landscaping Co., Ltd. and Sumitomo Forestry

Case 1 Consulting for the Redevelopment of Mitsui Sumitomo Insurance's Land in the Surugadai District

Striving to create an Ecological Network in the center of Tokyo

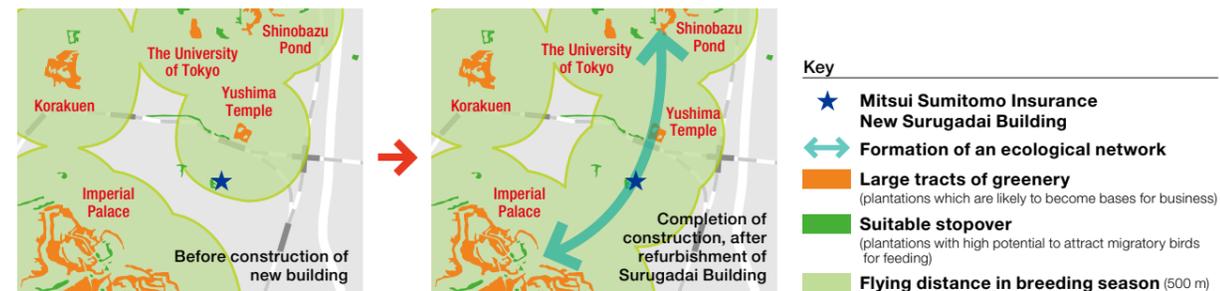
In recent years there has been an expanding movement to raise the value of corporate green zones from the perspective of biodiversity. During the planning for the construction of the Mitsui Sumitomo Insurance New Surugadai Building completed in February 2012, Eco-Asset™ proposed the formation of an *ecological network* that would connect the habitats of organisms living in various points of metropolitan area. In an effort to create a green zone that would serve as a "green midpoint" connecting the Imperial Palace and Shinobazu Pond, the largest ecosystems in the city center, a plan was implemented that not only selected tree species that attract Japanese pygmy woodpeckers and butterflies, but that also takes into consideration animal habitats and the cityscape.

This building also aims to receive joint recognition as a Superlative Stage building under the Social and Environmental Green Evaluation System (SEGES)*1, a recognition already acquired by the adjacent Surugadai Building.



The Mitsui Sumitomo Insurance New Surugadai Building

*1 A system run by the Organization for Landscape and Urban Green Infrastructure for evaluating and certifying excellent green zones that contribute to city layouts which conserve the environment and provide enrichment, peace, and beauty



* Information source: Eco-Asset™ Consortium



Case 2 Chita Greenbelt Biodiversity Protection Plan

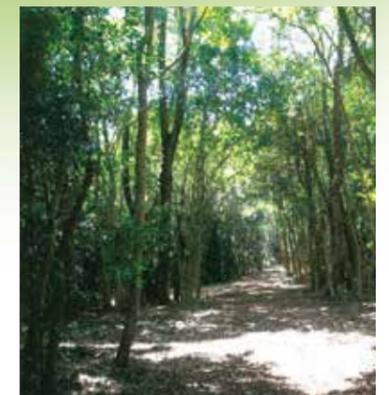
Supporting the Connect Life Project to create a network within corporate green zones

Within the industrial zone on the Chita Peninsula in Aichi Prefecture, Japan, a corporate green zone with trees planted during the period of rapid economic growth in Japan has grown into a massive greenbelt. Although it had the potential to host a variety of life, it was not being adequately maintained due to the fact that multiple companies were managing the area individually. Following COP10*1 held in 2010, the *Connect Life Project* was launched to strive to form an ecosystem network that would connect the green zones of each company through collaboration between the many groups connected to the zones, including various stakeholders such as companies, government entities, local communities, students, and NPOs. Eco-Asset™ joined this project from the planning stages, and went on to support a variety of activities including the creation of biotopes*2, pathways for animals, and places for animals to live. It also provided consulting for individual companies.

Collaborators were recruited from among local young people who will be responsible for the next generation. The fact that the project contributes to educating these young people is highly appreciated and the project received the Aichi Environmental Award for Excellence from Aichi Prefecture in February 2013.



