

Happiness Grows from Trees



Sumitomo Forestry Group CSR Report 2016

Digest



CSR Report 2016 summarizes the activities of the Sumitomo Forestry Group, including its expanding global business activities and efforts to help solving various social issues through its businesses, based on a history of 325 years since its foundation.

The report is available in print and electronic format.

The printed report is reader-friendly, summarizing the activities we would like to highlight for everyone in society, as well as key words and numbers that represent the scale of these activities.

Meanwhile, our website provides more detailed and comprehensive information on our activities and relevant data.

For more information, please refer to <http://sfc.jp/english/information/society/index.html>.

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Scope of the Report and Publication Date

Companies Covered in the Report

Although this report focuses mainly on Sumitomo Forestry Co., Ltd., The Company considers it important to cover the activities of the entire Sumitomo Forestry Group, and hence has been expanding its reporting scope.

Reporting Period

April 2015 to March 2016 (The period also includes some activities from April 2016 as well as future plans.)

Publication Date

September 2016

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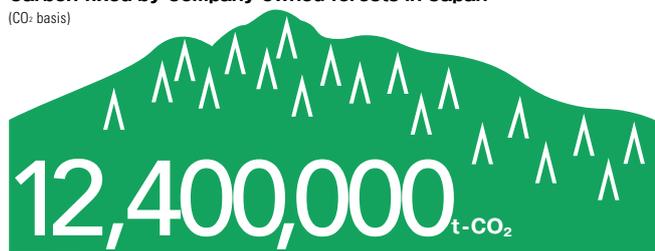
CSR DATA 2015

Key numerical data on CSR within the Sumitomo Forestry Group in fiscal 2015

Carbon stock of the timber used in housing construction (in Japan)



Carbon fixed by Company-owned forests in Japan
(CO₂ basis)



Number of native species of trees for garden
vegetation in the region
(Low, medium and high trees)



CO₂ emissions



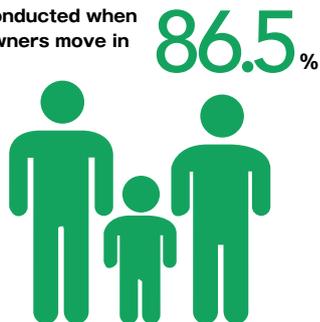
Water
consumption



Waste generated



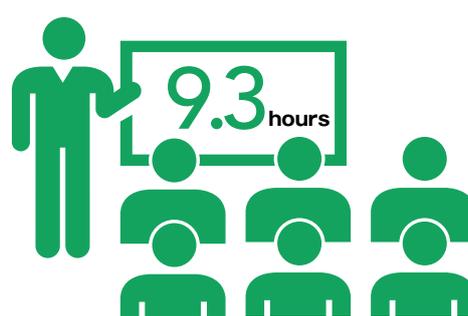
Customer
satisfaction
according to surveys
conducted when
owners move in



Employee satisfaction



Hours of training received per employee



Social contribution expenses



Lost-time injury frequency rate
(for contractors) on housing
construction sites



Social contribution donations



Number of whistle-blowing/
consultation calls



History and Business of the Sumitomo Forestry Group



Besshi Copper Mine (in Sumitomo Historical Archives)



Teigo Iba (in Sumitomo Historical Archives)

The Origins of Sumitomo Forestry

Sumitomo Forestry can trace its beginnings to the use of wood harvesting operations in neighboring forests to fortify the Besshi Copper Mine opened in Ehime Prefecture in 1691. Timber was crucial for the mining operation, 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 two million trees per year, the mountains were eventually returned to a state of rich greenery. It is the sustainable forest management based on the gratitude for the nature’s resources that serves as the starting point for Sumitomo Forestry’s business activities and for its corporate social responsibility (CSR) efforts.



Decimated Besshi Mountain due to mining operations in the Meiji era (above) and what the mountain looks like now (right)



Timeline of the Sumitomo Forestry Group

1691

The Sumitomo family started mining operations in the Besshi Copper Mine and began managing the neighboring forestlands (foundation of Sumitomo Forestry).

1894

Teigo Iba, Principal of the Besshi Copper Mine, prepared the Great Reforestation Plan in the spirit of gratitude for nature’s resources.

1948

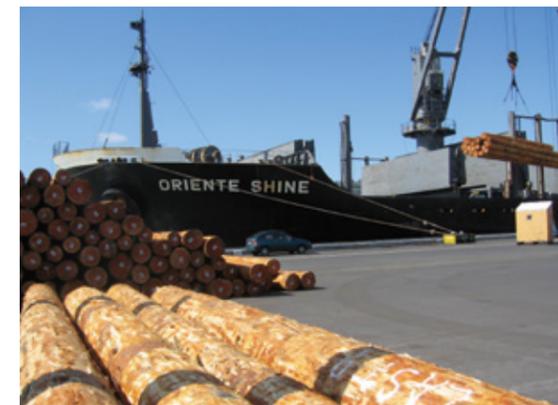
The forestry division of Sumitomo was divided into six companies under the government’s zaibatsu* dissolution order (establishment of Sumitomo Forestry).
* Zaibatsu: family-run conglomerate operating as an industrial group in Japan



Environment and Resources Business



Based on the principle of sustainable forestry, the Sumitomo Forestry Group carries out systematic forest management across **46,443 hectares** of Company-owned forests, accounting for about 1/900 of the total land area of Japan. The Group also promotes sustainable forest operations overseas and manages some **230,000 hectares** of plantation forest, contributing to the preservation of biodiversity and the development of local communities. Consulting services are also provided to municipalities and private companies in Japan and overseas, meeting the diversifying needs of forestry management.



Timber and Building Materials Business



As Japan’s leading timber and building materials trading company, the Sumitomo Forestry Group is involved in a broad range of operations, from the procurement of timber and building materials to manufacturing and logistics. The Group also contributes to higher efficiency for the entire industry by offering logistics systems that streamline the distribution of home building materials to manufacturers, distributors, and housing companies. Leveraging its strengths in procurement and proposals that draw on its global network, the Group has achieved a stable procurement and supply of timber and building materials to satisfy a wide variety of needs.

Overseas Manufacturing Business

The Sumitomo Forestry Group has established **11 Manufacturing sites** around the Pacific Rim, including Indonesia, Vietnam, Thailand, New Zealand, Australia, and the United States. With its business operations deeply rooted in the community, the Group develops and manufactures high-quality and environmentally conscious wood building materials. The Group is reinforcing its capacity to supply, not only the Japanese market, but also emerging countries where increased demand is expected in the wake of economic growth.



1955

Toho Norin Co., Ltd. and Shikoku Ringyo Co., Ltd. merged to form Sumitomo Forestry Co., Ltd. and established a nationwide network to procure and sell domestic timber.

1960

Launched and expanded to full-scale timber import business.

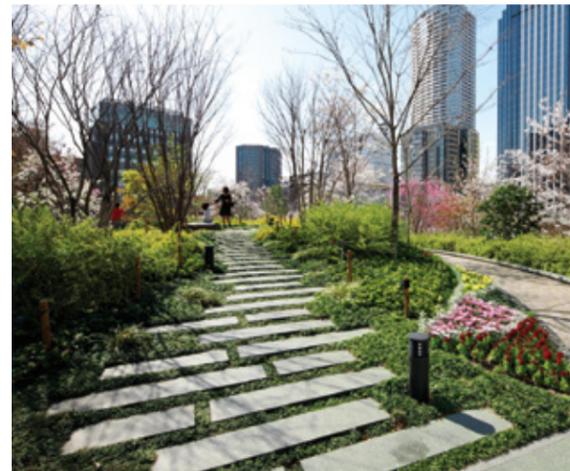
1970

Established a joint venture, P.T. Kutai Timber Indonesia (KTI) in Indonesia and launched full-scale building materials manufacturing business.



Housing Business

Sumitomo Forestry Home houses are the leading brand of custom-built wooden houses in Japan, utilizing the unique characteristics of wood and employing advanced construction methods. The Group completed **9,286 houses** in fiscal 2015. They enjoy a reputation for being comfortable, safe and secure houses that are environmentally conscious and durable for many years of residence. The Group also supplies apartments at a level of comfort only possible with wood, utilizing its design capabilities accumulated in developing custom-built houses.



Greenery Business

The Sumitomo Forestry Group conceptualizes optimal greening initiatives in a variety of areas, including housing, city planning, corporate office buildings and factories, as well as Satoyama (mountain areas linked to local communities). The Group planted about **420,000 plants*** in fiscal 2015. As biodiversity and sustainability attract increasing attention, the Group provides comprehensive support, ranging from consulting to planning and design, construction, and maintenance. An example is the environmental greenification of corporations.

* Excluding underbrush.



Residential Property Development Business

Based on the expertise developed through a wide range of wood-related projects, the Group is engaged in a new form of property development unique to Sumitomo Forestry. From space design to planting and designing lifestyles, the Group fully leverages its comprehensive capabilities to produce detached spec homes in harmony with the local natural environment and culture. The Group is contributing to the realization of a higher quality of life through the development of residential property that grows along with its residents.

Lifestyle Service Business

As Japan becomes a super-aging society, the Sumitomo Forestry Group operates community-based nursing care facilities and day care services for the elderly, providing a soothing environment with interiors that abound with the qualities of wood. The Group also provides a variety of services closely connected to people's lives, including the production and sale of agriculture-related products as well as house cleaning services that effectively use natural resources. The Group constantly strives to create new services that contribute to a higher quality of life.



Housing Stock Business

People's sense of value for housing is changing toward enhancing durability and from flow to stock. In response, the Sumitomo Forestry Group is engaged in the remodeling and renovation business to raise the value of existing homes, including detached houses and condominiums. The Group also provides real estate brokerage and apartment management services. Furthermore, the Group is actively involved in rehabilitation of old Japanese-style houses and organized the *Century-old Home Club*, to preserve them for the future generation.



Overseas Housing and Real Estate Business

The Sumitomo Forestry Group is expanding the scale of its housing business in the United States and Australia, in areas that expect steady population growth and demand for housing. The Group sold **4,710 houses** in the two countries in fiscal 2015 and is striving to further expand its business. In Asia, where the housing demand is expected to grow, the Group is actively exploring business to leverage synergy with its existing business.



MOCCA (Timber Solutions) Business

Further expansion of wood use has been in the spotlight as one of Japan's national policies. With this in mind, the Group is promoting the use of wood for the construction of medium to large buildings in non-residential sectors, where wood use has been less common, as well as a greater use of wood qualities in interiors. Mainly through construction of facilities in areas where there is a strong fondness for wood—namely medicine, education and commerce—the Group aims to create a new wood culture by increasing opportunities for people to be inspired by wood.



Environment and Energy Business



The Group is committed to promoting its environment and energy business that utilizes renewable energy, including wood resources and solar power. In wood biomass power generation, the Group is currently participating in the production of **over 100MW*** of power at four facilities in Japan. The Group supplies environmentally conscious energy using scrap wood and unused forest materials as fuel, thereby contributing to maintaining forests and effectively using forest resources.

