



Environmental and Social Report 2009

— March 2009 —

Four Material Issues

This edition mainly reports on material issues of the Environment and Social Report 2009

Four Material Issues

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Editorial Policy for *Environmental and Social Report 2009*

Purpose of This Report

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

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



This section presents the views of internal and external stakeholders.

Reliability of Report Content

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

Reference Guidelines

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

Reporting Period

April 2008 to March 2009

(The period also includes some activities from April 2009 as well as future expectations)

Companies Covered in Report (including the Web-based version)

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

Sumitomo Forestry Residential Co., Ltd., Sumitomo Forestry Crest Co., Ltd., Sumitomo Forestry Home Engineering Co., Ltd., Sumitomo Forestry Home Service Co., Ltd., Sumitomo Forestry Landscaping Co., Ltd., Sumitomo Forestry Timberland Management Co., Ltd., Sumitomo Forestry Home Tech Co., Ltd., Sumirin Agro-Products Co., Ltd., Sumirin Life Assist Co., Ltd., Sumirin Base Techno Co., Ltd., Sumirin Business Service Co., Ltd., Sun Step Co., Ltd., Kowa Lumber Co., Ltd., PT. Kutai Timber Indonesia (KTI), Paragon Wood Product (Shanghai) Co., Ltd., Toyo Plywood Co., Ltd., Alpine MDF Industries Pty Ltd., Nelson Pine

Industries Ltd. (NPIL), Open Bay Timber Ltd. (OBT), Kawasaki Biomass Electric Power Corporation, Limited Partnership Agreement for Investment in Fund to Continue the Activities of Small and Medium-Scale Corporations in the Housing and Related Industries, PT. Rimba Partikel Indonesia (RPI), and PT. AST Indonesia (ASTI)

Publication Date

October 2009

(The previous report was published in October 2008 and the next report is scheduled for publication in October 2010.)

Publication Team

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- Corporate Communications Department
- Environmental Solution Department

What is Sustainability?

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



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



Our Top Commitment

"We will continue pursuing CSR management with the aim to be an excellent company that meets the needs of society far into the future."

UN Global Compact and the Sumitomo Spirit

In December 2008, we formally signed the United Nations Global Compact to declare our support for its principles. The Global Compact's voluntary code of behavior consists of ten principles, which I believe are also fundamentally conveyed by the Sumitomo Spirit, introduced over 400 years ago by the Sumitomo's founder, Masatomo Sumitomo, and passed down ever since.

After company-owned forests in Besshi, Ehime Prefecture, were denuded mainly by pollution from smelting and mining operations at the Besshi Copper Mine, the Sumitomo implemented a large-scale reforestation plan to restore the area, in an expression of gratitude to the natural environment. This approach of conducting business for the social good rather than for short-term profit stems from the basic policy of all Sumitomo enterprises. Adopting this policy, the Sumitomo Forestry Group established its Project SPEED Long-Term Management Plan in fiscal 2007. The plan clearly states that the Group's ultimate objective is to be an indispensable asset to society.

We are proud that throughout its history Sumitomo Forestry has consistently pursued this objective under the Sumitomo Spirit, as represented again by its participation in the Global Compact. With the expansion of Sumitomo Forestry's business on a global scale, we recognized that signing the Global Compact would raise awareness among all employees and clearly demonstrate our commitment to CSR initiatives to customers, business partners and other stakeholders.

Building Environmentally Friendly Homes that Lead the Way for Society

As a means to prioritize initiatives aimed at realizing a sustainable society, in fiscal 2007 Sumitomo Forestry determined the following four material issues: 1) providing timber products and materials from sustainable forests, 2) providing environmentally friendly homes, 3) promoting global warming countermeasures through our business, and 4) promoting family-centered employee lifestyles. In fiscal 2008, the Company achieved significant results in the area of providing environmentally friendly homes.



In recent years, the Japanese public has changed its view on housing and called for a

shift from the scrap-and-build practices that characterize short-term consumption to a consumer society that raises the value of its housing stock. Reflecting the importance of this issue, the Basic Act for Housing was enacted in 2006, and as a result of this trend, the concept of excellent long-term house has taken on a new significance. Furthermore, excellent long-term house that last for many generations are recognized for their considerable contribution to reducing environmental impact. Sumitomo Forestry has been a frontrunner in extending the life of houses, and in fiscal 2008, its products were selected for the Ministry of Land, Infrastructure, Transport and Tourism's Leading Model Project¹ on the basis of the Company's *Ryouonbou* design concept, which harnesses natural energy to reduce reliance on heaters and air conditioners, as well as its after-sales maintenance program.

In February 2009, Sumitomo Forestry launched the *MyForest [GS]* home, for which it improved structural durability and succeeded in raising the amount of Japanese timber used in the principal structural members to approximately 70%. We promote the use of Japanese timber in order to encourage logging and reforestation in the country's forests, which are largely unused, and to contribute to forest restoration, with the view that the expanded use of wood and continuous replanting of trees contributes to preventing global warming, since trees absorb CO₂ and retain it as carbon after they are cut. At the same time, we recognize the importance of lowering the environmental impact of home occupancy, so we equip our homes with the energy-saving *Ryouonbou* design concept, and utilize solar power and heating systems. We have also initiated a carbon-offset program, for which we plant trees to sequester the CO₂ emitted from the logging of timber for principal structural members of custom-built and spec houses, as well as from the construction of Sumitomo Forestry Home houses. With its objectives of restoring degraded land around the world through reforestation and creating local job opportunities, this program is representative of Sumitomo Forestry's commitment to the environment and the global community.

1. Three products were selected for the new house construction category.

Creating an Environment that Brings Happiness to Employees and their Families

Sumitomo Forestry understands that supporting the happiness and physical and mental health of its employees leads to success in carrying out initiatives and building houses. Accordingly, we are actively pursuing efforts to promote family-centered employee lifestyles.

Our ongoing efforts to restrict overtime work, a major issue for the Company, have yielded steady results. At an early stage, Sumitomo Forestry enhanced its maternity and childcare leave programs to create an environment in which employees and their families could raise their children with peace of mind. These programs have been underused, so we will further enhance them by reflecting the views of employees who are raising children, while encouraging men to take childcare leave and work-at-home to facilitate work-life balance.

Contributing to Society by Expanding Our Business

Although we expect the current global recession to impact the Company's business, we

intend to aggressively push forward, taking this adversity as an opportunity to further direct our resources toward creating new businesses and expanding growth areas.

I am proud that the expansion of Sumitomo Forestry's business utilizing trees actually benefits the environment and society. The basic principle that motivates us at Sumitomo Forestry is the desire to contribute to society, and we intend to continue carrying on the Sumitomo Spirit as we pursue our goal of being an excellent company that meets the needs of society and the world.



President and Director
Sumitomo Forestry Co., Ltd.

Ongoing Issues and Objectives

- Proceed with the carbon-offset program through reforestation
- Continue providing excellent long-term houses and promoting the home renovation business
- Carry on promoting work-life balance for employees

Global Compact

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

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

The Ten Principles of the UN Global Compact

Human Rights

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

Labour Standards

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

Environment

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

Anti-Corruption

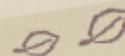
- Principle 10: Businesses should work against corruption in all its forms, including extortion and bribery.



Sumitomo Forestry's Business Overview and Comments from Executive Officers

Sumitomo Forestry develops businesses related to every aspect of wood and homes. In this section, we provide an overview of Sumitomo Forestry's business activities and the results of its programs in fiscal 2008.

Forestry & Environment Division



Hideki Nose
Director and Senior Managing Executive Officer
Divisional Manager of Forestry & Environment Division

 As a leader in the timber industry, we are expanding sustainable forest management.

In fiscal 2008, we purchased about 900 hectares of forest in Kyushu, Japan, to expand the forest area under our management. Sumitomo Forestry helps to preserve forests and sequester CO₂ by acquiring unused forests and managing them in a sustainable manner. We intend to increase the scale of this model of sustainable forest management by expanding operations that exclusively focus on forest management.

We are also pursuing initiatives to reduce CO₂ emissions in line with the targets set in fiscal 2007. Activities to achieve zero emissions by the end of fiscal 2009 are also underway. We will redouble our efforts to increase our recycling rate, which reached 78% in fiscal 2008. We are also involved in environment-related business, taking on biomass power generation in Indonesia and environmental reforestation projects.

Forest preservation, CO₂ emission reductions, and the preservation of biodiversity are all interrelated, and we hope to positively contribute to these areas through our forest management and housing business. Sumitomo Forestry will take the lead in the industry as it proposes an action plan with comprehensive solutions to a wide range of environmental problems.

Plan for Fiscal 2009

1. Expand the area of forests under management
2. Set targets for the total amount of CO₂ emission reductions
3. Develop the environment-related business
4. Achieve the goal of zero emissions

Business Overview

The Forestry & Environment Division adheres to the principle of sustainable forestry, which perpetually repeats a cycle of reforestation and production to grow forests and provide a stable supply of timber—Sumitomo Forestry's core business. The Division also pursues the Company's environment-related business through plantation programs

outside Japan, and the utilization of wood leftover from logging in Japan.



Stakeholder Expectations

- I would like to see the active use of Japanese timber and a revitalization of the domestic forestry industry.
- I expect Sumitomo Forestry to incorporate global warming countermeasures in its business.
- I want the company to preserve forests both in and outside Japan through its timber procurement and wood products.

Timber & Building Materials Division



Hideyuki Kamiyama
Director and Senior Managing Executive Officer
Divisional Manager of Timber & Building Materials Division

 We have expanded procurement of sustainable timber that is certified and grown on plantations or in Japan.

In fiscal 2008, we continued examining the legal compliance of our timber suppliers, begun in the previous fiscal year, and confirmed the legal compliance of about 90% of them. We have not cleared all of our suppliers because some have not been able to provide documentation. We will seek the opinion of a third party in determining how to verify the legality of forestry practices.

We focus on using timber from certified forests, plantations, and forests in Japan to promote procurement that is not only legally compliant but also sustainable. We import FSC-certified plywood and promote the import of plywood made with certified timber and plantation timber. Sumitomo Forestry Crest Co., Ltd. switched to Japanese timber for its plywood materials, and began labeling it with the carbon footprint in fiscal 2009.

At the Division, the Building Materials Department is maintaining close ties with manufacturers of environmentally friendly products, such as solar-power generators and high-efficiency water heaters, to increase their usage, while providing its customers with information. The Division has entered into joint ventures in the biomass power generation business and a business that manufactures wood chips for fuel, and is currently preparing to bring a biomass power plant on line in 2011. We believe that the Division has a responsibility to use environmentally friendly building materials when providing comfortable living spaces in the housing market.

Plan for Fiscal 2009

1. Continue to use certified timber, plantation timber and Japanese timber with the aim of procurement from sustainable forests
2. Promote the use of environmentally friendly building materials and housing systems and fixtures
3. In relation to the two objectives above, share knowledge and information on the environment with business partners

Business Overview

The Timber & Building Materials Division procures and sells timber materials and distributes building materials on a global scale. Sumitomo Forestry is Japan's top-ranked timber and building materials trading firm.



Stakeholder Expectations

- I want Sumitomo Forestry to provide wood products and materials from sustainable forests.
- Sumitomo Forestry should actively use Japanese timber and revitalize the forestry industry in Japan.
- I hope that Sumitomo Forestry will preserve forests in and outside Japan through its timber procurement and wood products.

Overseas Business Division



Mamoru Inoue
Director and Senior Managing Executive Officer
Divisional Manager of Overseas Business Division

 We have expanded our plantation forest operations outside of Japan.

In fiscal 2008, we acquired new plantation forest sites in Indonesia and Papua New Guinea to further expand our reforestation projects. In China, we plan to construct a plywood plant using plantation timber as its raw material, and in preparation, we have begun research into tree species appropriate for the region's climate.