Students who participated in the Connect Life Project



A corporate green zone



Chita industrial zone green belt

*1 Tenth Ordinary Meeting of the Conference of the Parties to the Convention on Biological Diversity

*2 An area inhabited by living organisms

Topics

Formulating the Sumitomo Forestry Group's Declaration of Biodiversity

In fiscal 2006, the Sumitomo Forestry Group formulated its Policy on Biodiversity Preservation in Company-owned Forests in Japan, and added the commitment to preserve biodiversity to its Environmental Policies in fiscal 2007. Furthermore, in March 2012, the Group announced its Declaration on Biodiversity, which sets out its attitude and approach toward biodiversity, its specific Action Guidelines, and the Long-term Targets it will strive to achieve. All Group companies have come together to work towards these goals.

The Sumitomo Forestry Group Declaration of Biodiversity

The forefather to the Sumitomo Forestry Group was founded more than three centuries ago, and since then we have developed our businesses while conserving forests, whose clear water, air, and soil are the source of life for many living creatures. Going forward, we at Sumitomo Forestry will continue to place the greatest importance on preserving biodiversity through our forestry business for providing timber, which is a renewable and natural material, and for managing forests, which support diverse ecosystems. We shall also strive to help realize a sustainable society that exists in harmony with nature.

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Theme: Procuring Timber from Sustainable Forests

The Next Step of the Timber Procurement Action Plan

Promoting sustainable timber procurement in order to protect the forests, common asset of humankind

In recent years the world's forests have been declining rapidly due to such factors as illegal and excessive logging and agricultural land conversion.

In order to stop the reduction in forest area and to both protect and nurture the world's forests, Sumitomo Forestry promotes sustainable timber procurement from appropriately managed forests based on its Timber Procurement Philosophy and Policy, and reaches out to stakeholders. By doing so it is spreading such efforts across the entire industry and throughout society.



1st Action Plan 2nd Action Plan 3rd Action Plan

Inspect all first-tier suppliers for Japanese market and achieve 100% legality verification

In order to prevent the decrease and devastation of forests, it is important to prevent the distribution of illegally logged timber. In its Timber Procurement Philosophy and Policy, established in June 2007, Sumitomo Forestry declared its intention to thoroughly implement procurement of timber that has been verified as legally compliant with the cooperation of its suppliers. At the same time, it formulated and has promoted its Timber Procurement Action Plan with specific actions aimed at achieving these goals. Under the First Action Plan, implemented from fiscal 2007 to fiscal 2009, Sumitomo Forestry implemented inspections at all of its suppliers of timber directly imported from overseas (directly imported timber). In fiscal 2009, it verified the legality of all such timber.

• Legality Verification

Countries around the world are working to develop laws aimed at eliminating illegally logged timber in order to prevent the diminution and deterioration of forests. Sumitomo Forestry implements screening through its internal Timber Procurement Examination Committee to verify whether the timber it handles was appropriately managed and logged in accordance with local laws. This screening is performed based on factors including documents showing legal compliance submitted by suppliers and reports from on-site inspections performed by Sumitomo Forestry representatives.



Widening the focus from legal compliance to sustainability, and expanding sustainable timber procurement

Under the Second Action Plan implemented from fiscal 2010 to fiscal 2012, Sumitomo Forestry continued to verify legality including new suppliers in order to maintain 100% legality verification of directly imported timber. At the same time, it expanded the legality verification to include timber for overseas market, woodchips for papermaking, and other materials. In addition, Sumitomo Forestry worked to expand its use and handling of timber procured from sustainable forest sources, including certified timber, plantation timber, and Japanese timber. Starting in fiscal 2012, it also began implementing CSR surveys that verify whether social considerations are being made on topics including human rights and labor practices for all direct timber suppliers in order to strengthen CSR management across its supply chain. In this way, Sumitomo Forestry implements corporate evaluations regarding CSR initiatives including environmental issues.

• Sustainable timber procurement

Sumitomo Forestry defines sustainable timber as certified timber that has been certified as legally compliant and sustainable by a third party organization, plantation timber that has been planted and logged in a planned manner, and Japanese timber that helps revitalize Japanese forestry. The Company is expanding its use and handling of sustainable timber.



Broaden initiatives across the supply chain, and expand the potential of timber into new fields

In order to thoroughly implement procurement of legal and sustainable timber, it is necessary to not only make efforts within the Sumitomo Forestry Group, but to gain the cooperation of the entire supply chain. With this in mind, under the Third Action Plan, implemented from fiscal 2013, Sumitomo Forestry has placed importance upon activities to spread awareness among stakeholders in addition to maintaining 100% legality verification and promoting the use of sustainable timber. The Company will contribute to the realization of a sustainable society by broadly communicating to its supply chain and all society the importance of timber procurement that gives consideration to the environment and to society. Furthermore, by utilizing small-diameter timber, offcuts, and wood leftover from logging, and by promoting the use of new energy sources including biomass power generation, Sumitomo Forestry will unlock new fields for timber utilization.