* Including facilities under construction.



Timeline of the Sumitomo Forestry Group

1975	1977	1997	2003	2005	2007	2011	2015
Started high-grade custom-built housing business.	Started greenery business.	Established a Group-wide system for its remodeling business.	Started housing business in the United States (Washington State)	Started residential property development business.	Launched full-scale elderly care business. Started operation of fee-based homes for the elderly.	Started MOCCA (Timber Solutions) business. Started environment and energy business. Kawasaki Biomass Power Plant started operating.	Launched day care services for the elderly that support home-based care.

Changing the Future with “Wood” Moving Beyond Expanding its Uses to Transforming its Value



Moving on to a new stage in an era of change

Since our establishment in 1691, the Sumitomo Forestry Group has been involved in forestry both in Japan and abroad and has expanded its business operations by tapping the potential of wood and enhancing its added value. With operations sustained by some 17,000 people working in 17 countries and regions around the world, our total revenues reached one trillion yen for the first time in the Company's history. This May, we announced our three-year goals in our “Sumitomo Forestry Medium-Term Management Plan 2018.”

Our Medium-Term Management Plan 2018 is based on the theme, “Promoting Change for a New Stage.” Here we have set out three basic policies: “Pursuing a strategy that anticipates societal changes,” “Diversifying revenue sources in the global market,” and “Transforming the value of wood.” The direction we need to take is clear, but every day we notice signs of change in our operating environment. In addition to unusual weather patterns and natural disasters, the “Paris Agreement,” a global framework to deal with climate change, has brought to a turning point the structure of economic development driven by fossil fuels. The speed of change is accelerating due to not only environmental and economic issues, but also disputes in the global community and many other factors woven together in a complex pattern.

In such an operating environment, we need to transform ourselves in many different ways to sustain growth. Our strength lies in our ability to harness the beauty and potential of wood as well as in our corporate philosophy of contributing to a sustainable society, shared across the Group. Given our perspective of the world with “wood” as our focus, the Sumitomo Forestry Group can contribute to the future in unique ways. With policies that create a favorable workplace and enable a diverse pool of talent to actively pursue their careers, we shall challenge ourselves without fear of failure.

Sharing our philosophy and creating a future together

Sumitomo Forestry Group works in close collaboration with partner companies who understand and share the spirit of our corporate philosophy nurtured over our 325-year history. We have formed business alliances in the field of renewable energy, cooperative relationships with municipalities through our forestry consulting services and cross-industry collaborations in the Mocca (Timber Solutions) Business that create new cultures related to wood. While new challenges will arise, we will continue to aggressively seek opportunities to work with a wide variety of companies and organizations.

As a Group, we are also striving to expand our business

areas. In our overseas Housing Business, we established one new company in the U.S., making for a total of five Group companies operating businesses in 11 states. In fiscal 2015, we built approximately 5,000 homes in the U.S. and Australia. Although the housing business is characterized by strong regional differences, we are one of the few companies able to expand globally by meeting individual customer needs. We believe we can tap the beauty and appeal of wood with our design concepts that are harmonized with the environment and flow of movement in living spaces, nurtured through years of experience in Japan. Furthermore, in Australia, Vietnam and Hong Kong, we have launched real estate development operations through joint ventures, and in India, Myanmar and Thailand, we have expanded our timber and building material manufacturing operations.

Pursuing a strategy that is ahead of societal changes and providing our customers with new value

In Japan, we are keenly attuned to and working to overcome societal challenges, such as changes in demographics and household trends. As the Japanese Government has set a goal to make 95% of buildings earthquake resistant by 2020, we are reminded of the importance of our role in providing safe, reliable and comfortable houses. For example, we have many customers who live in homes built before the Building Standards Act of 1950 that are made of Japanese zelkova, chestnut or other exceptional Japanese wood species. Because our customers treasure these homes and want to pass them on to future generations for the next 100 years, we are working to enhance our renovation technologies that will keep these old homes intact while incorporating earthquake resistance, thermal insulation and other modern comforts and safety features.

For new housing, rental housing, senior-citizen housing and others, we are responding to diversifying lifestyles and needs of our customers and providing products and services that make the most of the characteristics of “wood,” a renewable



The photo is taken in Tsukuba Research Institute

and environmentally friendly natural resource. We are also aggressively investing in research and development to expand our fields of research. Keeping in mind “the most appropriate material for the most appropriate location,” we are utilizing our global manufacturing and distribution network to procure wood from sustainably managed forests around the world and to contribute in ways characteristic of our Group.

Expanding the potential of wood and working towards sustainable CSR management

The above-mentioned efforts we are making as a Group are being advanced by a greater awareness of the many environmental issues we face and higher expectations in the role of wood and forests. As part of our efforts to revive forestry and revitalize local economies, we are expanding the supply of seedlings for forest regeneration. In addition, we support local governments in modernizing forestry operations. The Tokyo Olympics and Paralympics have fueled interest in domestic timber and we believe we can play an important role as we develop our company-owned forests and domestic distribution networks. Furthermore, with the “Act for Promotion of Use of Wood in Public Buildings” put into effect in 2010, public interest in the MOCCA Business of constructing medium- and large-scale wooden buildings is rising. We are working to find new ways to use a wide variety of timber-based materials, such as cross-laminated timber (CLT) and we believe this area of business shows high potential for growth.

However, from a global perspective, deforestation presents a significant challenge. With the increasing importance of sustainable forest management, countries around the world are enhancing regulations to prevent illegal logging. In regards to Japan's “Clean Wood Law” (Promotion of Legal Timber Usage Law), which will be put into effect next year, we pledge to play our role as an industry leader to ensure its smooth implementation and effectiveness.

In fiscal 2015, we began implementing the “Sumitomo Forestry Group Mid-Term CSR Management Plan,” which places emphasis on sustainability. To accelerate integration of these goals into all of our businesses, we are incorporating environmental and social CSR objectives in our performance assessments in the same manner as business objectives. We want our “business” and “CSR” approaches to be seamless as we work together as a Group to fulfill our corporate philosophy. Our ESG (environment, society, governance) initiatives and achievements are summarized in the “Sumitomo Forestry Group CSR Report 2016,” which we hope will help deepen your understanding of our Group and its direction.

Akira Ichikawa
President and Representative Director

CSR of the Sumitomo Forestry Group

CSR activities of the Sumitomo Forestry Group are to contribute to development of a sustainable and prosperous society through business activities that are promoted based on its corporate philosophy and action guidelines while actively communicating with all stakeholders.

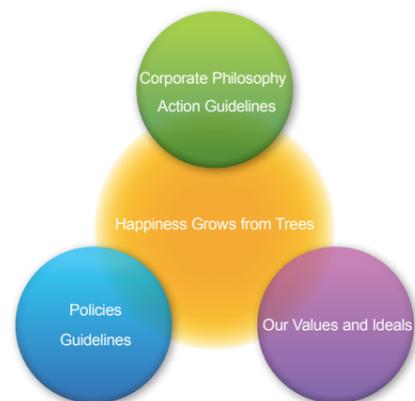
In 2015, the Group selected its CSR material issues and identified five items.

The Group has formulated the Sumitomo Forestry Group Medium-term CSR Management Plan, with goals to be achieved by fiscal 2020 for each item, and promotes CSR management.

Corporate Policies of the Sumitomo Forestry Group

The Sumitomo Forestry Group sets policies and guidelines on each activity and initiative based on its corporate philosophy and action guidelines. In addition, the Group also conducts its business in line with "Our Values and Ideals," which has been formulated as a set of guidelines on ethical conduct for all Group employees.

With the brand message of "Happiness Grows from Trees" as the shared value of the Sumitomo Forestry Group, we promote both our business and CSR activities.



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.

Sumitomo Forestry Group CSR Material Issues

Following changes in the economic, environmental and social situation, in March 2015, the Sumitomo Forestry Group identified new CSR material issues by reviewing the ones specified in 2008

CSR Material Issues

Continue to procure wood and materials that take sustainability and biodiversity into consideration.

The Sumitomo Forestry Group is engaged in business centered around wood, and is promoting sustainable forest management and sustainable procurement of wood both in Japan and overseas. Furthermore, since its fields of business are directly linked to forests that nurture biodiversity, the Group has positioned conserving biodiversity as one of its key CSR themes.

Promote the reduction of the environmental impact of our business activities

We are committed to reducing the volume of greenhouse gases emitted mainly by our housing business as well as the manufacturing of building materials business. We are also working to reduce our overall environmental impact, such as by reducing the volume of industrial waste.

Promote the development of workplaces where diverse personnel can work with vigor and enthusiasm, demonstrating their abilities and individuality

The Sumitomo Forestry Group aims to foster a safe and healthy workplace environment where motivated employees can be actively involved irrespective of gender, age, nationality, race, religion or disability.

Strengthen and promote risk management and compliance mechanisms

We are working to reinforce the mechanism for managing business risk—which also encompasses Group companies—by constantly managing prioritized risks through the Risk Management Committee.

Promote the development and sales of products and services that are safe, reliable and environmentally conscious

We believe that popularizing long-lasting and high-quality houses is an important role for Sumitomo Forestry in creating a prosperous society.

Process from determining material issues to developing and implementing plans and budgets

Selecting candidate material issues

Based on the corporate philosophy and action guidelines of the Sumitomo Forestry Group, we identified 27 issues that were most relevant for the Group, taking into account criteria such as ISO 26000, the international standard on the social responsibility of organizations, and evaluation points linked to socially responsible investment (SRI).

Understanding the issues that are important to our stakeholders

To obtain feedback on these 27 identified issues, we conducted a survey of stakeholders within and outside the Group as well as external experts. We received responses from about 2,700 people.

Determining the materiality of the issues from the perspective of business strategy

After incorporating management perspectives, the survey results were mapped out against "management" and "stakeholders" as axes before determining the materiality of each issue.

Identifying the material issues

We rearranged the twelve issues determined as being highly material and rearranged them into the five Sumitomo Forestry Group CSR Material Issues.

Toward Ideal CSR Activities of the Sumitomo Forestry Group

The Sumitomo Forestry Group has specified its Medium-Term CSR Management Plan for fiscal 2020, based on its CSR Material Issues identified in March 2015. Moreover, the Group has also set numerical targets (CSR budget) for each fiscal year to manage progress with the Plan to ensure steady implementation.

Formulating the Medium-Term CSR Management Plan

We identified basic strategies to address the CSR material issues and set Medium-term targets until fiscal 2020.

Preparing the CSR budget

We set annual numerical targets (CSR budget) based on the Medium-Term CSR Management Plan and each company and department started working towards them.

Promoting the Medium-Term CSR Management Plan and the CSR budget

The progress and attainment of the annual targets are regularly checked twice a year by the Executive Committee, which is attended by those directors who also serve as executive officers as well as by senior statutory auditors.

Sumitomo Forestry Group 2018 Medium-Term Management Plan

We have set the main theme of the new Sumitomo Forestry Group 2018 Medium-Term Management Plan for the three-year period from fiscal 2016 as "promoting reform for a new stage." As the business environment in Japan and other countries goes through significant changes, the aim will be to develop a business structure that allows for sustainable growth.