When carrying out plantation forest operation, we aim to help improve the living conditions for local residents, emphasizing the concept of "social forestry." In Indonesia, we distributed seedlings free of charge to local residents to grow. Group company PT. Kutai Timber Indonesia (KTI) worked with local residents to form a reforestation cooperative, which earned FSC certification in December 2008. In Papua New Guinea, we will provide cacao seedlings so it can be grown as a cash crop in the spaces

between the trees planted as part of a reforestation program.

In Kalimantan, Indonesia, we have begun a reforestation project in an area where the natural forest has been destroyed by logging. The peaty soil in this region makes reforestation difficult, but we will use satellite images to determine the terrain and utilize Sumitomo Forestry's expertise to carry out a model reforestation project.

Plan for Fiscal 2009

1. Plant 6.37 million trees in areas outside Japan
2. Procure sustainable raw materials by expanding plant construction and reforestation projects
3. Promote "social forestry"

Business Overview

The Overseas Business Division manufactures, processes and distributes wood boards and building materials, primarily around the Pacific Rim, and plants trees in various countries of the region to secure a source of renewable raw materials. The Division also sells wooden houses in North America, Australia, South Korea and China.



Stakeholder Expectations

- I want Sumitomo Forestry to provide wood products and materials from sustainable forests.
- I would like Sumitomo Forestry to supply safe and dependable wood products.

Housing Division



Shigehiko Shiozaki
 Director and Managing Executive Officer
 Divisional Manager of Housing Division

 We are striving to popularize long-lasting, environmentally friendly homes.

In fiscal 2008, we launched the *MyForest-Solabo*, a CO₂-conserving promotion model home, which adopts the *Ryouonbou* design concept natural heating and cooling system and boasts a dual solar power and solar hot water system. This home was selected as a model business for promotion of CO₂ conservation by the Ministry of Land, Infrastructure, Transport and Tourism.

In other significant achievements, three *MyForest* houses were recognized as Ultra-Long-Life House Leading Model Project in terms of ultra long-life houses. The Division met its target of using Japanese timber for 70% of principal structural members in its homes. It also launched the *MyForest [GS]* model in February 2009, equipping it with

Sumitomo Forestry's proprietary panels that absorb earthquake energy to reduce its impact on the building. This model is being marketed as a long-lasting home offering peace of mind.

We initiated a program in fiscal 2009 to plant trees covering an area equivalent to twice the

floor area of all the custom-built and spec homes we build. These trees will be managed and cultivated over a period of ten years after planting to sequester the total amount of CO₂ released at every stage of home building, from the harvesting timber for principal structural members to construction. We will continue working to reduce the environmental impact throughout a home's life cycle, while providing homes that possess a symbiotic relationship with the environment and offer the quality that customers have come to expect from Sumitomo Forestry.

Plan for Fiscal 2009

1. Provide long-lasting, high-quality homes
2. Start to carry out a carbon-offset program for CO₂ released during home construction
3. Promote the home renovation business
4. Properly dispose waste from new housing construction

Business Overview

As a top brand for custom-built detached wooden houses, we provide wooden houses and multi-unit residential buildings that are compatible with the environment.



1. This includes the sale of two-by-four housing, due to the business integration of Group company Sumitomo Forestry Two-By-Four Homes Co., Ltd., on October 1, 2008.

Stakeholder Expectations

- I would like Sumitomo Forestry to provide homes that last and can be treasured for generations to come.
- I hope Sumitomo Forestry will build environmentally friendly homes.
- I want the techniques used for wooden construction and forest management to be passed down to future generations.

Real Estate Business Division



Hitoshi Hayano
Director and
Managing
Executive
Officer
Divisional
Manager of Real
Estate Business

 We promote community development that meets the standards of Sumitomo Forestry and offers the qualities of wood and nature.

Sumitomo Forestry not only uses wood and incorporates the *Ryouonbou* design concept, which harnesses the forces of nature, for its top brand of custom-built detached wooden houses, but also for its spec homes. For example, for the design of *Forest Garden Toyosatodai* spec homes in Utsunomiya, Japan, we considered breezes and sunlight when creating streetscapes, with both people and the environment in mind.

The Shizuoka Aoi-no-Mori Project in Shizuoka Prefecture aims to create a community in which people of any age, from children to the elderly, can live with peace of mind. One project, an elderly care facility, is not only

Division

barrier-free but also provides stress-free facilities that alleviate anxieties typical of the elderly, such as illness and loss of function. This project has won praise for interiors that feature a generous amount of wood and gardens with an abundance of greenery.

Sumitomo Forestry Residential Co., Ltd., a Group company that manages rental housing, helps Chinese exchange students for whom it is difficult to search for homes.

The Real Estate Business Division also helps to build social infrastructure by utilizing Sumitomo Forestry's expertise in public service projects, as with its participation in a Private Finance Initiative¹ in 2007.

1. A method utilizing private-sector capital, management expertise and technical skills to build, manage and operate public infrastructure.

Plan for Fiscal 2009

1. Promote community development compatible for all ages, from children to the elderly
2. Promote environmentally friendly community development

Business Overview

The Real Estate Business Division effectively utilizes real estate, carries out subdivision housing development, real estate brokerage, and real estate management. The Division also develops real estate including condominiums for sale, commercial properties, and healthcare centers.



Stakeholder Expectations

- I would like Sumitomo Forestry to be a leader in developing communities that we can be proud of and feel connected to.
- I hope that Sumitomo Forestry will contribute to coexistence with local communities and the development of local economies through its business.

Head Office Departments



Akira Ichikawa
Director and

 We established BCPs to address risks and focused on creating a worker-friendly environment.

In fiscal 2008, the results of a risk questionnaire given to employees revealed significant compliance risks as well as serious concerns over natural disasters and new strains of influenza. As a result, we implemented appropriate measures and stepped up educational activities, which are crucial for maintaining awareness of compliance in daily

Managing Executive Officer
Director of the Corporate Planning, General Administration, Corporate Communications, Personnel, Finance, Information Systems and Internal Audit departments

operations. We also established business continuity plans (BCPs) for both natural disasters and new strains of influenza.

In human resources, reducing overtime work is an important issue for us. To address it, we initiated mandatory shutdowns of company computers at 10pm and delayed the start time for work, with considerations for the type of work done in home sales and design as well as the importance of maintaining good health. These measures proved effective. We also began encouraging men to take childcare leave and work at home in an effort to ensure work-life balance for our diverse employees. Expanding the work sphere for women and creating employment opportunities for disabled employees are also key management issues. In fiscal 2009, we will assemble a team to promote employment for the disabled at the Head Office of Sumitomo Forestry Co., Ltd. In addition, the Corporate

Communications Department was established in fiscal 2009, to create an integrated system for disseminating information and carrying out public relations activities for the Group's publicity, IR, advertising and CSR.

Plan for Fiscal 2009

1. Reduce overtime work
2. Promote childcare leave for men
3. Promote employment for the disabled
4. Disseminate effective information on the corporate stance



The Kikorin Plaza is a communication space for employees.

Stakeholder Expectations

- I would like Sumitomo Forestry to widely publicize information on the cultural aspects and merits of wood.
- I hope Sumitomo Forestry will create a vital corporate culture in which diverse individuals can flourish.
- I expect the company to seek ways to encourage family-centered lifestyles for its employees.

Sumitomo Forestry's CSR and Four Material Issues

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



Sumitomo Forestry Group's History and Role

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

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



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

CSR Management Approach

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



Corporate Philosophy

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

Action Guidelines

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

Our Work and CSR

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

Joy in Utilizing Sustainable Resources

1. Utilize Timber

Make available an appropriate and stable supply of sustainable forest resources

while placing importance on biodiversity in order to generate new value that will benefit society.

2. Utilize the Forests

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

3. Utilize Traditions

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

Joy in Development

1. Nurture Families

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

2. Develop Homes

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

3. Foster Communities

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

Joy in Bringing People Together

1. Bring Employees Together

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

2. Bring Society Together

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

3. Bring the World Together

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

Our Values and Ideals

1. Inspire Emotion

Great ideas are born when employees enjoy their work. Bringing together diverse individuals will generate a new power. Just as each individual tree makes an abundant

forest, bringing together our individual strengths allows us to perform our work in a way that will inspire our customers.

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

2. Blaze a Trail to the Future

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

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

3. Act with Dignity

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

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

▶ Our Work and CSR
(http://sfc.jp/english/information/csr_rinen/)

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

▶ Environmental Philosophy and Policies
(http://sfc.jp/english/information/kankyo_rinen/)

Sumitomo Forestry Stakeholders

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



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

CSR Management Based on Four Material Issues

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

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

▶ For more information, refer to Process for Formulating the Material Issues on page 20.

Process for Formulating the Material Issues

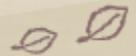
Sumitomo Forestry has sought the comments of stakeholders both inside and outside the company, and based on these comments has determined four material issues.



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

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

Four Material Issue



Providing Timber Products and Materials from Sustainable Forests



Providing Environmentally Friendly Homes



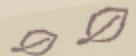
Promoting Global Warming Countermeasures through Our Business



Promoting Family-Centered Employee Lifestyles



Formulating the Material Issues



1 Selection of candidate material issues

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



2 Understanding the issues that are important to our stakeholders

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



3 Consideration of importance from the perspective of business strategy

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



4 Determination of material issues

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

Four Material Issues

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





Material Issues Providing Timber Products and Materials from Sustainable Forests

As a leading company in the timber and building materials business, Sumitomo Forestry promotes the sustainable use of timber.

▶ Goals for Fiscal 2008 ▶ Initiatives ▶ Fiscal 2008 Results ▶ Future Plans

Goals for Fiscal 2008

Division	Target Fiscal Year	Goals
Sumitomo Forestry group-wide ¹	2008	Formulate standards for sustainable forests
	2009	Confirm legal compliance of all timber handled
Sumitomo Forestry Timberland Management Co., Ltd.	2010	Handle 1 million m ³ of Japanese timber annually ²
Building Materials Department of the Timber & Building Materials Division	2008	Finish survey of corporate initiatives of all suppliers
	2009	Handle only legally imported solid wood building materials
Housing Division	2008	Raise usage rate of Japanese timber for principal structural members to 70%

1. Excludes some products handled by the Building Materials Department
2. Includes timber supplied to the Housing Division

Initiatives

Taking Up the Challenge of Acquiring Forestry Certification with Local Farmers

Reforestation¹ Cooperative Formed

In March 2007, the Sumitomo Forestry Group company P.T. Kutai Timber Indonesia (KTI)² formed a reforestation cooperative with 259 local farmers. The objective of this cooperative is to work together in managing sustainable forests and acquire Forest Stewardship Council (FSC) Forest Management (FM) certification.³ The company made the initiative in response to requests from its highly environment-conscious European business partners that it obtain FSC forestry management certification.



The cooperative's plantation forest

There have been so few cases anywhere in the world of local residents acquiring forestry management certification that many difficulties were anticipated. For example, one cooperative member grew only about 100 Falcata (*Albizia falcataria*) trees, which grow quickly, in a backyard. This demonstrates the difficulty involved in managing the process from cultivation to harvesting for so many small-scale forests spread over an extensive distance. Nevertheless, KTI needed to earn forestry certification for its plantation forests in order to progress with procuring its raw materials from sustainable forest. Moreover, timber from certified forests has higher market value, resulting in higher standards of living for local farmers. As the leader of this cooperative, KTI took the first steps in this challenge of acquiring forestry certification.

1. Definitions for English Translations of *shokurin*

The terms below are used with the following definitions throughout this report.

Reforestation:

The re-planting of trees on land that had previously been forested but lost its forest cover, due to harvesting or forest death.

Afforestation:

The planting of trees on land that had never been forested, or the re-planting of trees on land that had been forested several hundreds of years ago.