• Approaching suppliers about consideration of human rights and labor

The treatment of human rights and labor issues including child labor in developing countries attract much attention, and Sumitomo Forestry asks that its suppliers give social consideration to issues including human rights of workforce involved in forestry and the maintenance of workplace conditions.



Topics

Initiatives to expand the use of sustainable timber as a house building material

In recent years, the devastation of Japanese forests has become an issue. Underpinning this problem is the decline of forestry caused by such factors as the drop in prices due to competition from inexpensive imported timber and the aging of forestry workers. In order to revitalize forestry and regenerate Japanese forests, it is crucial to actively utilize Japanese timber. With this in mind, Sumitomo Forestry has put priority on expanding its use of Japanese timber. Through the development of proprietary technologies, the percentage of Japanese timber used in the principle structural materials of *Sumitomo Forestry Home* houses was increased to 53%. Under the Third Action Plan started in fiscal 2013, the Company aims to increase this percentage to 60%. Sumitomo Forestry will strive to raise awareness of the importance of these efforts in society, and to expand the use of Japanese timber, involving the industry and throughout society.

The Company has also thoroughly implemented legality verification of timber used in its housing business. In fiscal 2011, it completed a legality check of not only timber procured from overseas by the Timber & Building Materials Division, but of that procured from outside the Group. Legality verification will be continued under the Third Action Plan launched in fiscal 2013.





Theme: Renewable Energy

Generating Environmentally Friendly Power with Timber

The present and future of renewable energy business centered on wood biomass power generation efforts

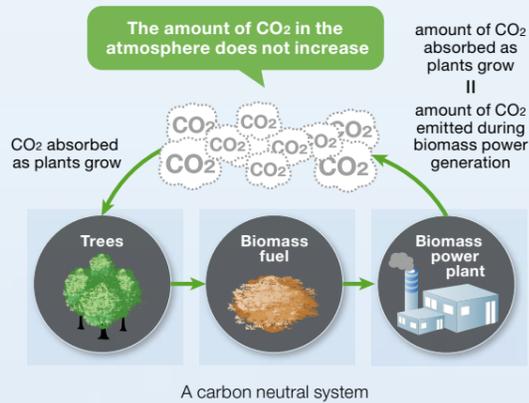
The Sumitomo Forestry Group was quick to focus on wood biomass power generation—a prospective source of renewable energy—and it contributes to global environmental protection and to ensuring a stable supply of energy by utilizing wood as an energy resource. This type of power generation also increases the value of forest resources and will lead to the revitalization of forestry.

In April 2013, the Group also established the Environmental Energy Group within the Forestry & Environment Division's Forestry & Environmental Business Department, and is putting increasingly more effort into promoting renewable energy business centered upon wood biomass power generation.

Contributing to Environmental Preservation and Revitalization of Forests through Biomass Power Generation

Forests are at the foundation of Sumitomo Forestry's operations, and the Company has therefore striven to develop new applications for wood and to utilize it without waste, thereby increasing the value of wood and leading to the revitalization of forestry. One initiative to achieve this is wood biomass power generation. It utilizes timber which was previously discarded, including thinnings and construction wood waste, as an energy resource.

Since the CO₂ produced from burning biomass was originally absorbed from the air during the growth of trees, the process does not lead to higher levels of CO₂ in the atmosphere. This kind of "carbon neutral" mindset is also expected to contribute to the prevention of global warming.



Actively Developing Biomass Power Generation Business in Japan and Overseas

Sumitomo Forestry was quick to begin efforts related to wood biomass power generation. It has achieved results in its efforts producing wood fuel chips and supplying them to power producers, as well as introducing them as part of its wood building material production business in Indonesia, which led to the acquisition of emission credits.

In order to engage in business related to power generation in Japan, Sumitomo Forestry established joint ventures in Kawasaki City, Kanagawa Prefecture in 2008; Kawasaki Biomass Electric Power Co., Ltd., which handles power generation, and Japan Bio Energy Co., Ltd. which supplies the wood chips. Commercial service was launched in February 2011 of this wood biomass power generation business capable of generating 33 megawatts of power, equal to the power used by approximately 38,000 households or 100,000 people.