Toward that end, the Group will build an earnings portfolio capable of adapting to the changes of the times in accordance with the three basic policies, with the objective of solidifying the business foundation.

2018 Medium-Term Management Plan: Basic Policies

- (1) Pursuing a strategy that anticipates societal changes
- (2) Diversifying revenue sources in the global market
- (3) Transforming the value of wood

Promoting Change for a New Stage

Medium-Term CSR Management Plan and Achievements in Fiscal 2015

The Medium-Term CSR Management Plan was formulated to set out a basic strategy and concrete targets to address the Sumitomo Forestry Group CSR Material Issues. In order to achieve the goals for fiscal 2020, we steadily promote the activities by setting the annual targets "CSR budget" every year.

Current awareness of issues and basic strategies	Evaluation metrics	FY2015 target	FY2015 result	Rating	FY2016 target	FY2022 target	
[CSR Material Issue] Continue to procure wood and materials that take sustainability and biodiversity into consideration.							
Environmentally responsible society	Increase volume of sustainable wood handled, and utilize sustainable forest resources by verifying legal compliance	Amount of certified timber sold as a percentage of the total imported timber	11%	8%	△	9%	12%
		Volume of exported Japanese timber	117,000 m ³	104,000 m ³	△	158,000 m ³	200,000 m ³
		Volume of plantation timber, certified timber, and Japanese timber handled at distribution hubs overseas	659,000 m ³	706,000 m ³	○	781,000 m ³	783,000 m ³
		Volume of fuel wood chips handled	758,000 m ³	777,000 m ³	○	773,000 m ³	800,000 m ³
		Volume of certified timber (by SGEC) handled at distribution hubs in Japan	43,000 m ³	35,000 m ³	△	55,000 m ³	85,000 m ³
		Volume of unused wood materials handled from Japanese timber	88,000 tons	119,000 tons	○	181,000 tons	185,000 tons
		Percentage of Japanese timber used for new custom-built detached housing in the housing business	72%	71%	△	72%	75%
	Establish forestry management that enables conservation of biodiversity, and value as natural capital	Percentage of certified (by SGEC) forests in newly acquired forests managed by the Group	100%	100%	○	100%	100%
		Number of native species planted at new detached housing sites	38,800 trees	36,050 trees	△	40,000 trees	210,000 trees/6yrs
	[CSR Material Issue] Promote the reduction of the environmental impact of our business activities.						
Low-carbon society	Reduce CO ₂ emissions in the Group	In the office segment (consolidated company within and outside Japan)	3.1% reduction Total emissions 34,345 t-CO ₂	6.7% reduction Total emissions 33,055 t-CO ₂	○	4.5% reduction Total emissions 33,746 t-CO ₂	7% reduction Total emissions 32,859 t-CO ₂
		Sumitomo Forestry (offices in Japan)	4.9% reduction	10.6% reduction	○	8.1% reduction	—
		Affiliated companies in Japan (offices)	2.1% reduction	3.3% reduction	○	2.2% reduction	—
		Affiliated companies outside Japan (offices)	2.4% increase	1.2% increase	○	5.6% increase	—
	Reduce CO ₂ emissions outside the Group (products, service recipients)	Kutai Timber Indonesia (Indonesia)	1.4% reduction	5.9% increase	×	1.9% reduction	At least 1% reduction per year on average per production volume in FY2015-2020
		Vina Eco Board (Vietnam)	0.9% increase	5.7% reduction	○	2.2% increase	
		AST Indonesia (Indonesia)	2.6% reduction	7.3% increase	×	0.9% increase	
		Alpine MDF Industries (Indonesia)	4.5% reduction	5.5% increase	×	4.6% increase	
		Nelson Pine Industries (New Zealand)	2.4% increase	5.2% reduction	○	0.4% reduction	
		Rimba Partikel Indonesia (Indonesia)	12.8% reduction	53.1% increase	×	18.3% reduction	
Reduce CO ₂ emissions outside the Group (products, service recipients)	Solar power generation systems (sets) handled by distribution hubs in Japan	2,400 sets	2,140 sets (10,700 KW)	△	1,900 sets (8,930 KW)	2,330 sets (10,951 KW) ^{*1}	
	Percentage of Green Smart houses Number of Green Smart houses when an order is placed for new custom-built detached housing / total number of houses ordered	68.0%	58.2%	△	70.0%	80.0%	
	Percentage of Green Smart-ZEH type Number of Green Smart-ZEH type when construction started / total number of houses constructed	12.0%	2.0%	*2	6.0%	At least 50%	
Recycling society	Achieve zero emissions	Recycling rate at new housing construction sites	93.3%	90.8%	×	91.5%	98.0%
		Recycling rate at remodeling sites	76.3%	70.2%	×	74.1%	80.0%
	Reduce volume of industrial waste generated	Reduction in industrial waste generated at new construction sites compared to fiscal 2013	14.7% reduction	2.5% reduction	×	17.6% reduction	30% reduction
		Change in industrial waste per sales cost ^{*3} compared to FY2014	2% reduction	4.3% increase	×	3.7% increase	At least 2% reduction

Current awareness of issues and basic strategies	Evaluation metrics	FY2015 target	FY2015 result	Rating	FY2016 target	FY2022 target	
[CSR Material Issue] Promote the development of workplaces where diverse personnel can work with vigor and enthusiasm, demonstrating their abilities and individuality.							
Promote fair employment and treatment	Female employees in management positions	Non-consolidated 2.6%	2.8% ^{*4}	○	2.9%	At least 5%	
	Female employees	Consolidated in Japan	—	3.2% ^{*4}	—	—	—
		Non-consolidated	19.2%	19.9% ^{*4}	○	19.5%	At least 20%
	Employees with disabilities (Achieve mandatory employment rate)	Consolidated in Japan	—	23.3% ^{*4}	—	—	—
Non-consolidated		2%	2.12%	△	At least 2%	At least 2%	
Promote work-life balance	Paid leave usage	Non-consolidated	7 days	6.3 days	×	8 days	At least 10 days
		Consolidated in Japan	Target set by each company	7.1 days	—	Target set by each company	—
	Overtime working hours (Reduction from the average overtime working hours in FY2013)	Non-consolidated	▲10%	▲2.5%	×	▲14.8%	▲30%
Strengthen occupational health and safety	Number of occupational injuries in Company-owned forests ^{*5}	0	1	△	0	0	
	Number of occupational injuries at new construction sites ^{*7}	0	6	△	0	0	
	Number of occupational injuries in other places ^{*7}	Consolidated in Japan	—	10	—	Target set by each company	0
[CSR Material Issue] Strengthen and promote risk management and compliance mechanisms.							
Strengthen risk management framework	Check the progress on the 39 prioritized risk items at the quarterly Risk Management Committee meeting.	In addition to discussions on the target items, case reports on emerging risks were started at the monthly Executive Committee meeting.	○	Check the progress on the 36 prioritized risk items at the quarterly Risk Management Committee meeting.	Manage risks by using prioritized risk items set by the Risk Management Committee.		
[CSR Material Issue] Promote the development and sales of products and services that are safe, reliable and environmentally conscious.							
Improve safety and quality	Ratio of design performance evaluations implemented for new custom-built detached housing	At least 90%	98.6%	○	At least 90%	At least 90%	
	Ratio of construction performance evaluations implemented for new custom-built detached housing	At least 90%	97.3%	○	At least 90%	At least 90%	
	Ratio of houses certified as Excellent Long-Term Housing for new custom-built detached housing	At least 90%	92.8%	○	At least 90%	At least 90%	
Improve communication with customers	Pass rate for after-sales maintenance advisors and housing inspectors (All persons assigned to Sumitomo Forestry Home Tech Co., Ltd. in charge of maintenance)	100%	100%	○	100%	100%	
	Ratio of early completion of handing the as-built drawing for new custom-built detached housing	80%	69%	△	80%	90%	

*1 Starting in FY2016, the unit of evaluation will be changed to KW to examine the level of contribution to the environment.
 *2 The FY2015 result is not evaluated because the product definition was revised.
 *3 Cost of in-house sales for manufacturing facilities in Japan
 *4 Data as of April 1, 2016
 *5 Data as of June 2015
 *6 Number of occupational injuries involving contractors at work sites in Company-owned forests
 *7 Number of cases covered by temporary absence from work compensation benefits under the Industrial Accident Compensation Insurance Act

Rating
 ○: Achieved △: Achieved at least 70% of the target ×: Achieved less than 70%

Initiating Regional Revitalization from Forestry



Underpopulation in rural areas is becoming a serious social issue in Japan, caused by the aging population and falling birthrate together with the concentration of population into urban areas. One of the solutions to such an issue is regional revitalization where forestry plays a key role. The Sumitomo Forestry Group is supporting regional forest and the forestry industry, making use of the knowledge and expertise it has acquired through many years of maintenance of Company-owned forests.

Using Experience Acquired through Business in Regional Revitalization

With forests covering about two thirds of its total land area, Japan is one of the most forest-rich countries in the world. However, the growth of forestry—an industry that uses forest resources—has been sluggish. Timber self-sufficiency remains at a low level after it finally recovered to above 30%. In rural areas endowed with rich forests, the forestry industry plays a key role in creating sustainable employment and revitalizing local economies. Moreover, planted forests will become devastated if left neglected. They need regular thinning and appropriate logging from the perspectives of the natural environment and biodiversity. For these

reasons, in recent years, the Ministry of Agriculture, Forestry and Fisheries and other government agencies, as well as local municipalities, have started to support the forestry industry. Since its foundation, Sumitomo Forestry has carried out sustainable forestry management in Company-owned forests and operated businesses that use the resource. In the belief that the experiences and expertise it has acquired through these businesses, including systematic reforestation and harvesting, and timber use for home building and biomass energy, would contribute to regional revitalization, Sumitomo Forestry is actively working with municipalities and forestry

cooperatives to regenerate forests and restructure local forestry, introducing ICT into forest management and proposing efficient infrastructure maintenance and operating methods.



Screen of ICT system for forest management

Total number of forestry support projects contracted out by public offices **17** projects

Plans to Make Full Use of Resources and Integration of New Technologies

Forest management by the Sumitomo Forestry Group starts with in-depth analysis of the conditions of forests. We collect basic data, such as the geography, vegetation and density of



Seedling production facility growing seedlings efficiently

forest resources, and develop plans that take into account the convenience, environmental conservation and other functions of individual forests. Resources from forests can be used not only as timber and building materials but also as fuel for wood biomass power generation and other purposes. While considering plans to make full use of the resources, we also produce afforestation seedlings, which are central to the forestry industry. The Sumitomo Forestry Group has set up four facilities that produce seedlings primarily with greenhouse culture in

Japan. Seedlings are an indispensable element for the future development of the forestry industry, and contribute to job creation, because compared with open-field culture, greenhouse seedling production requires less workload and can employ a wider range of human resources. In addition, with the goal of making forestry labor lighter and safer, we work with robot manufacturers and university research institutions to develop and introduce assist suits.