2. KTI's plants manufacture processed wood products, including plywood and particle board. KTI promotes sustainable procurement of raw materials through a number of efforts such as switching from natural forest timber to plantation timber.
3. A certification accredited by the FSC, which operates a global forestry certification system to certify responsible forest management and marketing.

Acquiring Forestry Certification



A KTI employee and local leader

In its effort to earn certification, KTI's Plantation Division set up a dedicated office in the community to distribute seedings and instruct local farmers in silvicultural techniques, such as how to plant the seedings. Through cooperation with local leaders, members came to understand that they could raise the value of their timber with forestry certification, and they gained an appreciation of the significance of sustainable reforestation. As a result, the cooperative earned certification in December 2008. Gaining this certification for local residents'

plantation forests was an outcome of KTI's 34 years of close work with the community and the trusting relationships it has built.

A Model for Sustainable Procurement of Raw Materials

KTI procures as much as 120m³ of timber every month from the cooperative for use in manufacturing building materials exported to Europe. KTI plans to label building materials with the FSC mark and market them as a product with higher environmental value. In 2009, KTI plans to expand the cooperative to about 300 members and increase the cooperative's forested area from 152 hectares to about 300 hectares. As a model for procuring raw



FSC-certified timber is stored separately

materials from sustainable forests, this approach will be extended to other areas of the company's activities in the future.

Fiscal 2008 Results

Sustainable Timber Procurement

Verifying the Legal Compliance of Timber and Wood Products

Sumitomo Forestry verifies that the timber it handles is legally compliant. In fiscal 2008, the Company investigated 208 suppliers outside Japan, of which 14 remained under investigation in fiscal 2009. Since 2007, Sumitomo Forestry has been conducting a two-year investigation of the legal compliance of its suppliers outside of Japan, and has identified problems that are difficult for a single private company to solve.

Difficult Problems for a Single Private Company to Solve:

1. Because procurement routes can be long and complex when raw materials produced in one country are processed in another, compiling necessary documents for certifying the legal compliance of processes in respective countries is time consuming.
2. When suppliers outside of Japan procure raw materials from a wide range of sources, it is difficult to obtain documents from these suppliers attesting to the legal compliance of their processes.
3. Since some countries (such as the United States and New Zealand,) do not require documents attesting to the legality of practices, such as logging licenses, obtaining evidence to prove legal compliance to third parties may be impossible.
4. In countries where Sumitomo Forestry does not frequently conduct business, sources of information may be non-existent, and obtaining reliable information even on legally procured timber can be difficult.

Resolving these problems is difficult for Sumitomo Forestry to accomplish independently. This points to the need for governments and NGOs to cooperate in establishing an



Legal-compliance verification scheme

- (1) Suppliers responsible for logging operations are required to submit the following documents proving legal compliance:

- Logging license
- Certificate of origin
- Export certificate
- Log inspection form
- Site survey report (as needed), and other reports



- (2) The Sumitomo Forestry Timber Procurement Examination Subcommittee verifies the documents submitted by the suppliers.



international system to verify the legal compliance of forestry practices. Looking forward, Sumitomo Forestry will continue its investigation of the abovementioned 14 suppliers.

▶ For more information, refer to Together with Our Business Partners in Performance Data on page 25.

▶ For more information, refer to Sustainability of Timber Resources in Performance Data on page 87.



- We want Sumitomo Forestry, in its role as a leader in the industry, to overturn the erroneous assumption that the sale of wood products is synonymous with environmental destruction. (Business partner)
- We hope that Sumitomo Forestry performs an entire range of activities, from reforestation and the use of wood waste to environmental education and eco tourism. (Research and educational organization)

Establishment of Sustainable Forest Standards

In June 2007, Sumitomo Forestry established its Timber Procurement Philosophy and Policy to promote the procurement of timber from sustainable forests. In fiscal 2008, the Company began specifying its standards for sustainable forests. It consulted with environmental NGOs, government offices and other organizations, but did not complete the development of its own standards in that year. Sumitomo Forestry understands that establishing such standards involves many complicated aspects, and intends to continue pursuing this important issue in fiscal 2009.

NGO Comment

I am very impressed with the Sumitomo Forestry Group's steady progress in verifying the legal compliance of the suppliers of the timber it uses. This is the first program to come from its Timber Procurement Philosophy and Policy. I hope that the company will quickly establish sustainable forest standards, effectively use the traceability system developed in the process of verifying legal compliance, and confirm that biodiversity is preserved and social issues are considered at the places of origin.



Mutai Hashimoto
Officer, Forest Programme
World Wide Fund for
Nature Japan

Maintaining Forestry Certification of Company-owned Forests and Making Continuous Improvements

Sumitomo Forestry owns forests in Japan covering an area of 41,532 hectares (as of April 2009). In fiscal 2006, all company-owned forests were certified by the Sustainable Green Ecosystem Council (SGEC)¹, which confirms that forests are sustainably managed based on assessments by third parties. Following a second SGEC's investigation, in fiscal 2008 Sumitomo Forestry maintained these certifications and also earned certification for 76.28 hectares of forests it had purchased in Shikoku in December 2007.

1. Japan's own forestry certification system through which forest management is verified as sustainable

by third parties. Certification is based on seven standards that include the preservation of biodiversity and the conservation and maintenance of soil and water resources.

▶ For more information, refer to Preserving Biodiversity in Performance Data on page 94.

Greater Handling of Certified Timber

In an effort to ensure that Sumitomo Forestry promotes the handling of certified timber, in fiscal 2006 the Forest Products Trading Department and the Building Materials Department of the Timber & Building Materials Division acquired Forest Stewardship Council (FSC)¹ Chain of Custody (CoC) certification, followed by CoC certification from the Programme for the Endorsement of Forest Certification (PEFC)² in September 2008.

■ Acquisition of Major Forestry Certification

Types of Forest Certification		Business Division and Company Earning Certification
SGEC	Forestry certification	Forestry Department of the Forestry & Environment Division (Company-owned forests)
	Comprehensive separation and labeling certification ³	Forest Products Trading Department of the Timber & Building Materials Division (oversees pre-cut wood), Housing Division (oversees pre-cut wood)
	Separation and labeling certification	Sumitomo Forestry Timberland Management Co., Ltd., Daiichisansho Co., Ltd., Sumitomo Forestry Crest Co., Ltd., Toyo Plywood Co., Ltd.
FSC	FM certification	KTI (Reforestation Cooperative)
	CoC certification	Forest Products Trading Department and the Building Materials Department of the Timber & Building Materials Division, Kowa Lumber Co., Ltd., Alpine MDF Industries Pty Ltd., P.T. Kutai Timber Indonesia, Sumitomo Forestry (Singapore) Ltd.
PEFC	CoC certification	Forest Products Trading Department and the Building Materials Department of the Timber & Building Materials Division

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

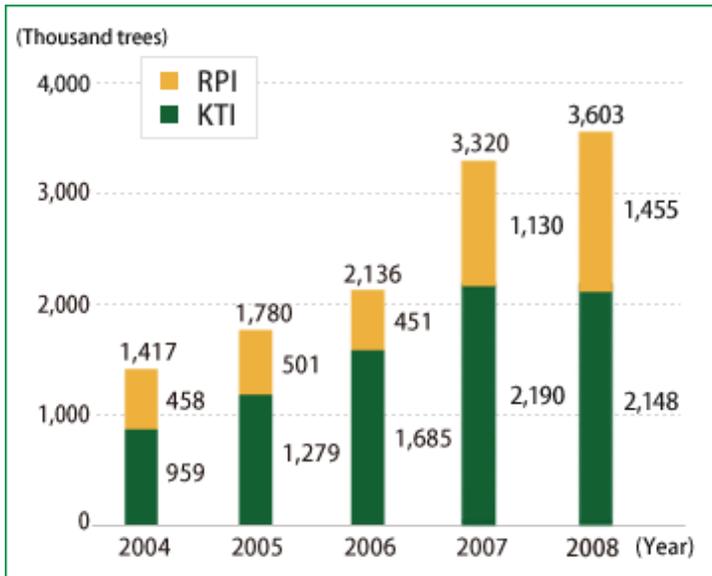
Expansion in Reforested Areas Outside of Japan

Group companies outside Japan are increasing the proportion of plantation timber they use in order to ensure a stable supply of raw materials while also protecting the environment. These companies are also carrying out their own plantation forest operations. In 2008, a total of 3,312 hectares was reforested.

■ Trees Planted in 2008

Group companies	Reforested area
KTI (Indonesia)	1,821 ha
RPI (Indonesia)	734 ha
NPIL (New Zealand)	125 ha
OBT (Papua New Guinea)	632 ha

■ Trees Planted in Indonesia



Since forests have an extremely significant effect on the natural environment, I would like to know about Sumitomo Forestry's efforts toward reforestation after forest resources have been logged.

Promoting Utilization of Japanese Timber

Producing Housing Materials Using Japanese Timber

To utilize Japanese timber, Sumitomo Forestry promotes its use for housing materials. To this end, Toyo Plywood manufactures a line of doors and flooring called *Totorop*, which is made of Japanese-grown Sakhalin fir. A cycle of logging and planting these trees, which are commonly grown on plantations in Hokkaido, enables a balance between timber supply and forest regeneration. *Totorop* products effectively use the knotted parts of the timber, which was previously unused, as laminated engineered wood without diminishing performance.

Sumitomo Forestry Crest uses Japanese cedar for its *Ayasugi* line of interior materials such as entrance hall storage areas, stairways and flooring. Although Japanese cedar is the most commonly planted tree in Japan, after it is cut into posts, some parts of the remaining wood are generally not used. However, Sumitomo Forestry Crest was particularly suited to apply its unique technologies to process these parts for its *Ayasugi* line. *Ayasugi* has earned high praise for its high-quality interior materials and the approach of integrating every stage from forest management to house construction, and won the Good Design Award in fiscal 2008.



Forestry management in Japan faces many issues such as labor shortages. I hope to see Sumitomo Forestry take an active lead in utilizing timber grown in Japan and preserving *satoyama*, Japan's traditional countryside landscape. (Company employee)

Increasing Percentage of Japanese Timber in Principal Structural Members for Houses

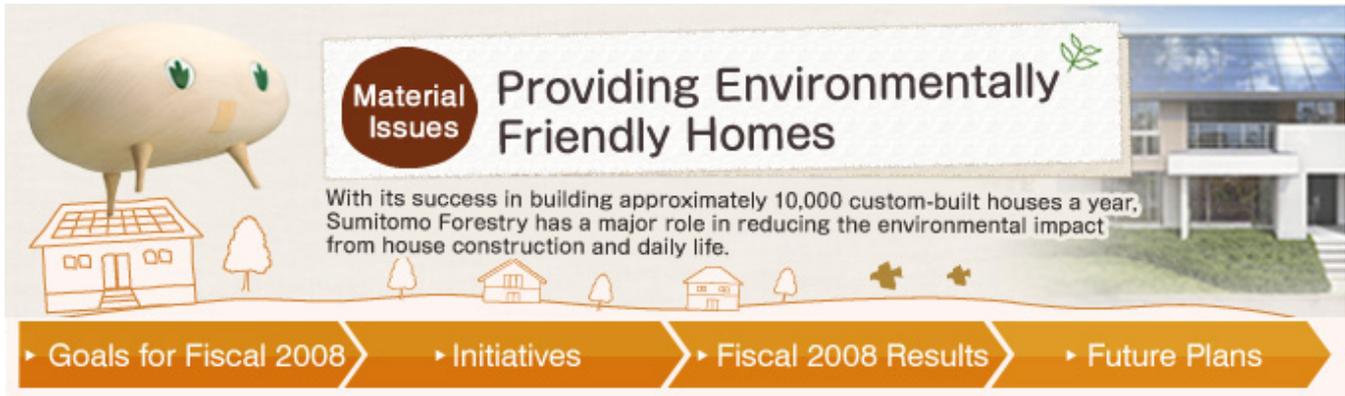
▶ For more information, refer to Increasing the Percentage of Japanese Timber Used on page 34.