The first urban-oriented biomass power generation in Japan utilizing waste from construction

One of the features of the Kawasaki Biomass Electric Power Co., Ltd. is its urban-oriented power plant using mainly waste from construction.

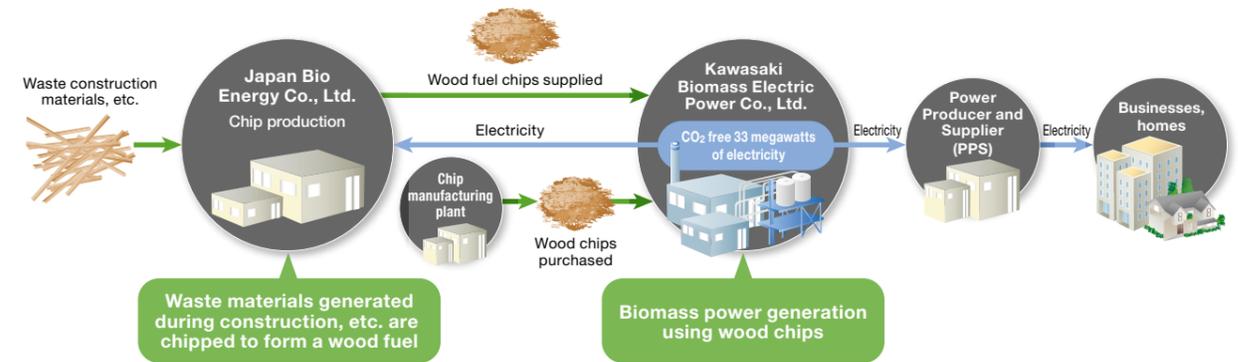


Residential wood waste used for biomass power generation

One of the keys to realizing biomass power generation business is finding how to obtain a steady supply of fuel. One solution lies in the fact that in urban areas with large populations, waste is created on a daily basis during the construction and renovation of houses, and large amounts of fuel can be procured easily. At the same time, from the perspective of the effective use of resources, there is great significance in using materials that had hitherto been treated as industrial waste to produce economic value as an energy resource.

From April 2012, Sumitomo Forestry has also been expanding regional resource recycling efforts in cooperation with Kawasaki City, which is known for being an eco-city, by implementing initiatives including accepting waste pallets from the local markets and packaging materials disposed of by local manufacturers, in addition to waste construction materials.

Operation of Kawasaki Biomass Power Generation Business



Establishment of the Environmental Energy Group with the aim of actively expanding business efforts

The mission of the Environmental Energy Group newly established in April 2013 is to put even more focus on expanding business efforts related to environmental energy including wood biomass power generation and solar power generation. One of the current goals of this Group is the commercialization of wood biomass power generation in the mountainous areas of Japan that utilizes forest resources.

There are a variety of issues facing biomass power generation in mountainous areas, including securing forest resources, developing collection and transportation routes, drying timber, and establishing efficient combustion technology. Sumitomo Forestry will approach these issues by utilizing its strength as a company that engages in

business related to wood from a comprehensive perspective, and will examine optimal business models that address the specific characteristics of each region. The Company will use wood to create a wide range of value by achieving such goals as the revitalization of regional forestry through returning revenues from power generation, contribution to the economy by creating employment, and provision of locally produced energy for local consumption.

Seiro Takada
Group Manager
Environmental Energy Group
Forestry & Environmental
Business Department
Forestry & Environment Division





Theme: Approaches to Workstyle Diversity

Creating a Lively Workplace where Employees can be Themselves

Promoting the various workstyles of each and every employee

As a company that provides services related to housing and lifestyles of people, Sumitomo Forestry firstly believes that it is important to ensure its employees find their own optimal balance between work and life.

It also believes that the diversity of its employees serves as a foundation for the creation of new value, and works to enhance systems that allow all of its diverse employees to implement their own unique workstyles, while also creating a workplace environment and culture that makes these systems accessible.

New Employee Support System Launched in Fiscal 2013

In order to implement its action guideline of Respect for Humanity, Sumitomo Forestry established the Workstyle Diversification Department in fiscal 2013 by promoting former Work & Life Group.

This Department serves as a single window for various supportive functions to make it easier for employees to reach out for help. Previously divided supportive functions include support for; the balance between work and care for children or family, the efforts of female employees, career support, mental health, and re-employment after retirement.