Number of seedling production facilities in operation in Japan **4** facilities

Nurturing Forestry and Satoyama in Maniwa, Okayama

A Model for Forestry in Hilly and Mountainous Areas

Forests occupy 80% of the total land area of Maniwa City in Okayama Prefecture in Japan. In August 2015, the city selected Sumitomo Forestry as its partner in its Satoyama Maniwa Forest Development Project. Together with the city and a local forestry cooperative, we developed a Forest and Forestry Master Plan to improve capacity to meet the city's growing demand for timber. In developing a master plan, we focused on forest management that balances environmental conservation and forest maintenance and forestry promotion. Hilly and mountainous areas, including Maniwa City, occupy nearly two thirds of Japan's total land area. Forestry is particularly important in making the most of such areas because areas with a lot of sloping land cannot easily be

used for other industries. The Maniwa City project is expected to become a model case for new forestry.

Developing Satoyama in collaboration with the local community

In fiscal 2015, we determined the forest resources of the 5,700-hectare model zone in Maniwa City, carried out zoning,¹ and prepared harvesting plans. We conducted fact-finding

surveys on animal damage and developed measures to reduce feeding damage by deer. We also interviewed local forestry businesses to develop a plan focused on future trends in timber demand. Based on the information we obtained, we will develop forests as Satoyama (wooded areas linked to local communities) that citizens can actively use in their everyday lives.

¹ Classification of areas according to use



Introduced high performance tower yarder



Workshop for local residents of Maniwa City

Introducing Leading-Edge Quantitative Analysis System for Forest Resources in Kyotamba, Kyoto

With forests occupying 80% of its total land, Kyotamba Town in Kyoto Prefecture intends to develop its forestry with the goal of creating employment, encouraging the settlement of forestry workers, and ensuring proper forest maintenance. Sumitomo Forestry contracted with the town to provide consultation on the development and operation of a quantitative analysis system for forestry resources, which serves as the basis of the town's initiative. Operation of the system started in March 2016.

Using the aerial surveying technology that combines aerial photographs and aerial laser surveying, the system helps to accurately determine forest conditions. Additionally, the introduction of a network system that links the municipal office and a local forestry cooperative allows information on forestry resources of privately-owned forests and state-owned forests to be shared within the target area. These systems are expected to help develop more viable plans for harvesting and forest road construction.

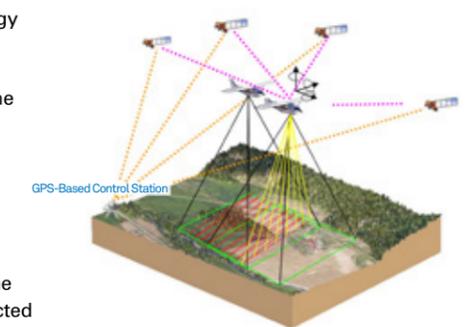


Illustration of aerial laser surveying



Professor Kazuhiro Tanaka, Vice President of Kyoto Prefectural University (Department of Forest Science)

Since the 2004 academic year, Kyoto Prefectural University has worked on a special study titled "Academic Contribution to the Region" (ACTR), with the goal of contributing to regional promotion and the development of industry and culture within Kyoto Prefecture. In the 2016 academic year, ACTR selected a study subject application submitted by Kyotamba Town on an empirical study for a sophisticated and streamlined forest management approach using IT data. The proposed study is to be conducted through industry-government-academia cooperation for the development of forest plans that take sustainability and biodiversity into consideration, as well as for forest management that can contribute to the forestry industry and regional revitalization, with the use of the quantitative analysis system for forestry resources that Sumitomo Forestry developed for the town. I hope the study will become a model case leading to forest regeneration and the restructuring of local forestry.

Fair and Responsible Timber Procurement



Forests around the world are decreasing due to illegal logging, excessive slash-and-burn farming, conversion to agricultural land and other practices, and this has been a social issue on a global scale. Also, since timber, one of renewable resources, is essential to Sumitomo Forestry's businesses, deforestation and forest degradation are significant challenges concerning sustainability of our business operations. As a responsible builder of wooden houses and buildings as well as a trader of timber and building materials, we work with our suppliers to build a reliable supply chain and contribute to developing a sustainable society.

Timber Procurement Policy and Management System

The Sumitomo Forestry Group formulated Timber Procurement Policy in 2007 and revised it to form the new Sumitomo Forestry Group Procurement Policy in July 2015 covering procurement of building materials, raw materials and products. To implement the policy, the Group established the Timber Procurement Committee, chaired by the head of CSR Department and comprising managers from departments in charge of timber procurement for the trading and housing operations. The committee discusses issues related to group-wide timber procurement, including procurement standards and risk assessments for illegal logging. In fiscal 2015, the Committee met three times to confirm legal compliance of 77 suppliers for import timber and review the details of CSR

surveys including occupational health and safety and consideration for human rights. The Sumitomo Forestry Group Procurement Policy stipulates that, through cooperation with suppliers, timber and wood products procurement are practiced as follows.



Timber Procurement Committee

Sumitomo Forestry Group Procurement Policy (Summary)

1. Procurement based on legal and highly reliable supply chains
2. Procurement based on fair opportunity and competition
3. Procurement of sustainable timber and wood products
 - Procure timber from forests that are sustainably managed
 - Work to improve the traceability of procured timber and wood products
 - Strictly adhere to the laws and regulations of the countries and regions we log in, protect biodiversity and forests with high conservation value, and respect the cultures, traditions and economies of regions that coexist in harmony with forests.

Due Diligence to Confirm Legal Compliance

Step 1 Access to Information: Every department in charge of timber procurement confirms that its suppliers can supply only legally harvested timber or wood products. Representatives posted overseas communicate closely with local suppliers to check information they should obtain, in addition to the name

and address of the suppliers, the name, quantity, tree species and place of harvest of the products being procured, the availability of a certificate, license and the like, and the key purchasers.

Step 2 Risk assessment: The Committee assesses risks related to illegal logging according to the procurement standards specified by the Committee

for each country or region, tree species and timber type.

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

Following items are checked, through supplier surveys and local interviews,

for the products that are being procured:

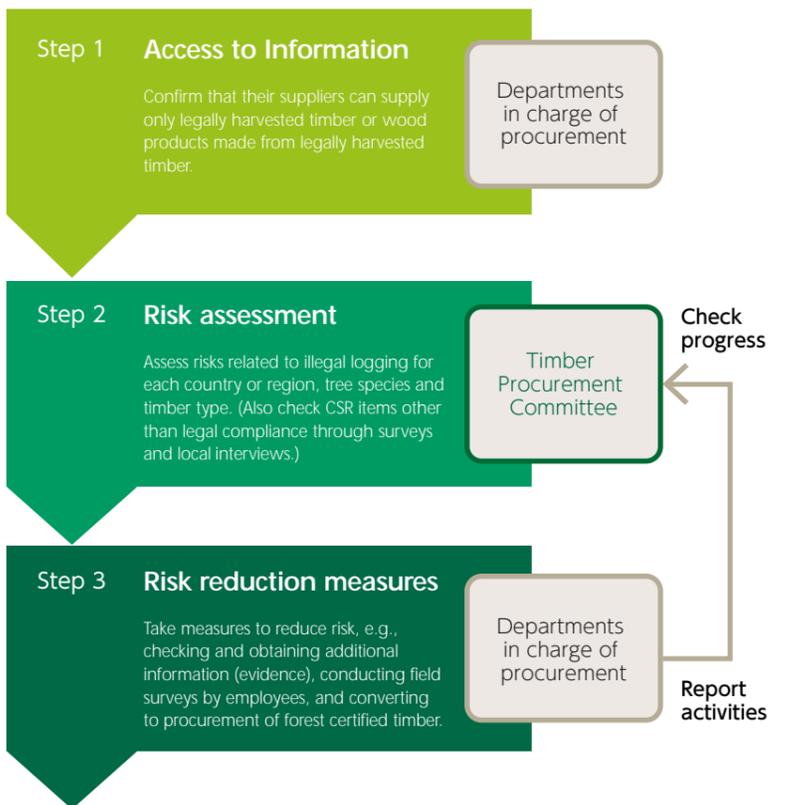
-Whether the rights of workers and local inhabitants are abused in the area where we procure (the raw material for) the products from. If it is the case, whether suppliers check their logging practices take place with consideration.

-Whether the high conservation values forests are included in the area where we procure (the raw material for) the product from. If it is the case, whether suppliers check their logging practices take place with consideration.

Step 3 Risk reduction measures: Each section in charge of timber procurement take measures to reduce risks in cases that are not assessed as low-risk. Such measures include checking and obtaining additional information (evidence), conducting in-depth field surveys by employees, and procuring forest certified timber.

Continued efforts to improve the supply chain is encouraged through the reports on the progress of these activities from sections in charge of timber procurement.

Timber procurement management system



Field Survey on Timber Procurement in Malaysia

In risk assessment, we pay attention to newspaper coverage and reports from environmental organizations. When necessary, we have conducted in-depth field surveys. In fiscal 2015, we conducted our survey on timber production in the Malaysian state of Sarawak for the second time.

The Sarawak state government operates a timber traceability system using tag information for logs and inspection at relay centers. Our staff visited the supplier's plywood factory to check the risk of illegally logged timber being mixed in the process of manufacturing, as well as tag information for logs and documents issued upon receipt of logs at the factory. The survey included visits to the concession (place of harvest) to confirm the traceability; timber procured by our supplier can be tracked back to the harvesting concession. Additionally, we inspected the production site for seedlings used for planting to confirm that local industry is seriously working on the production of timber derived from sustainable plantation forest operations.



Transport



Production of seedlings



Delivery of logs

Working on Resource Problems at Operation Sites



Our daily lives are supported by resources. While resources are limited, waste is ever increasing. Therefore, businesses need to make optimum and effective use of limited resources. The Sumitomo Forestry Group takes the environment into consideration in every field of business to contribute to conserving the global environment.



Metropolitan Area Recycling Center

Reducing Waste Generated in Housing Business

When we construct new houses, generating waste is unavoidable. The Sumitomo Forestry Group has made continued efforts to minimize waste and treat waste properly. In fiscal 2015, we focused on reducing waste with the 3Rs (reduce, reuse and recycle) principle. In July 2014, we set up the Waste Reduction Working Group comprising representatives from the product development, materials, logistics, design, production and environment divisions. The working group has held

monthly meetings, and developed and implemented specific measures. The working group analyzed the wide variety of waste generated at new housing construction sites and found that three types of wastes account for two third of the total waste. The three types are packaging materials (cardboard), wood waste and waste gypsum board and have become the focus of the reducing effort. For instance, we are taking drastic measures with the packaging of interior materials manufactured

by our Group company, Sumitomo Forestry Crest Co., Ltd. We expect to see the results of our reduction efforts in fiscal 2016. We have also changed the cost bearing mechanism for waste treatment from pay according to the scale of the house to pay per amount of waste actually generated during the construction of a new house. We are raising awareness of workers at construction sites by linking the amount of waste and the cost and providing feedback in the form of waste emission data.