Future Plans

Division	Target Fiscal Year	Goals
Sumitomo Forestry group-wide ¹	2009	Confirm legal compliance of all timber handled
Sumitomo Forestry Timberland Management	2010	Handle 1 million m ³ of Japanese timber annually ²
Building Materials Department of the Timber & Building Materials Division	2009	Handle only legally imported solid wood building materials

Sumitomo Forestry will continue to pursue its fiscal 2008 objective of establishing standards for sustainable forests.

1. Excludes some products handled by the Building Materials Department
2. Includes timber supplied to the Housing Division



Goals for Fiscal 2008

- Fusion of passive and active technologies to reduce environmental impact
- Achieve 70% usage rate of Japanese timber for principal structural members in Sumitomo Forestry houses
- Enhancement of support for ultra-long-life houses¹

1. Forerunner of excellent long-term house

Initiatives

MyForest [GS] Environmentally Friendly Homes for Long-Term Reliability



Crucial factors in reducing a home's environmental impact are reducing energy consumption when a home is occupied and designing structures to be long lasting and solidly built. Continually rebuilding houses places a heavy burden on the environment and results in large amounts of waste.

Sumitomo Forestry launched *MyForest [GS]* in February 2009 to offer excellent long-term houses¹, and is now working to popularize it. Japanese timber is used for about 70% of the principal structural members of these houses, the *Ryouonbou* design concept is applied for natural heating and cooling, and special panels that absorb earthquake energy are installed, resulting in an environmentally friendly home.

1. Measures are taken to ensure that these houses are of high quality and will remain in good condition over the long term. These houses are certified based on standards stipulated in the Excellent Long-term Housing Promotion Act, which went into effect from June 4, 2009.



Revitalizing Japan's Forests

Increasing Use of Japanese Timber for Principal Structural Members to 70%

Sumitomo Forestry has been a pioneer in actively using Japanese timber in house construction since

Q Why is the use of Japanese timber good for the environment in Japan?

2000. Although procuring the necessary large volume of Japanese timber has proved challenging, we succeeded by making optimum use of our procurement network stretching across the country. The Company's standard use of Japanese timber for support posts and foundations increased the percentage of Japanese timber used for principal structural members to 51% in 2005.

Achieving our next target of 70% was difficult, and required the use of Japanese timber for floor panels and for other parts for which it had previously not been used. I believe the Company was able to achieve this goal because its consistent commitment to utilizing Japanese timber inspired trust and a willingness to collaborate among Japanese timber suppliers. To achieve a total usage rate, the



Haruhiko Tsurusawa
Building Materials
Procurement &
Logistics Department
Housing Division

remaining 30% must come from beams, which require exceptional strength. Japanese larch can be used for these beams, but supply is limited. Therefore, we will give consideration to the quantity that can be continuously supplied.

Japan planted large amounts of trees after World War II, but its timber was less competitive than imports, so the timber was hardly used and the country's forests were practically abandoned.

There is a growing risk that the neglected trees in these forests, which are not well cared for, could fall during typhoons or other storms and cause landslides. In addition, trees that are left to age without being logged eventually stop growing and become less able to absorb CO₂. Constructive use of Japanese timber means that these forests are being cared for in a cycle of logging, planting, and thinning, which in turn regenerates forests and preserves the land. This process also quickens the rate of CO₂ absorption, which in turn, slows the pace of global warming.



- I would like to see Sumitomo Forestry raise the percentage of Japanese timber used for principal structural members in houses to 100%, while also fostering forest resources and coexisting with the environment. (Business partner)
- Sumitomo Forestry does not exclusively use Japanese timber, but also uses imported timber. I think the Company should set separate environmental goals for each type of timber. (Business partner)

Coexisting with Nature

Ryouonbou Homes to Reduce CO₂ Emissions

The *Ryouonbou* design concept of effectively using the elements of nature—the wind, sun, and greenery—enables a comfortable living experience without over-reliance on air conditioning and heating systems. This design concept can reduce CO₂ emissions during occupancy by about 40%¹ compared to houses built to specifications mandated by 1992 energy conservation standards.



Kaze no Sekkei design

This design channels airflow through the house and lets out the summer heat.



Taiyo no Sekkei design

Large windows on the south side of the house maximize sunlight in winter.



Midori no Sekkei design

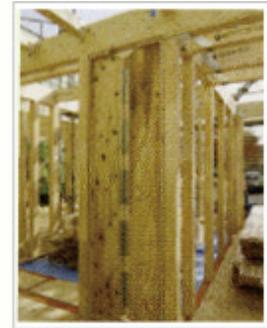
Deciduous trees at the south side of the house shield it from the sun in summer. In winter, more sunlight enters the house as the trees lose their leaves, while evergreen trees on the north side of the house block cold winds.

1. CO₂ emission calculations are based on a model house with a total floor area of 132.49m² and located in Saitama City, Saitama Prefecture, using Region IV building insulation specifications (Average annual maximum temperature: 19.6°C; average annual minimum temperature: 10.8°C; average annual temperature range: 8.8°C)

Reinforced Earthquake Resistance

Sumitomo Forestry installs its newly developed earthquake energy-absorbing panels as a standard feature.

These energy-absorbing panels transform the kinetic energy of an earthquake into thermal energy, absorbing it through ultra-rigid, highly damped rubber fitted in the gap between the inner and outer panels. This also reduces structural damage resulting from a massive earthquake by as much as 70% compared to the conventional brace method, and protects the building from earthquake tremors over the long term.



Earthquake energy-absorbing panel

COLUMN

Ryouonbou Design Concept and W Solar Reduce CO₂ Emissions by 65% in the MyForest-Solabo CO₂-conserving promotion model

Selected for MLIT's CO₂ Conservation in Homes and Buildings Leading Model Project

The Ministry of Land, Infrastructure, Transport and Tourism chose the home that Sumitomo Forestry submitted to the fiscal 2008 (Second) Model Business Promotion of CO₂ Conservation in Homes and Buildings as a leadership model. This home reduces CO₂ emissions by about 65%¹ during occupancy, and also provides a dedicated Web site for residents to share CO₂ conserving tips. Adopting this concept, the *MyForest-Solabo* CO₂-conserving promotion model was launched in February 2009.



These models are equipped with the W Solar System, which combines solar hot water systems with solar power generation systems.

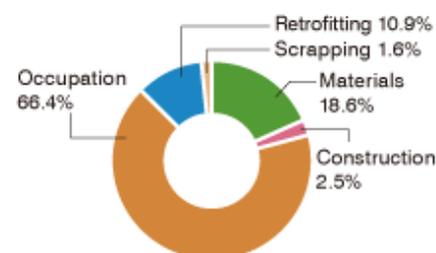
1. Compared to a wooden house, located in Tsukuba City, Ibaraki Prefecture, built to meet 1992 energy conservation standards (equivalent to Level 3 in the Housing Performance Indication System) under Region IV building insulation specifications.

Fiscal 2008 Results

Life Cycle Assessment for Housing

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

LCA of MyForest (Fiscal 2005 estimate)



▶ For more information, refer to Balance of Input and Output in Performance Data on page 69.

Promoting Reductions in Environmental Impact by Integrating Passive and Active Technology

Ryouonbou Design Concept

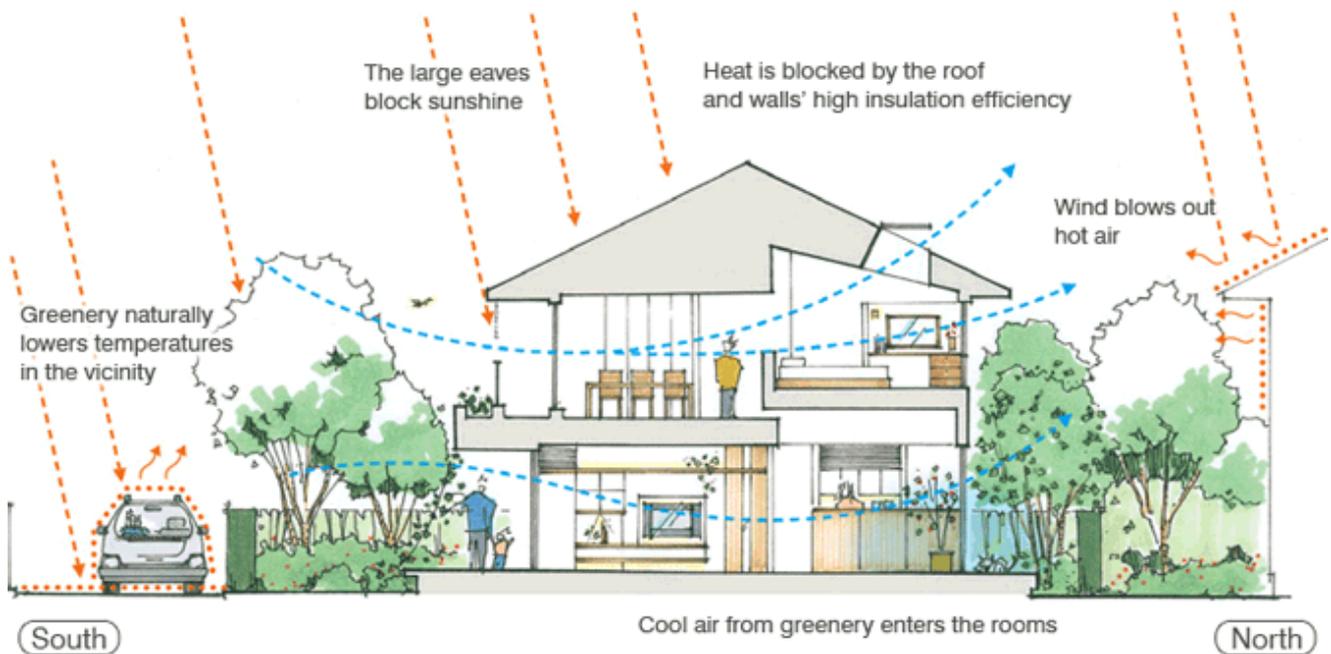
Sumitomo Forestry incorporates the *Ryouonbou* design concept as a passive technology to reduce environmental impact. This concept draws upon the wisdom and techniques of

traditional Japanese homes and skillfully leverages the forces of nature for comfortable living without over-reliance on air conditioners and heaters. The *Kaze no Sekkei* design blocks out sunlight in the summer and channels airflow through the house, while the *Taiyo no Sekkei* design maximizes sunlight and traps heat indoors in winter. The *Midori no Sekkei* design utilizes garden vegetation to function as a natural temperature control system. These design methods are integrated in a total energy-saving package.

According to estimates based on a model plan, a Sumitomo Forestry house incorporating the *Ryouonbou* design concept generates approximately 40% less CO₂ emissions during occupancy than a house conforming to 1992 energy conservation standards.