Roles of the Workstyle Diversification Department



Holding a Round-Table Discussion among Fathers

What is necessary to create a workplace where employees can balance work and childcare?

Sumitomo Forestry promotes work-life balance, aiming to create a workplace environment where employees can work enthusiastically while also placing priority on their families. Based on the progressively falling birth rate, on the shift toward nuclear families, and on changes in the lifestyles and values of employees, the Company has developed systems to support work-life balance that both men and women can use. These systems are aimed at helping employees maintain their physical and mental health, and at improving motivation and performance.

In addition to the annual Round-Table Discussion among Parents held in July 2012, the Round-Table Discussion among Fathers (with children under three years old) was held in the same month with six fathers participating. The discussion was based on the father's own experiences and included not only thoughts on childcare and requests for the company, but also questions about workstyles.

Furthermore, after sharing the discussions on the company intranet, large number of employees contributed opinions and comments, showing the extent on interests in fathers becoming involved in childcare. The discussions served as a perfect way to vitalize dialogue about the balance between work and childcare. In the future, Sumitomo Forestry will continue to strive to create positive workplace environments by proactively working to communicate with diverse employees.



Comments from Participants in the Round-Table Discussions

Meetings with customers are scheduled even on weekends. But now I've developed the courage to ask for adjustments when there are school events. My work perspective was also broadened when designing for families with children.

Fumihiro Osaka, Housing Division

I feel that it's crucial to not simply make workdays shorter, but rather to improve the workflow across the entire organization in order to further improve efficiency.

Kazuhiko Kondoh, Housing Division



I realized that since there are a large number of women active in the workplace, it is important to create systems that enable men to be involved in childcare so that we can realize gender equality not only at work but with childcare as well.

Mitsunori Tsukimoto, Lifestyle Service Division

While I was away on long overseas business trips, my child learned to say some new words, and I was happy to see the progress. At the same time, I felt sad missing those moments. I hope to spend more time with my family and become more actively involved.

Shuhei Nishi, Forestry & Environment Division



Since there are many systems already in place related to childcare, all that's left is how to use them. Personally, while I was taking childcare leave, my coworkers did their best to cover for me. It's important to spread information and awareness, and to also create an environment comfortable to use these systems.

Kota Sakurada, Timber & Building Materials Division

Along with creating systems that match with its own corporate culture, communication is also important. I feel that talking to one another on work and family life both at work and home is the first step in resolving issues.

Shota Miura, Timber & Building Materials Division

* Titles given are as at time of Round-Table Discussion

Supporting the creation of the wood-based city as a partner in reconstruction efforts

Higashimatsushima City in Miyagi Pref. suffered significant damage from the Great East Japan Earthquake. As part of reconstruction, the city plans to transform itself into an advanced city that would be able to cope with various social issues, including natural disasters, energy self-sufficiency, environmental protection, the low birth rate and aging population. The city is thus selected as one of Future Cities, an initiative promoted by the Japanese government.

Higashimatsushima City also proclaims self-sufficiency to be one important aspect of its reconstruction efforts, and is considering the proactive use of locally-produced biomass for fuel and other purposes. Fostering forests is hoped as both providing a renewable biomass resource, and as developing a richer natural environment. The city is striving to improve the economic value of forests, create employment, and revitalize the local economy by using locally-produced timber in various ways including as building materials and as an energy source for biomass power generation. This concept harmonizes greatly with Sumitomo Forestry's MOCCA (Wood Use Integration) business, as well as with the Forest and Forestry Revitalization Plan promoted by the government.

With this in mind, in July 2012 Sumitomo Forestry and Higashimatsushima City concluded an agreement to

work together on the post-disaster reconstruction. The Company will provide comprehensive support for the efforts to make Higashimatsushima a *wood-based city* by utilizing the broad expertise it has developed related to the use of timber.

Areas of Cooperation

- Promotion of greening including fostering disaster-prevention forests on the flatlands near the coast hit by the tsunami, and promotion of forestry
- Promotion of MOCCA (Wood Use Integration) in public facilities including public housing, educational facilities, tourist facilities, and sports facilities
- Fuel procurement and combustion technology in business related to wood biomass
- Formulation of the overall design of the *wood-based city* and other general policies related to revitalizing forestry



Illustration of the wood-based city



Broadly utilizing the “healing” effects of wood and forests in fields including medical care and education

By allowing people to come into contact with the warmth present in nature, wood has an emotional healing effect. While it is a temporary building, the MOCCA HUT, developed by Sumitomo Forestry to be communication venue for the local community in the devastated areas, provides the strong insulation unique to wooden construction, and is also well received for its interior that features the tangible sensation of wood. In Rikuzentakata City, Iwate Prefecture, for example, the temporary *Riku Café* is well loved by local community as a place for relaxation.