Efforts to Improve Recycling Rate

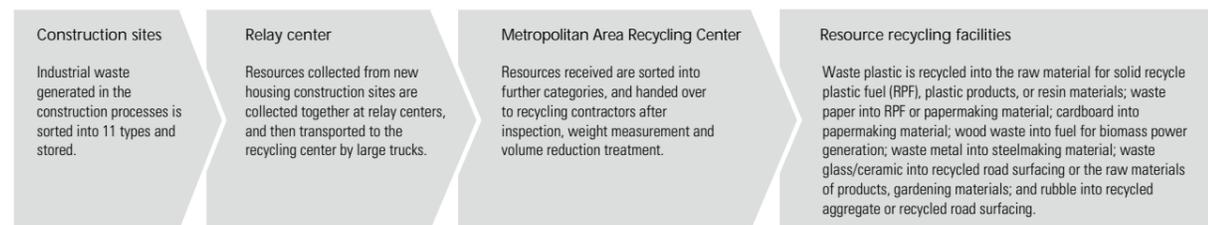
We are recycling waste that is inevitably generated despite our reduction efforts. As a builder and seller of custom-built wooden houses, in the Sumitomo Forestry Group construction sites differ from house to house and therefore it is not easy to do recycling in the most

suitable way for each site. Recycling requires comprehensive sorting by material type. We ensure that all sites recognize and practice proper procedures to improve the overall recycling rate, with the goal of achieving a recycling rate of 98% by fiscal 2020.

Recycling rate at new housing construction sites in 2015

90.8 %

Flow of treatment of waste generated at new housing construction sites (in seven prefectures in the Tokyo metropolitan area)



Metropolitan Area Recycling Center

The Sumitomo Forestry Group established the Metropolitan Area Recycling Center in October 2012 and has since operated it to reduce and recycle waste more proactively. Trucks deliver building materials to new housing construction sites and on their return trips transport waste generated at sites in seven prefectures in the Tokyo Metropolitan area to the Center. This has been made possible through the designation of the company by the Ministry of the Environment of Japan as a cross-regional recycler of industrial

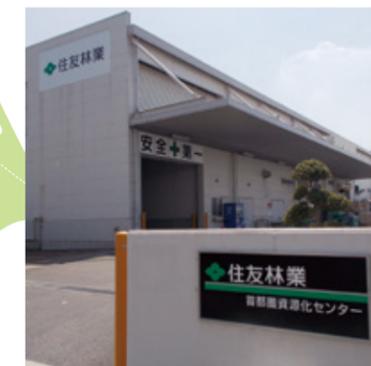
wastes, and the Center operates for the sites. The center collects and analyzes data on waste management using bar code labels attached to waste at construction sites. Based on the data, the center investigates waste generation trends by product, specification and contractor, to review the processes of product development, design, and construction. We will expand the scope of our cross-regional operations across Japan to further promote the reduction and recycling of waste.



Ichiro Takizawa
Section Manager, Architectural Department
Sumitomo Forestry Home Engineering Co., Ltd.
(Member of Waste Reduction Working Group)

At the Waste Reduction Working Group, multiple departments and group companies report their initiatives for waste reduction every month to share information on the effects and problems. Based on this information, the working group verifies various activities through cooperation with construction sites, and circulates information on which activities are effective. Information provided by the Metropolitan Area Recycling Center plays a very important role. Photographs showing the situations with waste sorting and surplus materials provided as feedback has allowed all related personnel, not just staff in charge of construction sites, to recognize the importance of sorting waste and reducing surplus materials in carrying out their activities.

Transporting waste to the Metropolitan Area Recycling Center



Metropolitan Area Recycling Center

Initiatives at Manufacturing Plants Outside Japan

The Sumitomo Forestry Group is manufacturing wooden building materials in countries around the world, including the U.S.A., Australia, New Zealand, and Indonesia. Each plant outside Japan operates according to the environment and laws of the country or region, and carries out environmental initiatives primarily focusing on the effective use of timber and waste reduction. Plants that manufacture similar types of products exchange helpful activity information with each other beyond national borders, with the goal of practicing efficient operations group-wide. For example, PT. Kutai Timber Indonesia (KTI), PT. Rimba Partikel Indonesia (RPI), and Vina

Eco Board Co., Ltd. (VECO), all of which manufacture particle board, exchange information several times a year by visiting each other's plants or by holding meetings. At the same time, each plant promotes initiatives according to its own characteristics. KTI reduced their purchase of raw materials from external suppliers by using cutoffs generated in the processes of manufacturing plywood and other building materials within the factory as raw materials. This effort reduced the use of bark that generates dust and reduces yield. Additionally, KTI is providing employee training to raise awareness of yield ratio. VECO used to sell chips they made from timber externally if their

size was bigger than the standard. However, VECO purchased a dedicated chipper to use bigger chips as raw materials. VECO also reviewed the standard to increase the use of chips that are smaller than the standard, and improved product quality by using smaller chips for surface wood.



Living Secure Life in Environmentally Friendly House



Popularizing durable, high-quality houses.

Believing in this mission for the development of a prosperous society, the Sumitomo Forestry Group provides houses that can reduce the environmental impact generated in daily life for many years to come, as well as reliable houses that are resistant to fire and earthquakes.

“Net Zero Energy” House — New Housing in Sustainable Society

Stable energy supply and the development of sustainable energy sources have become major social issues, requiring energy-saving efforts. Reducing energy consumption at home is becoming more important today. After the energy crisis emerged following the Great East Japan Earthquake, the Japanese government’s roadmap to a low-carbon society mandates that new houses comply with the energy-saving standards by 2020. The government also set a national goal of achieving a net zero energy house (ZEH) for newly built regular houses by 2020 and for the average of new houses by 2030. ZEH

refers to houses where the annual net energy consumption is zero or less with control and reduction of the energy consumed within the house and with energy generated using solar or other power generation systems. Sumitomo Forestry has set a target that more than 50% of the new houses it sells in 2020 are to be ZEH. By taking advantage of our characteristics of providing houses that are tailored to the demands of customers and meet architectural conditions that vary across regions, designers and salespersons join forces to popularize ZEH that matches the local climate across Japan.

Net zero energy house (ZEH) specifications

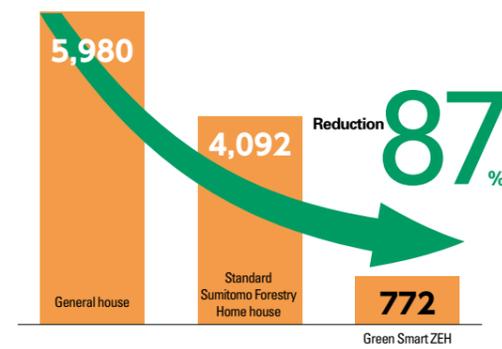


Energy saved in ZEH

Annual primary energy consumption (GJ/year)



Annual CO2 emissions (kg-CO2/year)



*A standard Sumitomo Forestry Home house does not include a power generation facility.

*The figures are calculated based on simulation assumptions. Utility costs, primary energy consumption, and CO₂ emissions may vary according to the site conditions, plan, the customer’s family structure and lifestyle, and the types of home electronics that are used.

“Green Smart” — Harnessing Nature and Technology for Energy-Saving Life-style

The Sumitomo Forestry Group proposes a new smart house for all the houses it sells based on the concept of “Green Smart.” Wood is a renewable, ecological material, and superior in thermal insulation to iron and concrete. Basic concept of Green Smart is to incorporate “Ryouonbou” design, which effectively harnesses natural blessings, such as wind ventilation, the sun and trees, into houses that make the most of the unique characteristics of wood, and achieve ideal energy consumption reduction and energy creation with next-generation thermal insulation performance, a solar power generation system and other environmental devices, and a HEMS (home energy management system). A low energy loss house is crucial to an energy-saving life. For instance, even when you use a highly efficient heater to make the room temperature

comfortable, air conditioning costs and energy consumption will increase if the room is affected by the outside air temperature. Therefore, for Green Smart, we work on improving the thermal insulation performance of openings, such as external walls comprising the building, floors, ceilings and sashes. In the Green smart•ZEH type, we develop superior hermetic and thermal insulation performances to further improve the basic performance, particularly the performance of openings where significant heat loss occurs. While improving the hermetic and thermal insulation performance of houses, Sumitomo Forestry is using natural blessings and highly functional environmental devices, including solar power generation systems, to give a more comfortable, environmentally friendly, and healthy life.



Green Smart

Fire and Seismic Resistance for Building Safe Homes

To protect the lives and living of residents in the event of fire, earthquake or other disaster, the fire and seismic resistance of houses must constantly be improved. The Sumitomo Forestry Group carries out rigorous demonstration experiments and develops technologies based on those experiments to improve housing safety. In June 2015, our Tsukuba Research

Institute started to operate a verification laboratory building, equipped with a multi-purpose large furnace to carry out fire prevention and resistance tests, which allows the development of higher-quality wooden fireproof materials and fire-resistant construction. We have conducted vibration experiments using full-scale house models to obtain more empirical data on seismic resistance.



Verification laboratory building at Tsukuba Research Institute

Offsetting CO₂ through Project EARTH

To offset CO₂ related to all custom-built and spec homes it sells in Japan (about 60,000 tons a year), generated in the entire process from harvesting timber used for the principal structural members to actual construction of the houses, Sumitomo Forestry is implementing an initiative called “Project EARTH,” which carries out reforestation activities on degraded land and other locations in Indonesia. Between 2009 and 2016, the project plants around 4.8 million trees on a total of 2,400 hectares of land. Reforestation takes two forms—environmental reforestation aimed at restoring ecosystems, and industrial tree plantation for sustainable and comprehensive forest management and contribution to local communities. The project plans to manage the growth of those trees for 10 years after planting.



Taking Advantage of the Warmth of Wood in Disaster-Affected Areas



In areas seriously affected by the Great East Japan Earthquake that occurred on March 11, 2011, new town developments are under way. The Sumitomo Forestry Group supports this new town development primarily through its MOCCA (Timber Solutions) business, as well as the forestry industry surrounding the area and energy business using wood resources.

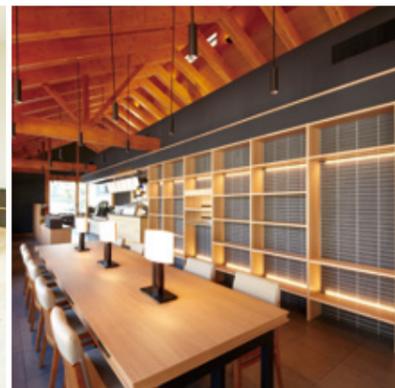
Higashimatsushima community revitalization facility Harappa

MOCCA Business Creates Comfortable Space by Exploiting Benefits of Wood

Recently, the demand for wooden buildings is growing as the “warm” and “soothing” effects of wood are socially recognized. Medium to large wooden constructions require both technology and technology for making the most of the characteristics of wood. Having both technologies, the Sumitomo Forestry Group has promoted its MOCCA business, driving wooden construction and the use of wood in fields as diverse as commercial and public facilities. Constructing buildings by exploiting the benefits of wood in a diverse range of sectors, including kindergartens, hospitals, restaurants and other places that need comfort and security, will help revitalize communities and create livable spaces.