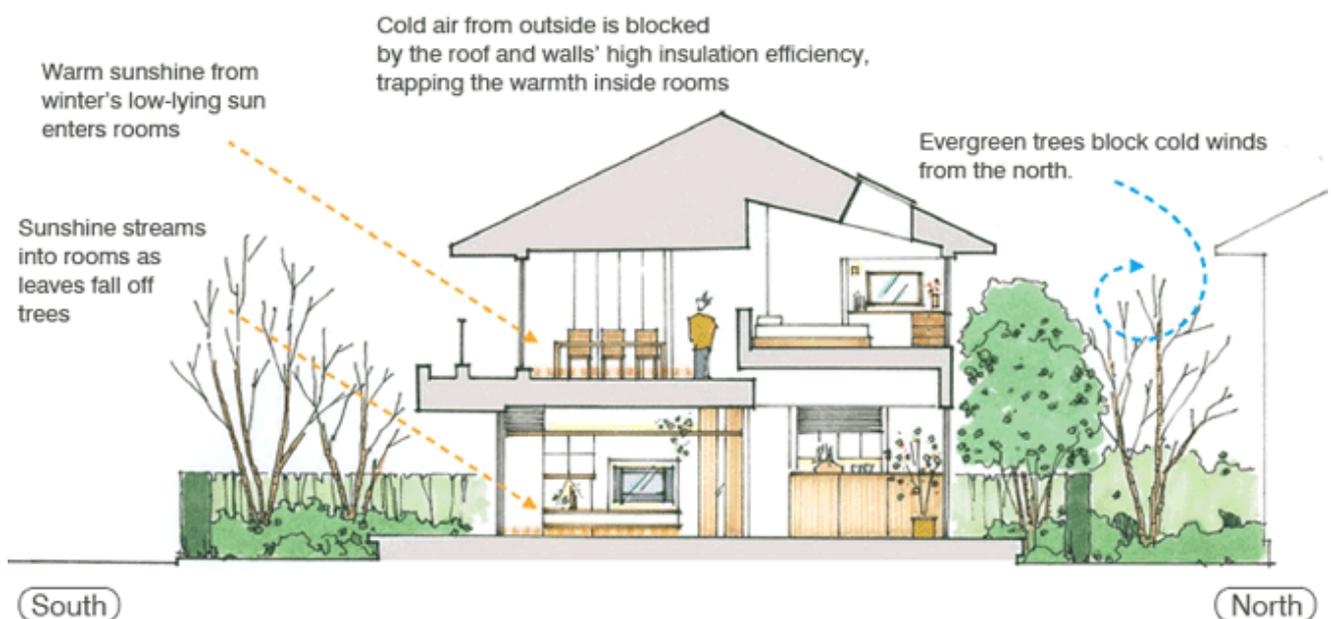
■ Refreshingly cool home in the summer

Refreshingly cool home in the summer

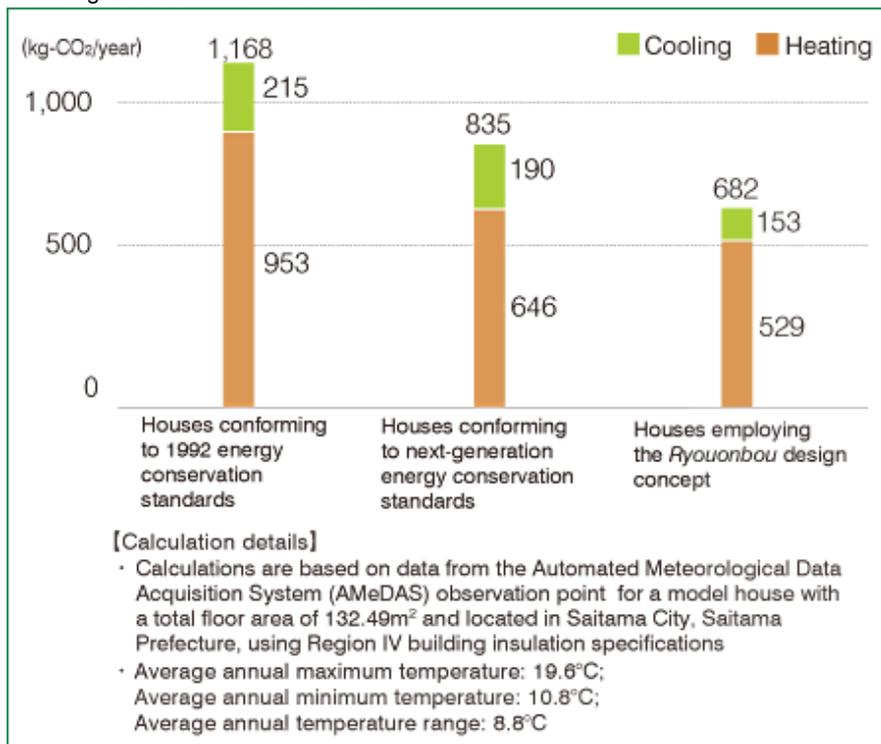


■ Warm home in the winter

Warm home in the winter



■ Comparison of CO₂ Emissions during Occupation (for Air-Conditioning and Heating Only)
Using Eco Assessment Charts



 **Utilization of Solar Power**

Sumitomo Forestry is utilizing solar power as an active technology to reduce environmental impact. Its *MyForest-Solabo* CO₂-conserving promotion model boasts a double solar system combining a solar power generation and a solar hot water system. This reduces CO₂ emissions by about 65%¹ compared to a house built to meet 1992 energy conservation standards.

The solar hot water system uses medium-heat antifreeze that absorbs heat circulating in a roof-mounted solar thermal energy panel. The antifreeze heats up water stored in a tank, and a gas heater adjusts the water temperature to appropriate levels for home use. This system ensures a stable hot water supply, and also makes significant contributions in reducing CO₂ emissions during occupancy, given that hot water systems account for about 30% of an ordinary household's energy consumption, and the use of solar energy as heat in its original form ensures efficient energy use.

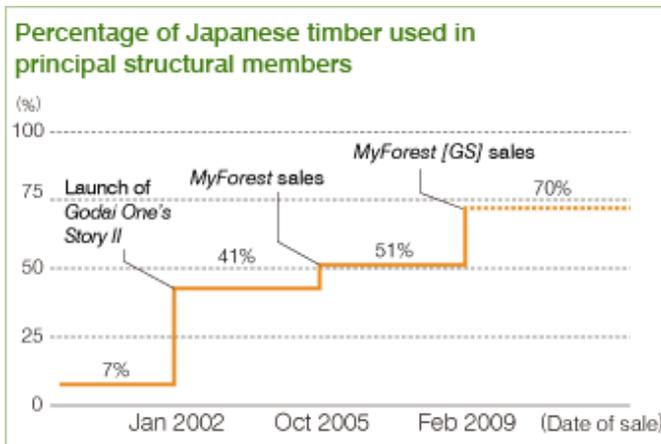
1. This estimate is based on a two-floor house with a total floor area of 130.83m² and occupied by a family of four in Tsukuba City, Ibaraki Prefecture. It is also based on certain assumptions in Sumitomo Forestry's model plan, and could differ from reality.

▶ For more information, refer to Reducing CO₂ Emissions in Performance Data on page 73.

Increasing the Percentage of Japanese Timber Used

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

Sumitomo Forestry has replaced the wood it uses in its houses with Japanese timber, with the exception of beams, which require exceptionally strong wood, by using Japanese larch or cedar and cypress instead of Russian-grown larch for its floor panels. The Company will continue to promote the active use of Japanese timber by maintaining the percentage of Japanese timber for principal structural members at 70%, offering houses with principal structural members made of 100% Japanese timber in certain regions, and using Japanese timber for interior materials.



▶ For more information, refer to Sustainability of Timber Resources in Performance Data on page 87.



Houses made of wood are good for people and good for the environment too. I hope that Sumitomo Forestry will pursue a method to build wooden houses in a sustainable manner. (Research and educational organization)

🌲 Responding to Demands for Ultra-long-life Houses

Houses in Japan have an average lifespan of about 30 years, which is extremely short in comparison to an average of more than 100 years in Europe. Because rebuilding has a serious environmental impact, extending the lifespan of houses has become a key issue in Japan.

At Sumitomo Forestry, we believe that longer-lasting and high-quality houses are *social assets* that will play an important role in creating a more prosperous society, and as such, we are promoting the following four policies to extend the lifespan of houses.

- Improve the basic functions of houses to increase their reliability
- Create comfortable living environments
- Offer more diverse spaces to accommodate changing lifestyles
- Strengthen maintenance programs to support long-term upkeep requirements

In fiscal 2008, the *MyForest-Taiju* (ultra-long-life house model), *MyForest-BF* (ultra-long-life house model) and *MyForest-Hokkaido* (ultra-long-life house model) were selected for the Ministry of Land, Infrastructure, Transport and Tourism's Ultra-Long-Life House Leading Model Project. The brands won praise for their basic functions, active use of Japanese timber, structural frames that bolster earthquake-resistance and durability, and extensive after-sales maintenance services.



▶ For more information, refer to Zero Emissions in Performance Data on page 82.



I would like to know how the construction of Sumitomo Forestry Home houses contributes to the environment. (Customers)

Future Plans

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



Goals for Fiscal 2008

- Reinforce specific activities to achieve reduction targets
- Restrict total CO₂ emissions in Japan
- Reduce CO₂ emissions from homes during the occupancy stage
- Review the total and long-term CO₂ emissions reduction targets

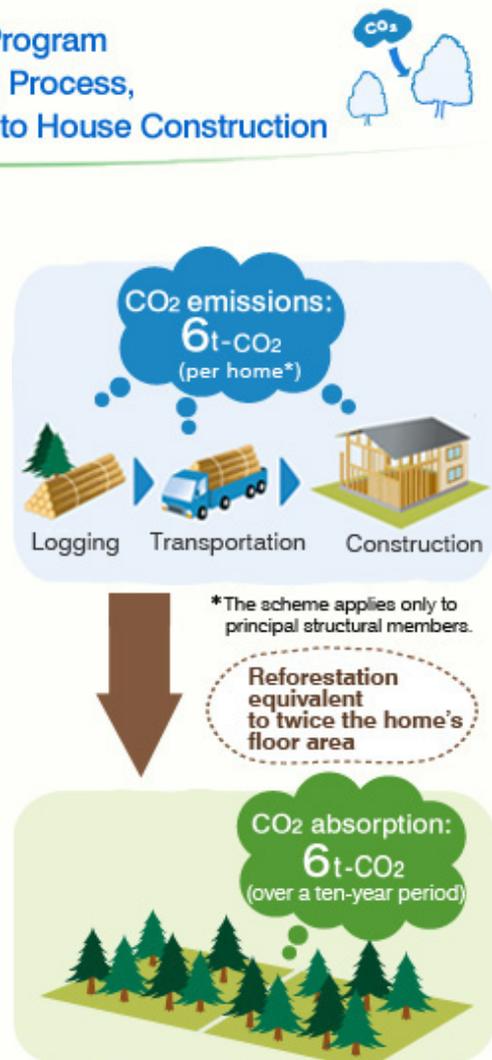
Initiatives

A First among Housing Builders—New Reforestation Program to Absorb CO₂ Emitted throughout the House-Building Process, from Logging Timber for Principal Structural Members to House Construction

Offsetting Carbon¹ through Reforestation

Amidst calls for reductions in CO₂ emissions to curb global warming, housing-builders have reduced CO₂ emissions of homes during occupancy by enhancing home functionality and installing energy-conserving equipment. However, it is difficult to make drastic reductions in the CO₂ emitted during house construction.

This prompted Sumitomo Forestry to launch an reforestation program—the first such initiative by a housing builder in Japan—so that the trees it plants offset the CO₂ emitted throughout the house-building process, from logging timber for principal structural members to house construction. Over the next five years, the Company plans to offset about 6 tons of CO₂ for each custom-built home and spec home that it sells. Sumitomo Forestry sells approximately 10,000 homes each year, which means that to absorb 60,000 tons of CO₂ it will plant 400,000 trees covering 300 hectares per year and manage and cultivate these trees for about 10 years after



planting. Sumitomo Forestry believes that planting trees on its own is the best way to meet its responsibility to absorb CO₂ over the long term, and accordingly, it has begun this initiative by capitalizing on the techniques it has gained through its plantation forest operations outside Japan.

1. This is a method by which CO₂ emissions that cannot be reduced by direct methods are offset through forest absorption and other indirect methods.

Reforestation Project Contributes to Environmental Conservation and Regional Development

Sumitomo Forestry is conducting a reforestation project on degraded land in Indonesia. The Company will conduct two sub-projects on 300 hectares in a national park and 1,200 hectares of degraded land outside of protected forests, with the aim of regenerating a tropical forest that has been destroyed by illegal logging and fires. Sumitomo Forestry will plant about two million trees in the area over the next five years.