In its *wood-based city* plans, Sumitomo Forestry hopes to utilize the soothing effects of wood in a variety of fields including medical care and education. In the medical field,



A temporary wooden clinic

Sumitomo Forestry is engaged in the construction of a temporary wooden clinic that will help with the mental care of local residents in cooperation with the Kitahara Neurosurgical Institute (KNI) (based in Hachioji City, Tokyo), which is involved in medical support in the devastated areas. In the field of education, the Company believes that the creation of “schools of the forest” proposed by Mr. C. W. Nicol—a well-known conservationist—will contribute to raising children using wood to come closer to nature and live in harmony with it.

Sumitomo Forestry will continue to contribute to quickening the reconstruction of Higashimatsushima City, and support the realization of this *wood-based city*. It will also lead to development of tourism resources by drawing people from metropolitan areas for therapy, or to partake in outdoors school and so on. The idea of using the power of forest to create alluring cities where people gather is beginning to receive attention as a new model cities that can be applied not only in the devastated areas but also in all rural Japanese cities.

7 Vision for the Sustainable Development The Power of Forests Empowers the Future



Theme: MOCCA (Wood Use Integration) and Reconstruction Support

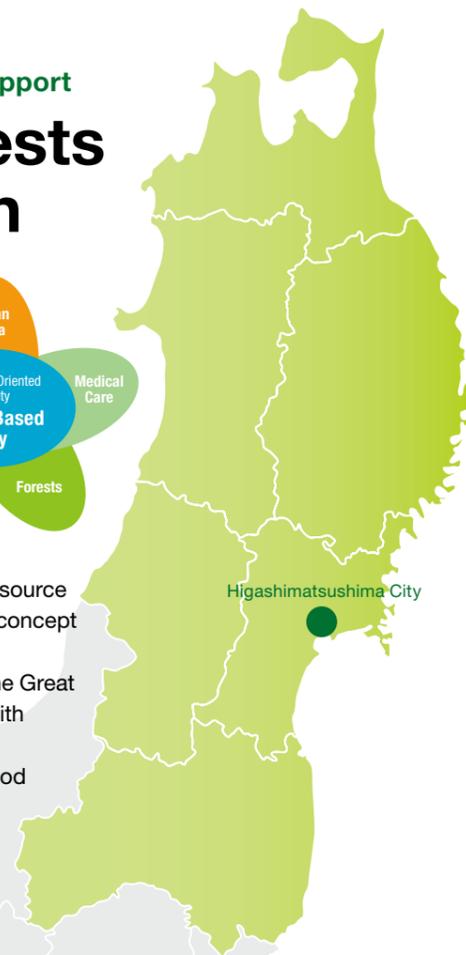
Using the Power of the Forests to Empower Reconstruction

The Wood-Based City, an overall design for a new type of city in the devastated areas

In order to expand the possible uses of timber and to contribute to the revitalization of Japanese forestry, Sumitomo Forestry is putting effort behind its MOCCA (Wood Use Integration) operations, which promotes the use of timber resources aimed at promoting wood construction in non-residential fields such as schools and nursing homes, the use of timber in homes, and the diffusion of wood culture.

The Company hopes to bring out the maximum value of wood as a recyclable resource while also creating cities that exhibit the appeal of wood and are full of warmth. This concept harmonized with the vision promoted by the “Future City” Initiative adopted by Higashimatsushima City in Miyagi Prefecture as part of reconstruction efforts after the Great East Japan Earthquake. In July 2012, Sumitomo Forestry concluded an agreement with Higashimatsushima to work together on the post-disaster reconstruction.

The Company will apply all of the capabilities it has developed in the fields of wood and homes to support the creation of the *wood-based city*.



I hope to support the mental and physical health of those affected by the earthquake in “treatment areas that have the aroma of wood.”

Dr. Shigemi Kitahara
President of Kitahara Neurosurgical Institute (KNI)



For all living organisms, stress can become a major factor behind ill-health. We believe that the most important element in the health of those affected by the earthquake is finding ways to decrease stress. With cooperation from Sumitomo Forestry, we opened Kitahara Life Support Clinic Higashimatsushima. This clinic is made completely of wood and has the aroma of Japanese cypress. We will continue on using this clinic as a base for creating spaces for medical treatment that use the power of the forest to heighten people's natural healing abilities.