Example of MOCCA project



Total number of MOCCA projects completed **24** buildings

MOCCA Cities Created in Devastated Areas

Higashimatsushima City in Miyagi Prefecture is one of the municipalities devastated by the Great East Japan Earthquake. The city has also been selected as one of the municipalities to work on advanced town development for the environment and the aging population under the “FutureCity” initiative. Higashimatsushima’s efforts for reconstruction from the earthquake are expected to provide a model of town development for regional

revitalization. For the FutureCity initiative, the city proposed a vision of a “MOCCA City” that drives the cyclical use of timber resources. Sumitomo Forestry signed an agreement with the city on cooperation and partnership for town reconstruction under the vision, and is accordingly supporting the city by providing the knowledge and expertise acquired through its business. We also participate in the Higashimatsushima Organization

for Progress and Economy, Education, Energy (HOPE), which aims at sustainable, safe and secure community development by re-discovering the wind, the sun and forests in Higashimatsushima as local resources. In HOPE activities, the industry, the government, academia, and private businesses match their needs and resources to build sustainable facilities and industries for the future of Higashimatsushima.

Wooden Facilities in Higashimatsushima

Higashimatsushima Community Revitalization Facility Harappa

In April 2016, a facility to invigorate the Higashimatsushima area named “Harappa” opened out of HOPE activities, with the goal of providing food for local residents and selling local produce to revitalize the local community, including food producers. Sumitomo Forestry designed and constructed Harappa as a wooden facility filled with the “warmth” of wood to create a bustling and comfortable gathering place. The facility houses “yaoya,” a produce market for the direct sales of local agricultural and fishery products, and

“Hatake no Panya-san,” a bakery. More than 80 local farmers and fishermen ship their products to yaoya. The facility also provides the community with a place to work; all of its employees are local residents.



Exterior of Harappa



Mr. Hidetoshi Tamaoka

General Manager, Planning Strategy Office
Business Development Department, Business Management Division
Pacific Consultants Co., Ltd.

Sumitomo Forestry, Hitachi Capital and Pacific Consultants worked together to create this facility, which features wooden beams and lighting fixtures that strike a balance with the sales floor below. More and more local residents are becoming aware of the facility, shopping there or commenting, “This facility is so chic,” or “Great to have such a place in Higashimatsushima.” The number of producers and companies shipping their products to Harappa is increasing. I’m happy with that and will work to make the facility a community hub, not just a place for shopping.

People-Friendly Wooden Public Evacuation Facility

Higashimatsushima City constructed an evacuation facility where relief activities can be carried out in the event of a disaster, including housing evacuees, preparing meals, and storing relief supplies. The construction is based on the lessons that the city learned following the Great East Japan Earthquake. Many citizens sought shelter in the main municipal office, which was not designed as an evacuation center and therefore unable to provide sufficient support.

Based on voices from victims living in temporary wooden housing in the devastated areas, appreciating the wooden housing, Sumitomo Forestry submitted to Higashimatsushima City a proposal for designing and constructing a wooden structure-based evacuation facility. Focusing on a functional and comfortable design, the proposal ensures privacy with movable partitions that can be set up in an emergency. The proposal also incorporates an earthquake-resistant structure, appropriate fire-resistance performance, flood countermeasures, accessible design and natural sunlight.



Illustration of the public evacuation facility

Design and Construction of Public Restoration Houses

Sumitomo Forestry designed and constructed the public housing for disaster victims in the Higashiyamoto Station north area in Higashimatsushima City. In recognition of our construction system, operations and the results of the first housing completed for the project, the project owner Urban Renaissance Agency honored Sumitomo Forestry as the

constructor in July 2015. The public housing for disaster victims in Higashimatsushima City mainly features Japanese design using wood-like materials, and uses timber from the Tohoku region for overall non-structural timber, such as pillars, studs, and rafters.

Number of public restoration houses constructed in Higashimatsushima City

81 houses

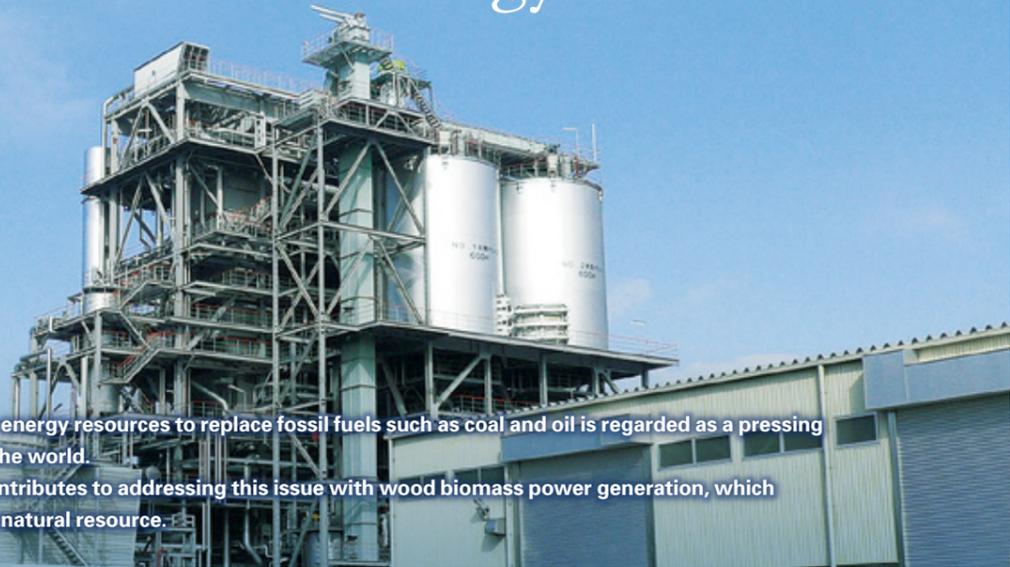


Design and Construction of Public Restoration Houses

Turning Trees into Future Energy



Development of renewable, clean energy resources to replace fossil fuels such as coal and oil is regarded as a pressing social issue in Japan and around the world. The Sumitomo Forestry Group contributes to addressing this issue with wood biomass power generation, which generates energy from wood as a natural resource.



Kawasaki Biomass Power Plant

Wood as Energy Source for Wood Biomass Power Generation

The Sumitomo Forestry Group is participating in four wood biomass power generation projects in Japan, including Kawasaki Biomass Power Plant that came online in February 2011. With plans to begin operation of two plants in Hokkaido, one in Mombetsu City and the other in Tomakomai City, in December 2016, and one in Hachinohe City, Aomori Prefecture in December 2017, preparations for their

operation were stepped up in fiscal 2015. Wood biomass power generation is fueled by wood as a natural resource. We use recycled chips processed from construction waste and fuel woodchips made from unused forest materials.¹ Burning wood produces the CO₂ that had previously been absorbed by the trees during their growth process, and therefore does not lead to any increase

of CO₂ in the atmosphere. We will continue to generate wood biomass power as a business that can contribute to solving social issues, including the spread of renewable energy, effective use of wood, revitalization of the forestry industry, and reduction of CO₂ emissions.

¹ Unused forest materials: Unused woody biomass generated from logging or thinning of standing trees in forests

Sumitomo Forestry's Biomass Power Generation Business

Kawasaki Biomass Power Generation Business

Start of operation	February 2011
Investment	Sumitomo Forestry: 34%, Sumitomo Joint Electric Power Co., Ltd.: 53%, Fuluhashi EPO Corporation: 13%
Power generation capacity	33 MW
Fuel	Construction waste, waste pallets, and pruned branches
Features	Japan's largest urban-sourced biomass power generation facility to burn biomass only. Uses mainly recycled chips made from construction waste and waste pallets from markets. Equipped with various environmental protection mechanisms to meet Kawasaki City's strict environmental criteria.

Hachinohe Biomass Power Generation Business

Start of operation	December 2017 (scheduled)
Investment	Sumitomo Forestry: 52%, Sumitomo Osaka Cement Co., Ltd.: 30%, East Japan Railway Company: 18%
Power generation capacity	12.4 MW
Fuel	Unused forest materials, timber from thinning, and palm kernel shell
Features	Will use mainly unused forest materials and thinnings from the Sanpachi, Kamikita and Shimokita areas of Aomori Prefecture, timber offcuts, and railway forest thinnings from the nearby railway lines.

Mombetsu Biomass Power Generation Business

Start of operation	December 2016 (scheduled)
Investment	Sumitomo Forestry: 51%, Sumitomo Joint Electric Power Co., Ltd.: 49%
Power generation capacity	50 MW
Fuel	Unused forest materials, palm kernel shells, and coal
Features	Three chip production centers will be established in the Okhotsk region for extensive and efficient collection of woody biomass.

Tomakomai Biomass Power Generation Business

Start of operation	December 2016 (scheduled)
Investment	Sumitomo Forestry: 20%, Mitsui & Co., Ltd.: 40%, Iwakura Corporation: 20%, Hokkaido Gas Co., Ltd.: 20%
Power generation capacity	5.9 MW
Fuel	Unused forest materials
Features	Will use 100% unused forest materials from Hokkaido.

Renewable Energy to Improve Added Value of Forests

Turning Unused Forest Materials Into Energy

Okhotsk Bio Energy Co., Ltd., a 100% subsidiary of Sumitomo Forestry and supplier of fuel chips to power generation plants, plans to use only sustainable forest resources. In other words, chips are made from wood harvested for the thinning practice or from mountains where post-harvest planting will be conducted according to their forest management plans. Two years ago, Okhotsk Bio Energy started to collect unused forest materials in cooperation with Sumitomo Forestry Wood Products Co., Ltd. "We used to find offcuts generated during the timber milling process, such as wood close to the roots and tips, problematic because we couldn't use them as resources. If they are left in the forest, they impede planting and mice, which eat the seedlings, and use them to build their nests. If we make fuel chips from them, we can expect a ripple effect that will improve the added value of forests and revitalize local forestry," says president of Okhotsk Bio Energy, Masanori Santo. A big issue in collecting unused forest materials is transportation costs. Unused forest materials are not well trimmed, which results in poor loading efficiency and higher transportation costs, and this limits the scope of the collectable area. We are therefore planning to establish three intermediate log yards within a radius of 60 to 70 km from the power generation plant. We

will produce chips at these sites to improve the turnover for the trucks, which will enable effective material collection and production. "Collection of unused materials in forests has just started and the quantity is still fairly limited, but we will steadily increase the quantity, which will lead to the biomass power generation business revitalizing local forestry. Wood biomass power generation was planned in Mombetsu because this is the place where Sumitomo Forestry has its Company-owned forest, and the Company has established a broad network involving local governments, forest owners and forestry industry players. We will enhance and expand the network to improve the added value of forests and revitalize the local community. And the biomass power plant and chip production plants will be the center of this initiative," adds Mr. Santo. With the help of local players, Okhotsk Bio Energy aims to build a mechanism for efficient collaboration between the forestry industry and the power generation business.



