Happiness Grows from Trees

SUMITOMO FORESTRY

Sumitomo Forestry Group

# CSR Report 2014

CSR Report 2014

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# Top Message

**The one renewable natural resource which humans are able to manage is wood—our mission is to maximize its added value.**

Akira Ichikawa
President /
Representative Director

**The Sumitomo Forestry Group contributes to the resolution of global challenges through business that capitalizes on wood**

The Sumitomo Forestry Group's business dates back over 320 years to the management of the forest around the Besshi Copper Mine, in Ehime prefecture. Today, "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." Based upon this Corporate Philosophy, we aim to be the world's leading forestry company that delivers the value of forests and timber to their fullest to the people of the world.

Presently, the world is facing a range of environmental, economic and political challenges. These include the frequent natural disasters, from destructive typhoons to large-scale floods; the slowing growth in emerging economies and political instability in some regions. In such times, what is the most required to companies is sustainable business practices that will coexist with the global environment and regional economies.

The Sumitomo Forestry Group is currently reviewing its approach to material CSR issues, while listening to our stakeholders, in order to appropriately respond to the global situation, which is changing at an unprecedented pace.

## Proactively responding to global warming prevention

The prevention of global warming has become an urgent issue as we attempt to live in harmony with the environment. In this context, the beneficial role that forests play in absorbing $CO_2$ during their growth process has been gaining attention. Sumitomo Forestry is now in the second year of cooperation with Japan International Cooperation Agency (JICA) in verification activities in Vietnam for the bilateral credit mechanism REDD+. In another initiative, Project EARTH, the Group conducts reforestation on devastated land in Indonesia and cultivates the trees for 10 years, aiming to offset the $CO_2$ emitted in processes from harvesting through to construction of the principal structural members used to build all Sumitomo Forestry Home houses. After the initial schedule for five years beginning in fiscal 2009 has ended, we have decided to extend the project for another three years.

Furthermore, the Group's efforts are not limited to forest management and reforestation. In advance of the worldwide adoption of timber standards aimed at eliminating illegal logging, the Group established its Timber Procurement Philosophy and Policy in fiscal 2007 and strives to procure timber from sustainable forests.

There is also an increasing demand for a greater degree of energy efficiency in homes, which form the base for people's lifestyles. The Group has devised a new housing concept coined as "Green Smart." It fuses our Ryouonbou design, which takes advantage of natural blessings, such as the sunlight, the wind and greenery, with expertise in wooden house construction including advanced thermal insulation technology to maintain low power consumption. The Group is focusing its effort on homes that use energy efficiently, and also driving development of life cycle carbon minus (LCCM) housing.

## Making effort in initiatives which contribute to national land preservation and regional development

Sumitomo Forestry believes it has a significant role to play in terms of land preservation and regional development. Around 70 percent of Japan is covered with forests, and Sumitomo Forestry owns and manages about 45,808 hectares of forests in Japan, or about 1/900 of the land area. We are promoting efficient and sustainable forest management based on the principle of replanting when we log, with consideration for biodiversity, and through the introduction of advanced technology.

However, most plantation forests in Japan have deteriorated due to lack of attention resulting from the stagnation of logging and usage. Japan's timber self-sufficiency rate is only 30 percent, therefore we must expand the utilization of domestic timber to revitalize the Japanese forestry industry.

Sumitomo Forestry has, through technological innovation, increased the proportion of Japanese timber for principal structural members used to build homes. This has now reached 60 percent. With the backing of the government, for example, in the Wood-Use Points Program introduced by the Forestry Agency from May, 2013, we feel that interest has grown significantly in timber, timber construction and the use of domestic wood materials.

Together with legislative reform, Mocca business is gaining more attention with its wood construction for medium to large public buildings such as schools, hospitals and facilities for the aged. Wood offers many benefits, including the absorption of eye-damaging UV rays; a gentle warmth to touch, and a degree of sound absorption. We hope to make more people aware of these benefits, to pass on Japan's traditional culture on wood for future generations and to effectively utilize the Earth's resources. To this end we are striving to develop technology and materials to enable people to more proactively use timber wherever possible.

In addition, we have high expectation in unused forest materials being utilized as fuel woodchips for wood biomass power generation in Japan, in order to be able to fully use timber. The Group has commenced work on a wood biomass power plant in Mombetsu city, Hokkaido, in collaboration with local partners, which is scheduled to commence operation in December 2016.