Planned site for plantation in Indonesia

One environmental reforestation sub-project will be carried out in Bromo Tengger Semeru National Park in East Java. The park lies at an altitude of over 2,000 meters and is centered on Mt. Bromo, which is regarded as a Hindu holy site by the indigenous Tengger tribe. The majority of the forest in the park has become grassland as a result of several forest fires.

Sumitomo Forestry proposed this environmental reforestation sub-project to restore the forest, and will monitor plant and animal life to identify changes in biodiversity and the progress in conservation. Since this sub-project is in the National Park, Sumitomo Forestry will not log the trees in the future.

Sumitomo Forestry will also implement an industrial tree reforestation sub-project at plantation forests outside of protected forests. The Company will work together with local residents and an Indonesia's state-owned forest enterprise to plant a combination of fast-growing trees such as Acacia and Falcata (*Albizia falcataria*) trees while logging mature trees for use in processed wood products and replanting trees in the harvested area. By managing sustainable forests and fostering local industries centered on the timber industry, this program is intended to create jobs and raise incomes for the local community.

Building Homes that Contribute to the Global Environment and Community

Sumitomo Forestry plans to make fixed-point observations to determine how the plantation trees are being raised and how much CO₂ they absorb, and release this information on its homeowners' Web site *club forest* and in environmental and social reports. By living in Sumitomo Forestry Home houses, homeowners not only help to curb global warming, but also to indirectly contribute to restoring tropical forests and improving life for people in tropical countries. This means that the Company can offer homeowners a sense that they are contributing to the global environment and communities.

Contributing to Forest Preservation and Development of Local Communities through Carbon Offsets

As a housing builder, we believe that we have an important role in offering highly energy-efficient homes and reducing CO₂ emissions during occupancy. We follow through on our conviction by installing the *Ryouonbou* design concept natural heating and cooling system in all of our homes, as well as energy-conserving equipment such as solar power generator and fuel cell units for household use. However, we do not believe that these efforts alone fulfill our responsibilities as a housing builder.



Tatsuru Sato
General Manager,
Administration Department,
Housing Division

Sumitomo Forestry is determined to reduce the CO₂ it emits during the house-building process—in other words, CO₂ emissions from the life cycle of houses.

This new initiative aims to absorb CO₂ by creating new forests on denuded land. Our hope is that by optimizing the expertise built up over years of experience in forest management, we can show our appreciation to the Earth that gives us trees, a sustainable resource.



Reducing CO₂ is such an important issue now that I would like Sumitomo Forestry to make efforts in tree planting to reduce emissions. (Research and educational organization)

COLUMN

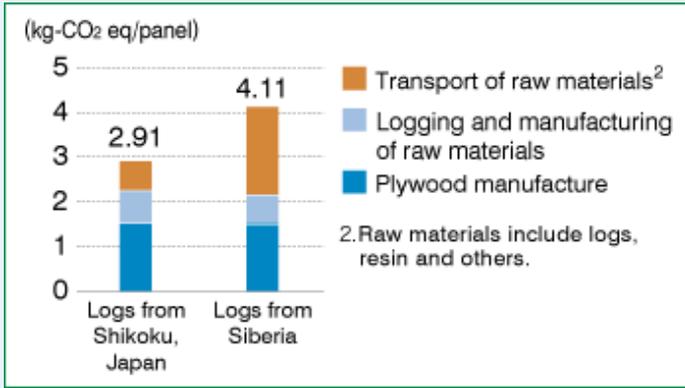
Sumitomo Forestry Crest Labels Plywood with Carbon Footprint¹

In May 2009, Sumitomo Forestry Crest Co., Ltd., started to label its plywood made of Japanese timber with carbon footprint details. This is the first timber product in the industry to be labeled with such information. The Komatsushima Plant in Tokushima Prefecture previously used logs from Siberia as the raw material in its plywood, but succeeded in reducing CO₂ emissions by approximately 30% over the life cycle from raw material procurement to production by switching to Japanese timber. Labeling plywood with the carbon footprint enables customers to discern the product's CO₂ emissions at a glance, and this helps to popularize products with a low environmental impact. This plywood is used in Sumitomo Forestry Home houses.



Plywood is labeled with its carbon footprint.

■ CO₂ Emissions



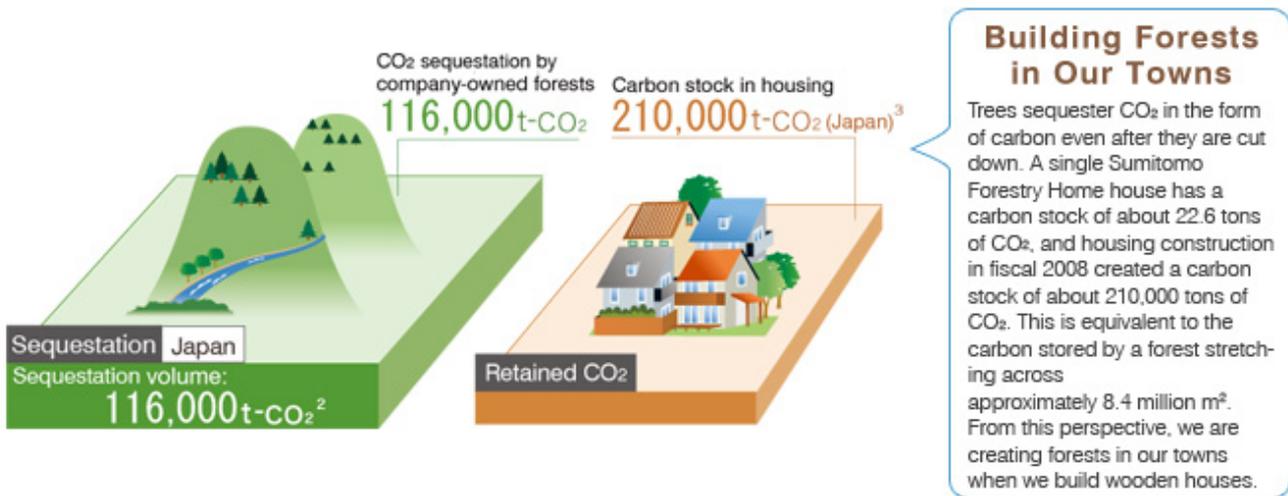
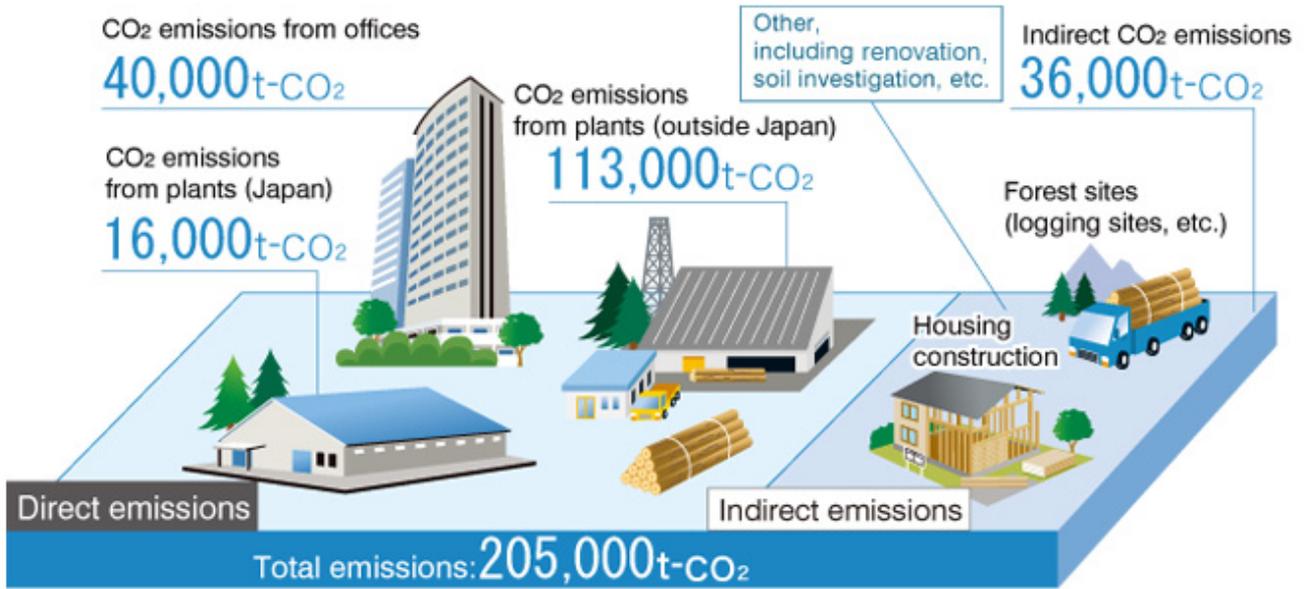
1. The carbon footprint indicates the amount of global warming gases released during a product or service's entire lifecycle (from procurement of raw materials to disposal), converted into CO₂ using a simplified method for greater ease of understanding.

 Fiscal 2008 Results 

Sumitomo Forestry Group's CO₂ Emissions, Absorption and Carbon Stock¹ in Fiscal 2008

Sumitomo Forestry not only reduces CO₂ emissions directly released by its plants and offices, but also offers homes that reduce CO₂ emissions during occupancy. In addition, CO₂ absorption and retention under the proper management of company-owned forests contribute to preventing global warming.

1. CO₂ sequestered in the atmosphere, forests, oceans, etc.



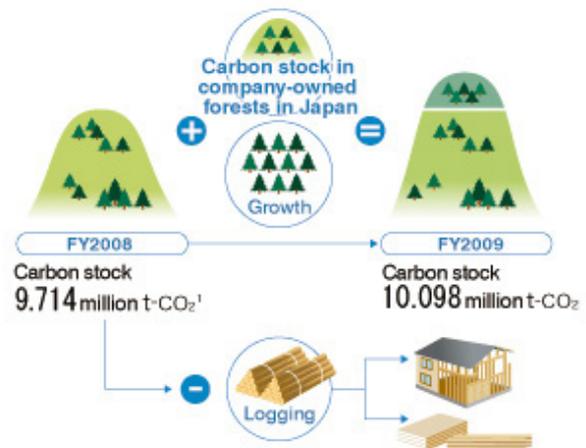
2. CO₂ absorption was calculated based on the Report on Japan's Supplementary information on Land Use, Land Use Change and Forestry (LULUCF) Activities under Article 3, Paragraphs 3 and 4 of the Kyoto Protocol. Forests purchased in fiscal 2008 have been excluded from the calculations.

3. This figure is based on the amount of timber used in housing construction for fiscal 2008.

Carbon Stock of Company-Owned Forests

Trees in Sumitomo Forestry's forests absorb CO₂ from the atmosphere and sequester it as carbon. The carbon stock at the beginning of fiscal 2008 was equivalent to 9.714 million tons of CO₂.

Sumitomo Forestry adheres to a philosophy of sustainable forestry and restricts its logging volume so that it does not exceed forest growth. This means that the total reserve of company-owned forests increases every year, and the carbon stock rises in tandem. Forests are also replanted after



1. Carbon stock at the beginning of the fiscal year

harvesting, building up a source for future CO₂ absorption as well as new carbon stock.

The younger a forest is, the greater its capacity for CO₂ absorption, and this capacity wanes as they age. To optimize two forms of carbon stock, forests as well as wooden houses and timber products, trees must be harvested at the appropriate age and new trees planted in their place, and the harvested trees must be used in products. This ensures that carbon continues to be built up.