Masanori Santo
President
Okhotsk Bio Energy Co., Ltd.



Toru Abe
Chairperson
Hokkaido Forest Owners'
Cooperative Association



Logs that Okhotsk Bio Energy collects, including unused forest materials, are all called "32-yen timber." They are thinnings or logs from trees cut down based on forest management plans, so continuing to collect them will not degrade the forest.

The Mombetsu Biomass Power Plant is finally starting operation this year. The forest-owners' cooperatives are responsible for collection of materials from general privately-owned forests. I believe that woody biomass derived from thinnings and the like can make the best use of the advantages of Hokkaido, where the forest management plan authorization rate is high. Hokkaido also has areas where only a small percentage of thinnings are transported out of the forest, so we will collect Japanese larch as well as Yezo spruce and Sakhalin fir to ensure a stable supply of materials. I have great hopes for this initiative, which will contribute significantly to stimulating forestry in the forest kingdom of Hokkaido.

Developing Pleasant and Cooperative Workplace for All



With the aging population and declining birthrate, and other circumstances, securing human assets is becoming a serious management issue in Japan. The Sumitomo Forestry Group is enhancing systems supporting diverse work styles and empowerment of female employees in order to develop and retain excellent human assets who will be the leaders in the next generation and develop a work environment where everyone can play an active role, regardless of gender, age, nationality, race, religion, or disability.

To Achieve Diversity & Inclusion

In its Action Guidelines, Sumitomo Forestry states, “we work to create an open and inclusive corporate culture that values diversity.” To develop a pleasant work environment for a diverse range of employees, the Company has introduced various measures, including empowering female employees, employing persons with disabilities and rehiring retired employees. As part

of these efforts, the Company established Sumirin Wood Piece Co., Ltd. in July 2015 to employ persons with intellectual disabilities to work in cultivating shiitake mushrooms on bed logs and other activities, including the production and processing of timber and interior products. Currently, preparations for full operation are ongoing. Meanwhile, Group companies outside

Japan are employing local people, regardless of race or gender, to hire outstanding talent and promote them into managerial positions.

Ratio of disabled employees

2.12 %

At the end of March 2016 (Sumitomo Forestry)

Encouraging Use of Our Childcare Systems

At Sumitomo Forestry, the number of employees taking childcare leave is increasing year by year. The Company has enhanced its systems for childcare so that its employees can balance childbirth and parenting with their work. Gaining the understanding of the people surrounding them, including supervisors and colleagues, is crucial for employees who wish to use these systems. To help with this, the Workstyle Diversification Department under the Personnel Department supports different work styles of individual employees, and raises awareness among supervisors and colleagues, encouraging them to develop a cooperative system. Staffs from the Workstyle Diversification Department attend interviews between employees who are planning to take childcare leave

and their supervisors to explain the systems and work style options available when they return to work. To provide an environment where employees can easily balance their work with parenting, the Company has put in place various systems, including allowing employees to come to work later or leave earlier, shorter working hours, and teleworking. The Company also believes that proactive use of the childcare systems by male employees will help achieve a work-life balance and develop a comfortable working environment for all. In fiscal 2015, the Company established a mechanism

Number of employees taking childcare leave

53 employees

At the end of March 2016
13 male and 40 female employees

under which, when employees apply for a lump-sum childcare assistance program, their direct supervisors interview them to find out whether they wish to use our childcare systems and submit an application stating what needs to be done to meet their requirements. Based on the information provided, the Workstyle Diversification Department supports individual employees in making use of the systems.



Intranet screen showing systems for childcare leave

Family Open Day

Sumitomo Forestry holds Family Open Days to invite employees' families into their workplaces. The event is designed to express appreciation to employees' families for the support they give, provide employees with opportunities to reach a shared understanding on how to make their workplaces easier to work in, and reexamine how they can best achieve a work-life balance by communicating with the families of their supervisors, subordinates and colleagues.

This event was first held in fiscal



Family Open Day at Shizuoka Higashi Branch

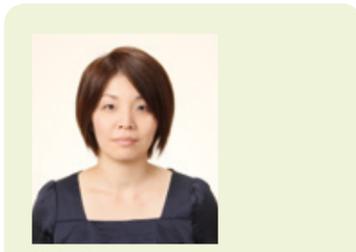
2014. In fiscal 2015, it was held at four branches of the Housing Division, in Sapporo, Fukushima, Shizuoka East, and Himeji. Participating families joined the morning briefing, exchanged business cards, toured the showroom, and tried their hand at using the housing design software. Children were given the chance to sit at their parents' desks. Each branch made a creative and concerted effort to offer experiences appropriate to the ages of participants, so that all employees, whether their families participated or not, gained something from the event.

Comments from participating employees

“Seeing my colleague in his role as a father with his family, smiling, I could imagine how good a father he must be at home, and this made me feel closer to him.”

“I felt encouraged to reduce the amount of overtime I do for my family's sake.”

“The event will help the families of our employees understand the work they do, and this will make it easier for them while at work.”



Chie Otomo
Building Materials and Panels Group,
Tohoku Branch
Timber & Building Materials Division

For the years since I joined the Company, I worked as clerical staff at a branch of the Timber and Building Materials Division, while bringing up a family. Four years ago, my supervisor encouraged me to move to sales, but I was worried that I would have less time with my daughter, and that it would sometimes involve business trips. I made my decision to take the examination to change my job category since my daughter was already in high school back then and my colleagues showed understanding and support. I am now working as a sales staff in the Timber and Building Materials Division.

Sales staffs need to organize their activities so that they can provide the best proposals to customers. In the beginning, I felt lost and did not know what to do. Female sales staffs are rare in this industry, so I had a hard time and no one to share my problems with. Then the Workstyle Diversification Department nominated me to participate in the logical thinking enhancement program. I took the program and learned how to think logically, and then became able to apply what I learned to my sales activities. Internal and external training programs have always inspired me and motivated me to start my work on a new note. I now actively look for training programs to review my skills each time for career development.

More Responsibility for Female Employees

Based on the Sumitomo Forestry Group Declaration on Empowering Women announced in fiscal 2013, Sumitomo Forestry has been giving more responsibility to their female employees. In fiscal 2014, the Company set a numerical target to increase female managers to more than five percent by 2020 to further empower female employees and female managers. Specific measures being taken include encouraging female employees to participate in individual training programs they can select themselves, such as internal and external training programs for female managers to help them

improve their management skills and develop leadership skills, and joint cross-industry training and networking events. In fiscal 2016, the Company introduces a mentoring system¹ to support female employees in taking on more responsibility from various aspects.

¹ A system under which senior employees who are not their direct supervisor in the Company or in their department support female employees in the role of tutor or counselor.

Percentage of female managers

At April 1, 2016
(Sumitomo Forestry)

2.8 %

Women's Perspective Project

Under the Women's Perspective Project, started in March 2013, female employees from many different divisions work on product development. The project incorporated the opinions of female customers in developing “konoka” housing, which has been popular since its launch in February 2015.

Number of konoka houses ordered

733 houses

Selected as Nadeshiko Brand and Health and Productivity Stock Selection

In fiscal 2015, Sumitomo Forestry was named, for the first time, as one of the fiscal 2016 Nadeshiko Brands. The Nadeshiko brand designation recognizes companies who are listed on the Tokyo Stock Exchange for their outstanding efforts for female empowerment. The Company was also included in the Health & Productivity Stock Selection, which recognizes companies who work strategically on the management of their employees' health.



Corporate Governance



Premising on its corporate philosophy, Sumitomo Forestry promises to “conduct business that is beneficial to society based on the principles of integrity and sound management” in the Action Guidelines.

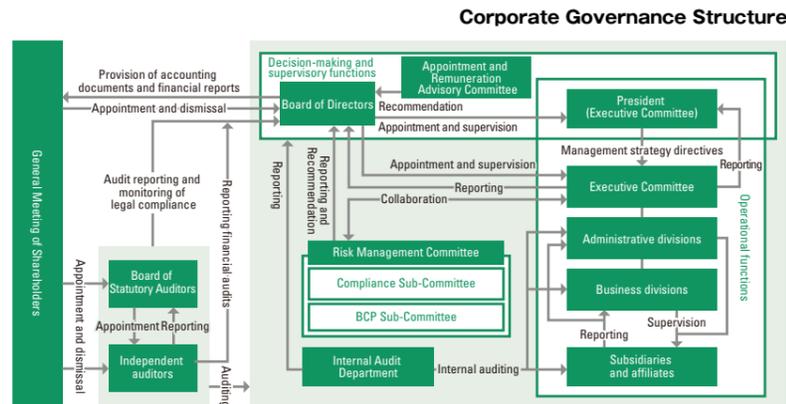
Corporate Governance and Internal Control

Sumitomo Forestry introduced the executive officer system to separate decision-making and management oversight from executive operations. Comprising ten directors (nine male, one female) and including two external directors (one male, one female), the Board of Directors is structured to make quick decisions. The oversight function of the Board of Directors has been strengthened, the lines of operational responsibility clarified, and the Chairman of the Board of Directors does not serve as an executive officer. The Appointments and Remuneration Advisory Committee,

which recommends candidates for the appointment of directors and auditors, executive officers, and the remuneration paid to directors and executive officers, has been established to ensure transparency and fairness in decision-making. We have also established a Board of Statutory Auditors. In addition to

attending important meetings within the Company, the auditors oversee the execution of duties by directors by sharing information and opinions with auditors at Group companies and the staff in the Internal Audit Division, and through the auditing operations that are carried out by their assistants under their supervision.

Directors' attendance at Board of Directors meetings **100%**
Auditors' attendance at Board of Directors meetings **99%**



Risk Management Framework

To reinforce its framework for managing business risks for the entire Group, Sumitomo Forestry has created Risk Management Basic Regulations and has appointed the President of Sumitomo Forestry as the highest authority on risk management for the Sumitomo Forestry Group.

The Company has also established a Risk Management Committee, which meets quarterly to identify and analyze priority risks to be addressed in individual areas, including Group companies, and formulates plans for managing those risks. The Compliance Subcommittee and the BCP Subcommittee have

been set up under that committee to carry out specific activities to increase effectiveness in dealing with compliance risk and business interruption risk.

Number of Risk Management Committee meetings **4** times

Compliance Promotion Framework

The Compliance Subcommittee under the Risk Management Committee establishes the Group standard risk management system and tools to ensure compliance with the Construction Business Act and other laws, ensuring an efficient response to compliance risk. The subcommittee also organizes compliance seminars

featuring external expert instructors to acquire the latest knowledge and provide compliance staff throughout the Group with opportunities for working bottom-up and sharing risk awareness. In addition to reporting these activities to auditors and internal audit divisions monthly, information on common

initiatives within the Group that are of particular importance and information on risks is shared with the statutory auditors at each Group company via the Group Audit Committee. Thus, the Group has developed a system to promote compliance in executing its lines of business using both internal and external approaches.