I expect that the strong men and women who will lead the next generation will be taught at “schools of the forest.”

Mr. C. W. Nicol



We lost so much during the Great East Japan Earthquake, but we also learned a great deal from the experience. In the future, Japan must take a path in which it does not fight nature, but rather lives together with it. I hope that the children who will lead the next generation will experience nature and develop a sense of responsibility for other humans and for the environment by learning within the forest. By doing so, I hope that they will be able to make the right judgments and take the right actions even in the face of unforeseen circumstances, and that they will grow to become strong human beings.



Topics

Other achievement in 2012; In its desire to contribute to the resolution of social issues through its business activities, Sumitomo Forestry engages in CSR- activities from a variety of perspectives.

Establishment of the Metropolitan Area Recycling Center

Sumitomo Forestry is striving to reduce the amount of industrial waste produced through construction of new houses to zero. In December 2010, the Company was granted inter-region recovery and recycling certification for treatment of industrial waste by the Ministry of the Environment of the Japanese government. Utilizing this certification system, it established and launched full-scale operations of an in-house recycling facility, the Metropolitan Area Recycling Center in Kazo City, Saitama Prefecture, which is capable of high-level separation of waste. By utilizing the facility, Sumitomo Forestry achieved zero emissions in the Tokyo metropolitan area in fiscal 2012. Upon examining the results, the Company plans to extend it to other areas as well.



The Metropolitan Area Recycling Center

Signing agreements with the community to promote forest maintenance in northern Miyazaki Prefecture

It is crucial to take steps including clearing away underbrush, pruning, and thinning in order to increase the healthiness of forests, but in Japan there is a large number of people who own small areas of the country's forests, which makes it difficult to implement efficient measures. In order to secure a breakthrough in this situation, Sumitomo Forestry has signed agreements to promote forest maintenance with multiple owners including national forests, and is working on the issue together with these parties. In September 2012 in Shiiba Village located in the Higashiusuki District in Miyazaki Prefecture, the Company signed agreements with multiple forest owners, and is promoting efficient forest management.



An area where the agreement to promote forest maintenance has been signed

Launching verification tests for construction methods preventing liquefaction at Urayasu City

Urayasu City in Chiba Prefecture experienced massive damage due to the liquefaction of the ground during the Great East Japan Earthquake. The city thus made a request to the private sector for effective construction methods to prevent liquefaction, and is performing demonstration tests at the city-owned parks. Sumitomo Forestry was selected to be one of the organizers for this initiative, and in September 2012 launched demonstration tests of its own construction methods. These methods reinforce the borders of the foundations of buildings with steel plates to inhibit the outflow of ground directly beneath the buildings. This technology can be used in detached houses more cost-effectively than in the past, and is expected to be put into practical use soon.



Verification tests for construction methods preventing liquefaction

Planting cherry blossom trees in the grounds of elementary schools in Tohoku

In addition to conventional techniques such as cutting and grafting, Sumitomo Forestry is working on research and development of clonal growth technology using tissue culture in order to ensure that heritage trees and other valuable trees are bred to future generations. In February 2012, the Company used the tissue culturing method to grow Omurozakura, famous cherry trees at Ninna-ji Head Temple in Kyoto that were suffering from obvious decay, and returned the first cloned seedlings to Ninna-ji Temple. Sumitomo Forestry and Ninna-ji Temple have also begun to perform tests planting in multiple locations with varying conditions of soil and climate across Japan, including several elementary and junior high schools in the Tohoku region, which was devastated by the Great East Japan Earthquake.



Nursery trees

Implementing Manabi no Mori Projects at Mt. Fuji and in Gunma Prefecture

Sumitomo Forestry is implementing a restoration project, *Manabi no Mori*, started in 1998, borrowing approximately 90 hectares of national forest at the base of Mt. Fuji that was severely damaged by a typhoon. The Company is working on forest maintenance together with employees, customers and their families, and children living in the region. Since this is a long-term plan that will span across 100 years, the Company is also focusing on environmental education that will nurture the environmental awareness of participants and increase the network of people interested in strengthening forests across multiple generations. In July 2012, Sumitomo Forestry started a similar program in state forest in Gunma Prefecture.