I would like Sumitomo Forestry to pursue true sustainability by doing more to reduce the Group's CO₂ emissions below absorption levels. (Student)

Targets for Reducing CO₂ Emissions

Targets for Reducing CO₂ Direct Emissions

Reductions to be achieved in fiscal 2010 compared to fiscal 2006 levels

Offices: 12% reduction in total emissions

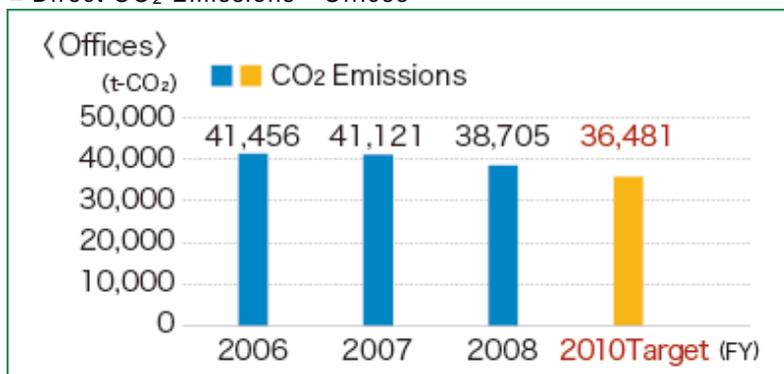
Plants in Japan: 5% reduction per sales unit

Plants outside Japan: 20% reduction per sales unit

Sumitomo Forestry is pursuing initiatives to reduce CO₂ emissions in accordance with targets it revised in fiscal 2007. In fiscal 2008, emissions were reduced 6.6% over the baseline year in the Company's offices, but the decline in sales affected plants, resulting in a 13.2% increase in plants in Japan and a 7.6% decrease in plants outside Japan. New plants outside Japan were brought on line, which increased total emissions. Sumitomo Forestry will consider targets for CO₂ reduction and set targets in fiscal 2009.

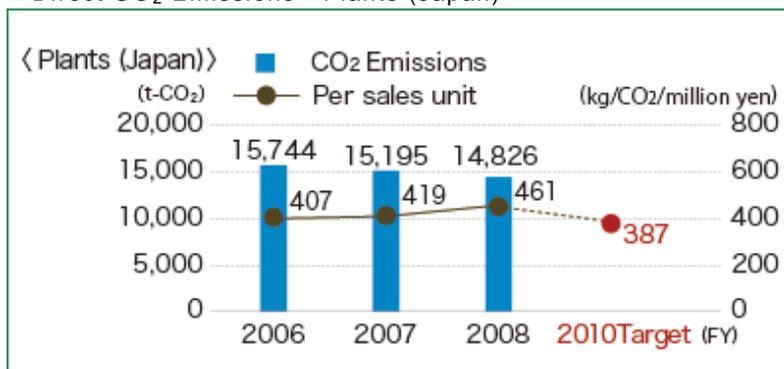
Direct CO₂ Emissions

Direct CO₂ Emissions - Offices



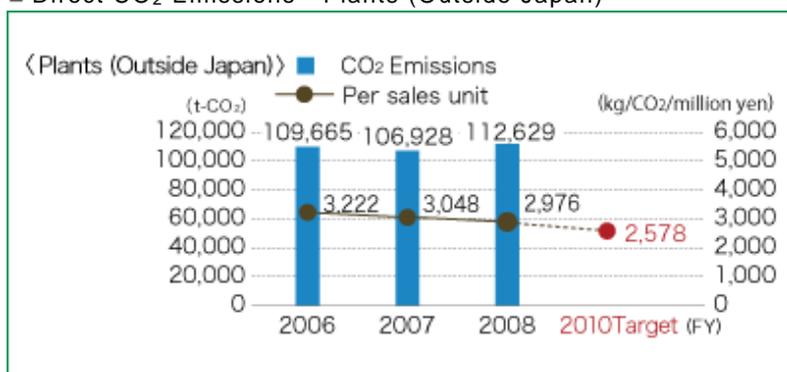
Note: Following a review of relevant data, figures for fiscal 2008 and previous years have been recalculated.

Direct CO₂ Emissions - Plants (Japan)



Note: Following a review of relevant data, figures for fiscal 2008 and previous years have been recalculated.

■ Direct CO₂ Emissions - Plants (Outside Japan)



Note: Following a review of relevant data, figures for fiscal 2008 and previous years have been recalculated.

▶ For more information, refer to Reducing CO₂ Emissions in Performance Data on page 73.

Initiatives at Branch Offices and Plants

🌲 Replacing lights in model homes and showrooms

At its 318 model homes and 88 showrooms (as of October 2008) around the country, Sumitomo Forestry began the replacement of incandescent lighting with environment-friendly lighting. The Company completed the replacement in all showrooms at the end of December 2008. The Company's estimates indicate that this switchover could reduce CO₂ emissions by about 1,107 kg/year per model home and about 4,068 kg/year per showroom, for a potential total reduction of about 710 tons every year nationwide.

🌲 Chosen for Energy-Conserving Lighting Design Model Project

The Oita Branch of the Housing Division installed environment-friendly lighting at its showrooms and offices, and became the first housing builder to be chosen for the Ministry of the Environment's Energy-Conserving Lighting Design Model Project.

🌲 Products Now Labeled with Carbon Footprint

▶ For more information, refer to Sumitomo Forestry Crest Labels Plywood with Carbon Footprint on page 39.

🌲 Reductions in CO₂ Emissions during Housing Construction and Occupancy

▶ For more information, refer to *MyForest [GS]* Environmentally Friendly Homes for Long-Term Reliability on page 29.

▶ For more information, refer to A First among Housing Builders—New Reforestation Program to Absorb CO₂ Emitted throughout the House-Building Process, from Logging Timber for Principal Structural Members to House Construction on page 37.

Forest Absorption and Carbon Stock

Through effective management of its 41,532 hectares of forests (approximately 1/1,000 of Japan's land area), Sumitomo Forestry contributes to national land conservation, cultivation of water resource, CO₂ absorption, and the preservation of biodiversity. As a result of these activities, company-owned forests absorbed approximately 116,000 tons of CO₂ in fiscal 2008.

Company-owned forests in Japan had a carbon stock of approximately 10.0 million tons of CO₂ at the beginning of fiscal 2009.



I hope to see Sumitomo Forestry not only achieve carbon neutral status, which reduces CO₂ emissions to levels that are effectively zero, but also make efforts to reduce CO₂ emissions even further. (Company employee)

Future Plans

- Establish total targets for CO₂ emissions for plants in and outside Japan
- Promote activities to offset CO₂ emissions during housing construction

Material Issues Promoting Family-Centered Employee Lifestyles

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

▶ Goals for Fiscal 2008 ▶ Employee Round-Table Discussion ▶ Fiscal 2008 Results ▶ Future Plans

Goals for Fiscal 2008

- Promote company-wide initiatives to reduce overtime work
- Promote diverse work styles with work-life balance and employee diversity
- Enhance career support

Employee Round-Table Discussion

In its efforts to create a workplace in which all employees are motivated to succeed, Sumitomo Forestry has brought together employees who seek their own ideal work and life styles to talk about their views.



Sumitomo Forestry brought together employees who have been utilizing personnel programs tailored to their own unique life stages as they seek to balance work styles and lifestyles. They discussed the options available to them as employees, family members, and individuals. These issues represent a point when both employees and companies should think together. Masaya Morita, a professor specializing in human resource management theory at Kansai University's Faculty of Sociology also shared his opinions in this round-table.



Hiroki Takata

Shikoku Branch General Manager,
Timber & Building Materials
Division
Promoting the creation of ideal
working conditions



Michikazu Yamaguchi

Sumitomo Forestry Home Tech
Co., Ltd.
Transferred to preferred job
category by using the open
recruitment system



Mariko Mori

Shikoku Branch, Timber & Building
Materials Division
Took childcare leave twice



Chikako Suzuki

Saitama Construction Control
Center Office, Housing Division
Participated in Japan Overseas
Cooperation Volunteers



Tomo Kakitani

Tsukuba Research Institute
Took childcare leave



Masaya Morita

Professor, Faculty of Sociology,
Kansai University



Mayumi Miyazaki

Administration Department,
Housing Division
Working to devise ways for
workplaces to understand
disabilities



Childcare Leave Program

When employees take childcare leave, what workplace factors do you consider?



Takata: Half of the 16 employees at the Shikoku branch are women. In a small branch, it is difficult to fill in when one employee takes a long leave of absence so other branch employees have to cover the work, so I am mindful of the functioning of the workplace during that period. I tell all of the branch employees that they should have a good understanding of personnel programs and use any that they are eligible for. When an employee returns from childcare leave, they are given work duties previously covered by several people, even if that means being posted to a different department. This allows us to accommodate any emergencies with the employee's children, such as a sudden fever.



Mori: I have taken childcare leave twice, and I felt that I received more support during the second leave than the first, partly due to the introduction of wiiw¹, an Internet reintegration support program supporting employees' return to the workplace after childcare leave. Our branch general manager, Mr. Takata, also provided reassurance in his periodic e-mails. I have been working shorter hours since my return and now I can pick up my children from



daycare and take them to and from their classes. Compared to my first leave, when I ended up working overtime, the second experience was easier both physically and mentally.



Kakitani: I took childcare leave with the birth of my second child. I was the first man to take childcare leave at the Tsukuba Research Institute, so some of my colleagues mistakenly assumed that I was taking leave to care for a sick child. I actually wanted to take one month of leave, but we receive a salary for only five days under this program, so I abandoned the idea. Nevertheless, I really came to appreciate how hard it is to care for a child. For example, one early evening when my wife went out and both children wouldn't stop crying, I kept thinking, "why isn't she back yet?" To help out, I used my lunch breaks productively so that I could return home earlier. Fortunately, I'm working on a research topic that allows me flexibility in how I spend my work time.



1. wiiw is a reintegration support program offered by wiiw, Inc. that provides support to employees returning to work after childcare leave. Telephone consultation and on-line seminars are intended to relieve anxiety during leave and develop skills.

What must be done to make it more common for employees to take childcare leave?



Morita: In Japan, only 1.5% of men take childcare leave, which is an improvement on the approximately 0.5% rate that we had grown accustomed to, but still less than two men out of every 100. According to surveys, almost half of men who do not take leave actually want to, which indicates that we do not have the programs or a climate that enables employees to take advantage of leave when they want to.



Kakitani: I think it is only natural for me to raise my own children myself, but few men take childcare leave, and I think the company still has not recognized that it is normal for men to take leave.



Takata: Personally, I am slightly resistant to men taking childcare leave, perhaps because my children are already grown up. I think it is better if they just do the best they can to raise their children without taking childcare leave. Besides, I am skeptical that a break of four days or two weeks can really be called "childcare leave."



Morita: The duration is certainly a problem. However, I think that the real issue is that there are people who wanted to take childcare leave and yet were unable to do so. It is very important that people can take it if they want. As Mr. Kakitani implied, when men take childcare leave, they experience how difficult it is to raise children, and people who have come to this understanding will have greater empathy for their colleagues who are raising

children. I believe that as more people reach this understanding, the system could be adjusted and the organizational climate can change.



Mori: I felt my world expand when I participated in administrative activities at my child's kindergarten during my childcare leave, and came to the realization that there are some things that you only understand when you put yourself in that position. When I took a year and a half leave for my second child, I sometimes thought that my taking leave would make it easier for others to take leave too. I think that other people expecting children will find the courage to use this program.



Morita: As Ms. Mori just said, there is a great deal that we don't understand until we stand in someone else's shoes, but of course not all employees can have this experience, so it is important to think of ways that this experience can be shared. Creating ways to share such experiences, such as round-tables like this today, and opportunities to hear about personal experiences during company training, is crucial.



Accommodating Disabled People in the Workplace

What provisions have been made to enable you to work?



Miyazaki: I have had extremely weak vision since birth, and so working requires the understanding and support from my colleagues. When I joined the company nine years ago, I wrote a one-and-a-half page self-introduction in which I summarized my own disability and requests. I gave this to my new colleagues in the department so that I could tell them frankly about my disability, and receive their understanding and support. More than 100 people in my department have read my self-introduction by now, including employees transferred here. I communicate closely with people in other departments so that more and more employees now understand my condition. With my own devices and optical aids along with everyone's support, I am able to take on new challenges and widen the scope of my work, which in turn has given me more confidence.