Social Contribution Activities Topics



Mt. Fuji Manabi no Mori Project

To restore the national forest cloaking the foothills of Mt. Fuji, which was damaged by a typhoon in 1996, to the original rich forest, we launched a natural forest restoration project encompassing around 90 hectares of the damaged forest named Mt. Fuji Manabi no Mori. Cultivation activities have continuously been undertaken by volunteers. As forest regeneration requires a long period of time, we provide environmental education to develop a skill to feel the nature with one's five senses for participants, particularly local children who will lead the future forest conservation. In fiscal 2015, a total of 1,222 people visited the Mt. Fuji Manabi no Mori.



Support for Monastic School Construction in Myanmar

We are involved in the Myanmar Monastic School Support Team, a body we established to support the construction of monastic school-style community schools in Myanmar. Owing to the generosity of companies and individuals who endorsed the aim of the initiative, a three-story building was completed in the suburbs of Yangon in November 2015 as the second school for this project. Representatives from the supporting companies participated in the opening ceremony and mingled with the children. The school can also function as a refuge during heavy rains. We will continue to support the initiative with the goal of building one monastic school every year.



Photo: Courtesy of Toyota Motor Corp.

Joint Development of Outer Panels of Wooden Concept Car with Toyota

Jointly with Toyota Motors Corporation, we developed the body of SETSUNA, which Toyota planned and produced as a concept car that uses wood. We related to the idea of using wood—a material that can be used for generations as its texture becomes more unique and richer over time, so we proposed a design and processing of wood parts, and adoption of traditional techniques that does not use nails and screws, as well as selected appropriate tree species. The timber used was all produced in Japan. Centering around the tree culture that Japanese have nurtured through living in harmony with wood, we develop MOCCA (Timber Solutions) business by driving wide-ranging wooden construction and the use of timber, in pursuit of new possibilities of the wood material.



Success in Propagating Sapling Using Tissue Culture from Sacred Kitano Cherry Tree

In March 2016, by using tissue culture, a biotechnological technique, we succeeded in propagating saplings of “Kitano Zakura,” a cherry tree in the Kitano Tenmangu shrine in Kyoto. The tree is a rare variety with flowers that change color as they bloom. After comparing the tree's genetic information against the Sumitomo Forestry cherry tree DNA database, no exact match was found, so it is highly likely that this tree is a new variety. In February 2015, we succeeded in the world's first propagation of saplings from an old plum tree for the over-300-year-old “Beniwa Kombai” in the shrine. We are committed to passing genes of valuable trees on to the future generations to maintain the culture.

Corporate Information

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 yen
Incorporated	February 20, 1948
Founded	1691
Number of employees	4,417 (non-consolidated) 17,001 (consolidated)
Net sales	1,040.5 billion yen (consolidated)
Recurring income	30.5 billion yen (consolidated)
Net income	9.7 billion yen (consolidated)
ROE	4.0% (consolidated)

External Recognition

Has been included in the FTSE4Good Global Index since 2004.



Has been included in the Morningstar Socially Responsible Investment Index (MS-SRI) since 2008.



Earned a Bronze Class rating in The RobecoSAM Sustainability Yearbook 2016.



Included in the Climate Disclosure Leadership Index (CDLI) in CDP 2015 Climate Change Report, with the top score out of all Japanese companies.

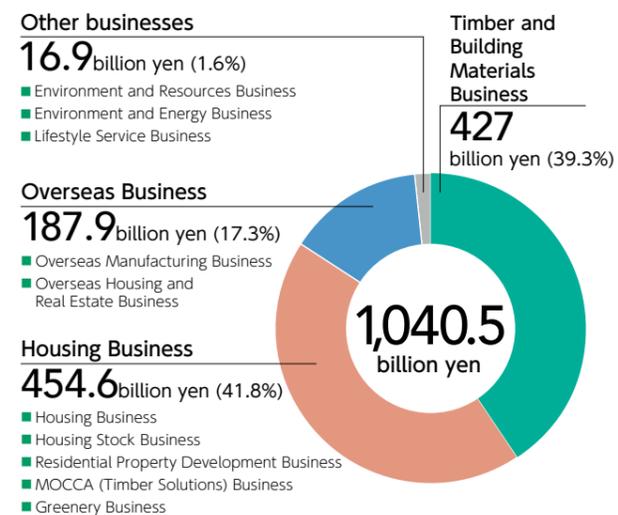


The above figures are based on fiscal 2015.

Net Sales / Recurring Income (consolidated)

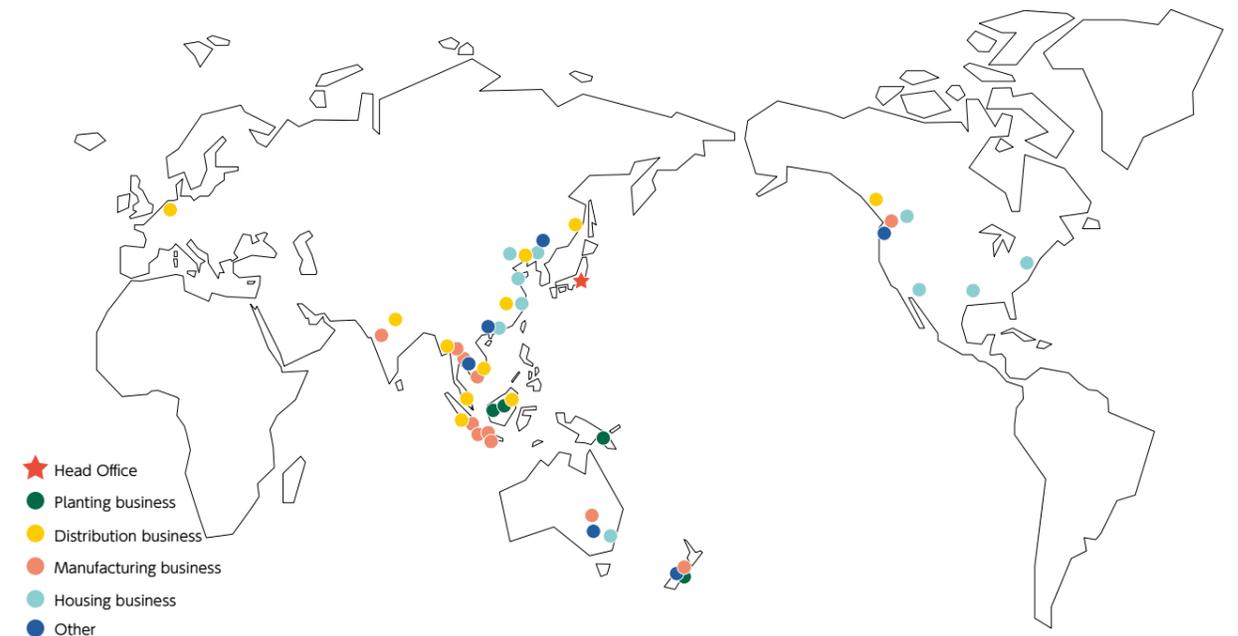


Sales by Segment (percentage in parentheses; excluding adjustment)



Note: Net sales for fiscal 2015 (as of March 31, 2016) of each business include inter-segment transactions.

Global Network



Overseas Group Companies

USA

Sumitomo Forestry America, Inc.
Canyon Creek Cabinet Company
Bloomfield Group/Bloomfield Homes, L. P.
Gehan Homes Group/Gehan Homes, Ltd.
Mainvue Homes Group/Mainvue Homes LLC
Dan Ryan Builders Group/DRB Enterprises

Australia

Sumitomo Forestry Australia Pty Ltd.
Alpine MDF Industries Pty Ltd.
Henley Group/Henley Arch Pty Ltd.

New Zealand

Sumitomo Forestry NZ Ltd.
Nelson Pine Industries Ltd.
Tasman Pine Forests Ltd.

Papua New Guinea

Open Bay Timber Ltd.

Indonesia

PT. Sumitomo Forestry Indonesia
PT. Mayangkara Tanaman Industri
PT. Wana Subur Lestari
PT. Kutai Timber Indonesia
PT. Rimba Partikel Indonesia
PT. Sinar Rimba Pasifik
PT. AST Indonesia

Singapore

Sumitomo Forestry (Singapore) Ltd.

Myanmar

MOS Lumber Products Co., Ltd.

Vietnam

Sumitomo Forestry (Vietnam) Co., Ltd.
Vina Eco Board Co., Ltd.

Thailand

SF Holdings(Thailand) Co., Ltd.
Pan Asia Packing Ltd.

Hong Kong

Sumirin Hong Kong Limited
Rainbow Alpha Holdings Limited

China

Sumitomo Forestry (Dalian) Ltd.
Sumitomo Forestry (Shanghai) Ltd.
Paragon Wood Product (Dalian) Co., Ltd.
Paragon Wood Product (Shanghai) Co., Ltd.
Yantai Golden Bridge Enterprise Co., Ltd.
Dalian Sumirin Information Technology Service Co., Ltd.
Beijing BBMG Decoration Engineering Co., Ltd.

India

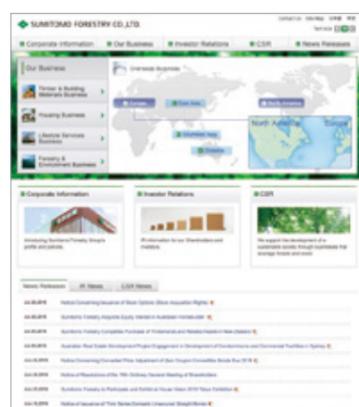
Sumitomo Forestry India Pvt. Ltd.
Space Wood Furnishers Pvt. Ltd.

Business Sites outside Japan

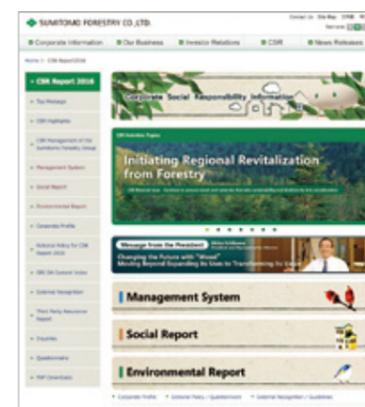
Vancouver Branch
Khabarovsk Branch
Amsterdam Branch
Kota Kinabalu Branch
SF Singapore Yangon Branch

Website

Sumitomo Forestry's website provides detailed corporate information and other information including investor relations and CSR. In addition to the contents covered in this report, the comprehensive Sumitomo Forestry CSR Report 2016 is available on the website with other activities and figures under the categories of Management system, Social Report and Environmental Report. The report has obtained third-party assurance to confirm the validity and objectivity of the contents reported and CSR activities.



Corporate, IR and CSR information website: <http://sfc.jp/english>



Sumitomo Forestry Group CSR Report 2016 (online version): <http://sfc.jp/english/information/society/>



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