Participants in Manabi no Mori in Gunma

Launching the Female Perspective Development Project

Sumitomo Forestry views the diversity of its employees as the foundation for creating new value, and thus promotes initiatives that advance the ambitious success of its female employees. In March 2013, in order to strengthen its ongoing efforts in product development from female perspectives, the Company started the Female Perspective Development Project within the Housing Division. In advance of this project, in April Sumitomo Forestry developed and released "comama," an idea about space that increases the flexibility offered by living rooms. In the future, the Company will expand proactive activities focused on new product development.



The Female Perspective Development Project

Corporate Profile

Company name:
Sumitomo Forestry Co., Ltd.

Address of Headquarters:
Keidanren Kaikan, 3-2, Otemachi 1-chome,
Chiyoda-ku, Tokyo 100-8270, Japan

Paid-in capital: ¥27,672 million

Incorporated: February 20, 1948

Founded: 1691

Company-owned forests:
43,328ha (As of March 31, 2013)

Business scope

- Forestry & Environment Businesses**
 Management of forests; development of new forestry and environment-related business, etc.
- Timber & Building Materials Businesses**
 Purchase, manufacture, secondary processing and sales of timber (logs, wood chips, processed timber, engineered wood, etc.) and building materials (plywood, fiberboard, processed wood materials, concrete and ceramic building materials, metal building materials, housing systems and fixtures, etc.)
- Housing Businesses**
 Contract construction, sales, after-sales maintenance and renovation of detached houses and multi-unit residences; sales of interior products; sales of spec homes; rental, management, sales, and brokerage of real estate; contract work for housing exteriors, garden landscaping and urban greening; CAD work and site surveys, etc.
- Lifestyle Services Businesses**
 Operation of private-pay elderly care facilities; equipment leasing; insurance agency; manufacture and sales of gardening products; development of information systems; temporary staffing, etc.
- Overseas Businesses**
 Manufacture and sales of timber and building materials; contract construction and sales of detached houses, etc.; plantation forest operations and sales of plantation timber.

Global Network



As of July 1, 2013

Sumitomo Forestry's Business Activities



Forestry & Environment Business



Implementing the planned forest management of broad tracts of company-owned forests in Japan, based on the principle of "sustainable forestry." Providing consulting services to support timber supply, and engaged in business to help find solutions to environmental issues.

MOCCA (Wood Use Integration) Business



Promoting the expansion of the possible uses of timber as a resource by promoting wood construction in non-residential sectors and the use of timber in interiors. Reevaluating the history of wood, in which people have lived in harmony with forests, and to create a new culture surrounding trees.

Timber & Building Materials Business



As the leading timber and building materials trading company in Japan, pursuing a broad range of operations, from procurement to manufacturing and logistics. Contributing to the stable supply of high-quality timber with our global network.

Greening Business



Offering comprehensive support from planning and design to execution and maintenance. Conceptualizing and implementing optimal greening initiatives in a variety of areas, including housing, city planning, office buildings, urban spaces, and *satoyama* (mountain areas linked to local communities).

Custom-Built Housing Business



Sumitomo Forestry Home houses are the leading brand of custom-built wooden residences in Japan. Offering comfortable houses that utilize the unique allure of wood-based construction to be environmentally friendly and passed on to the next generation.

Overseas Business



In response to worsening environmental issues and heightened demand for timber, building materials and housing across the world; engaging globally in a number of sustainable businesses that make use of trees and wood.

Renovation & Leasing Business



Pursuing business related to work that creates new value for existing homes, including remodeling and renovations. Providing a variety of services that enable customers to live in their homes longer and with more peace of mind.

Lifestyle Services



Developing businesses related to the lives of people, including the operation of paid nursing homes and the manufacture and sales of agricultural products. Focusing on the creation of new services that contribute to a higher quality of life.

Residential Property Development Business



Implementing a method of property development that is unique to Sumitomo Forestry based on the expertise it has developed through business which utilizes the unique characteristics of trees. Providing people with rich lives by building cities that are beautiful and exist in harmony with nature.

Tsukuba Research Institute



The Institute explores new possibilities for wood as a material, and is engaged in a variety of researches aimed at realizing a recycling-oriented society, research on wooden materials for housing, the effective utilization of wood resources, and research and development on comfortable living environments.

Access here to read more about the CSR initiatives of the Sumitomo Forestry Group.



CSR Report 2013



<http://sfc.jp/english/csr/>



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