■ Working with text expansion and voice-entry software



I feel that I need to advance my career in order to maintain my motivation.

As society ages, the barrier-free concept and universal design will be important elements in building houses, and I will be studying for accreditation exams so that I can utilize my own experiences with a disability in my work.

What needs to be done to make Sumitomo Forestry a company in which it is easy for disabled people to work?



Miyazaki: There are other people in the company with vision problems, but almost no one with a disability as severe as mine. I correspond with a few other people with disabilities, but I often wish that there were more people that I could communicate with on a daily basis. I believe that it is my role to deepen understanding of vision-impaired people within the company, and I hope that their relationship with me will encourage more people to naturally support vision-impaired people outside of work. I also expect that more vision-impaired people will be able to work here. To this end, I think it is important that colleagues familiar with my job performance will feel confident entrusting work to me. Another issue that needs to be addressed is career advancement: disabled people face additional obstacles not only when taking exams for promotion, but even after being successfully promoted to management.



Morita: In the past, when corporate organizations brought their employees together to achieve an objective, they held the right to make decisions concerning transfers and leaves of absence, and prioritized homogeneity over diversity to make management easier. However, another school of thought posited that mixing a diverse group of people would actually yield the best results. I get the impression that Sumitomo Forestry has fully developed a climate that readily accepts a wide range of employees with different backgrounds.



Support for Realizing Self-Development

You were very enthusiastic about taking up the challenge of an open recruitment system.



Yamaguchi: I was appointed as sales staff for new housing in the Housing Division over 10 years ago. The Division's working environment and achievements were both satisfactory, but as I began to receive more orders through referrals, which is an efficient sales method, I became more interested in not only attracting new business but also in the housing stock business. This involves contact with the owners of Sumitomo Forestry Home houses. So I decided to challenge myself with a job that would require more motivation and self-improvement at Sumitomo Forestry Home Tech, the Group company that specializes in renovation.



None of my colleagues had ever used the open recruitment system before so I felt somewhat intimidated, but the Personnel Department had a support system that made everything proceed smoothly. Every day in my new workplace was full, as I worked to communicate enthusiastically with coworkers, share my knowledge and study new areas. I felt that using the company's program to express my own ambitions was positive for both the company and myself.



Suzuki: Five years after I joined the company, I decided I wanted to see other parts of the world, and participated in JICA's Japan Overseas Cooperation Volunteers as an architect. I worked in Vietnam for two years and was able to satisfy my desire for a range of experiences. Like Mr. Yamaguchi's experience, I felt this was a really positive opportunity. The volunteers included people in medicine and rural development, which really expanded my personal network. I think that the chance to look at the organization and company objectively was really beneficial.

- Maps used in Property Development Workshops for high school students in the local community



Morita: I feel that employees at Sumitomo Forestry really appreciate each other. Currently, the idea that a diverse range of people with different work styles leads to the long-term profit of a company is gaining ground as part of the work-life balance and diversity management concepts. Like Sumitomo Forestry's plantation forest operations, it embraces a perspective that goes beyond short-term profits. Aside from difficulties in how to increase revenue, we need to raise awareness of the truth in the company's adage, "we cannot build good homes unless our employees are happy."

When we share diverse values, we should take the attitude that, while you might not be able to agree with what someone else says, you recognize their right to say it. Sumitomo Forestry is already trying out new approaches, and I expect it to set a precedent in fully developing a workplace in which diverse values are appreciated and happy employees put their impressive skills to work.

Response to the Round-Table Discussion



Koichi Shimizu,
General Manager,
Personnel Department

The Personnel Department oversees the duration of leaves and the workplace follow-up system, while taking into account the circumstances of the workplace, the job category and the individual, and then establishes programs to accommodate individual cases. Recently, exchanging digital data has become fast with the development of IT devices and the telecommunications environment, so a telework program has been implemented. There are still issues that must be resolved concerning management decisions and procedures for performance evaluations, but we expect this system to help improve employee motivation and communication.

In the short term, it is difficult to assess the open recruitment system and free agent system in terms of their impact on revenue resulting from the loss of capability and the need to ensure fairness, but we believe we can make progress with all the individual examples of success.

Many concerns over the equitability of personnel programs and the appropriateness of investment returns remain, but we believe that when we are unable to make a decision, it is important to return to our corporate philosophy and reach the best decision for that case. As a company that provides its customers with living environments, we must be able to understand people's circumstances. We will follow this principle in our future endeavors.

Fiscal 2008 Results

Pursuing Company-wide Initiatives to Reduce Overtime Work

The sales and planning & design groups at the Housing Division branches have many work responsibilities after regular work hours, such as visits to customers in the evenings. For this reason, Sumitomo Forestry pushed back the work start and end times by one hour in fiscal 2008. Setting working hours tailored to responsibilities is intended to reduce overtime work.

▶ For more information, refer to Reduction of Overtime in Performance Data on page 44.

Promoting Diverse Work Styles with Work-Life Balance and Diversity among Employees

With the aim of promoting diverse work styles, Sumitomo Forestry conducted a trial of a telework system that enabled employees to work at home. Recognizing the system as contributing to work style diversity, Sumitomo Forestry implemented it on a full scale in April 2009.

Sumitomo Forestry also introduced a system that allows employees who left the Company, due to a spouse's transfer or to care for a family member, to apply for re-employment. Under the system, employees can apply for re-hire when they are able to return to work, and can return to their previous position if no more than three years had passed since leaving. Through this system, the Company can continue to utilize the experience of former employees.

▶ For more information, refer to Helping Employees Achieve Work-Life Balance in Performance Data on page 39.

▶ For more information, refer to New Return to Work Application System in Performance Data on page 41.

▶ For more information, refer to Transfers to Accommodate Spouse's Transfers in Performance Data on page 42.

Enhancing Career Support

Sumitomo Forestry initiated an orientation program for new graduates hired for housing sales positions, in which more experienced employees, selected by supervisors, act as councilors to provide work guidance and give advice on the workplace. This program not only supports new hires, but also provides educational opportunities for both the new hires and their councilors.

The Company also began a mentoring program to support the growth of employees taking the role of mentee in a one-to-one relationship with a mentor. This program promotes interaction and information sharing between departments, and is intended to create a corporate climate in which employees independently help each other develop in their careers.

▶ For more information, refer to Career Consultation and Support in Performance Data on page 47.



Stakeholder
Comment

We would like to know about the specific initiatives undertaken to address important issues for employees, and how the employees feel about them. (A shareholder and a customer)

Future Plans

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

Third Party Evaluation

Mariko Kawaguchi of the Daiwa Institute of Research offered her opinions on this report.



Mariko Kawaguchi
General Manager of the
Management Strategy
Research Department,
Daiwa Institute of
Research

The environment has become a major political issue, as demonstrated by the Toyako Summit held in 2008, followed by efforts to develop a framework for a post-Kyoto Protocol in 2009, and then the Tenth Session of the Conference of the Parties (COP 10) held in 2010 in Nagoya to address biodiversity. It has even become completely normal for businesses to address environmental issues and attract consumers with product advertisements featuring such terms as "eco," "global" and "natural." The question, then, is how to evaluate this report in the context of these developments.

Sumitomo Forestry's determination of four material issues and its programs to address them are certainly distinctive, but the issues themselves, namely sustainable forests, environmentally friendly homes, global warming

countermeasures and family-friendly policies for employees, are standard issues that I see from all companies focused on CSR. What makes Sumitomo Forestry unique, I believe, is its scrupulous attention to the programs for its material issues, and a philosophy that expresses a strong commitment to and reverence for forests, which came out in discussions with its staff in charge of CSR and employees that I met.

In the "Our Top Commitment" section, President Yano states that Sumitomo Forestry succeeded in raising the percentage of Japanese timber used for its principal structural members in houses to 70%. This is significant because the Company applies traditional construction methods specifying that these members be made of wood, in contrast to steel frames. Sumitomo Forestry only uses timber from sustainable forests, and takes this even further by actively using timber from sustainable forests in Japan. This is a fundamental measure that addresses three of its four material issues.

Procuring timber from sustainable forests is an extremely important measure to counter global warming. Moreover, a diverse set of environmental and social values emerge from the operation of sustainable forests, such as conserving water resources, preventing desertification and landslides, preserving biodiversity and promoting coexistence with communities.

To fulfill its management commitment, Sumitomo Forestry has verified the legal compliance of more than 200 suppliers outside Japan, and is currently devising its own standards for sustainable forests. In its core forestry and environmental operations and housing business, the Company has begun to offset the CO₂ emitted during its construction of houses. Actively using Japanese timber is also important in another respect: Japan's self-sufficiency rate for timber is less than 20%, despite having the second highest forest coverage rate in the world, meaning that its forests are generally unutilized. I am very impressed with this initiative because actively using timber from sustainable forests in Japan not only increases the CO₂ stock, but also provides the

market with a Japanese timber supplier and promotes social and environmental values that accompany the expansion of sustainable forestry, which is the foundation for CO₂ absorption and biodiversity.

Outside Japan, local farmers in Indonesia worked together with Sumitomo Forestry to earn forestry certification, in one of the few such cases anywhere in the world. This kind of cooperation between the local community and business creates impressive social value on a global level. I also feel that this effort to bring benefits to society represents what the Company calls the "Sumitomo Spirit," an approach to pursuing business for the sake of society rather than for the direct interests of Company.

The Sumitomo Spirit is also central to the Company's *Ryouonbou* design concept for eco houses. Although eco houses have not been effectively promoted through *Ryouonbou*, compared to advertising by house manufacturers that boast energy conservation and zero CO₂ emissions, its concept of houses with coolness rather than a chill and warmth rather than heat is based on the traditional experiences of Japanese people living in harmony with the four seasons. This concept makes sense to me as the most natural approach to living in the global environment.

After examining these initiatives, I felt reassured that Sumitomo Forestry became a signatory to the UN Global Compact to demonstrate its commitment to this spirit in its business, rather than as a mere formality. I have high expectations of the Company's future endeavors along these lines, such as its ongoing expansion of sustainable forest management, extensive efforts to promote environmentally friendly homes, and activities to further increase the usage rate of Japanese timber.

I was also struck in this report by the Company's focus on providing environmentally friendly homes while considering the broader perspective of creating societies that co-exist with the environment. In the future, Sumitomo Forestry will have to pay more attention to stakeholders in the wider sense, encompassing all members of the general public and society. Employees are covered under one of the material issues, and the Company holds dialogues with employees about lifestyles from different perspectives, but these programs appear to have only recently started. Can Sumitomo Forestry provide "real homes" to people who spend so much time working that they hardly live in their own homes? The most important issue in the management of a housing builder is raising awareness among employees of the needs and demands of the general public. It is also important to consider homemakers, who play the central role in the house. The importance of forests is already well publicized in the media, but the general public still lacks an in-depth understanding of this area. Providing environmental education on the value of forests to a broad range of people in society, children and adults alike, is extremely important, so I hope Sumitomo Forestry will step up its efforts in this regard.



Visiting an experimental environmentally symbiotic house and green house at the Tsukuba Research Institute

Reply to Third Party Evaluation

We asked Mariko Kawaguchi of the Daiwa Institute of Research to offer a third party evaluation for fiscal 2009. Ms. Kawaguchi observed Sumitomo Forestry's diverse programs centered on trees while visiting the experimental environmentally symbiotic house, universal design testing homes and structural experimental facilities at the Research & Development Department's Tsukuba Research Institute.

Acknowledging Ms. Kawaguchi's constructive remarks, we intend to reaffirm the importance of house development that more closely reflects the needs of citizens, disseminate relevant information to the public about the value of forests, and promote CSR management even more extensively than before.

Eita Muto
General Manager, Corporate Communications Department