## Continuing to operate businesses benefit society by consolidating the strength of diverse human resources

Each employee of the Sumitomo Forestry Group is our valued asset, making a contribution to society through new propositions. We have strived to create a work environment where our diverse human resources can participate according to their abilities and circumstances, regardless of their age, gender, race, nationality, religion or disability, etc. We believe that this diversity can be a significant driving force in the Group's growth, and consequently the Sumitomo Forestry Group established the "Declaration on Empowering Women" in December 2013. By leveraging the unique creativity and perspective of women and our diverse work force, we will ignite innovation and contribute to society through our businesses. We believe this is our responsibility and our mission as a group.

The Sumitomo Forestry Group will continue to pursue the potential of wood in order to assist the realization of a prosperous and sustainable society.

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# The “Green Smart” Concept

## A fusion between wooden housing and advanced technology, delivering zero-energy homes

As interest grows in the environment, natural resources and a low-carbon society, there is a increasing demand for energy-efficiency in homes, which are the base of our lifestyles.

Sumitomo Forestry has devised a new housing concept coined as “Green Smart.” It fuses wooden houses that take advantage of natural blessings, such as the sun, the wind and greenery with basic housing functions such as advanced thermal insulation to reduce power consumption and a power generation and management system for smart energy use.

Society seeks zero-energy homes and we will provide them.

**Kunihiko Nakano**
Manager
Product Development Department
Custom-Built Housing Section
Housing Division

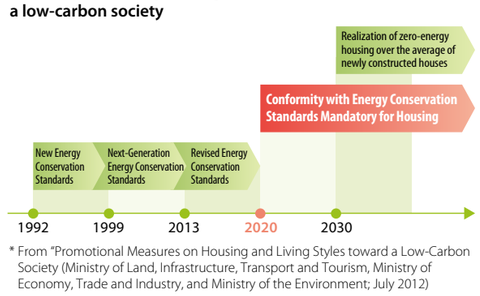
### What House Construction can Contribute for the Realization of a Low-carbon Society

In recent years, energy-efficiency has become an important theme in housing construction with the severed environmental problems such as global warming and heightened awareness on saving electricity following the 2011 Great East Japan Earthquake.

The Japanese government is also promoting energy-efficient housing as one aspect of the creation of a low-carbon society. In October 2013, reforms were made to energy conservation standards for housing and other buildings. Consequently, comprehensive energy efficiency is now evaluated, including improvement of thermal insulation, the use of natural energy and installation of energy-efficient devices. In addition, the Ministry of Land, Infrastructure, Transport and Tourism, the Ministry of Economy, Trade and Industry, and the Ministry of the Environment jointly established the “Council for the Promotion of Housing and Living Styles toward a Low-Carbon Society” which proposes to institute mandatory conformity with the new standard for all newly constructed housing by fiscal 2020.

In order to meet these demands of society, since fiscal 2013, Sumitomo Forestry has initiated a new housing concept coined as “Green Smart.”

**Roadmap for the Japanese government’s drive for a low-carbon society**



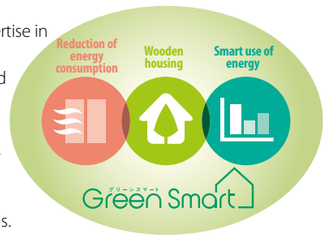

* From “Promotional Measures on Housing and Living Styles toward a Low-Carbon Society (Ministry of Land, Infrastructure, Transport and Tourism, Ministry of Economy, Trade and Industry, and Ministry of the Environment; July 2012)

### Creating Housing which is People- and Environment-Friendly by Fusing Wooden Housing with Advanced Technology

Sumitomo Forestry has consistently promoted wooden housing creation whereby housing can co-exist with the natural environment. In addition to being a renewable natural resource, wood also absorbs $CO_2$, a cause of global warming, during its growth process and fixes it as carbon. In addition, through our Ryouonbou design, which takes advantage of wind flow paths, the direction of sunlight and placement of garden plants, we have achieved housing where residents can live comfortably all year round without relying excessively on heating and cooling equipment. In addition, improving thermal insulation makes it possible to control solar heat in summer and heat loss in winter, thereby reducing the use of heating and cooling devices. Also, we have been proactive in adopting power generation and energy conservation equipment including solar power generation systems and the residential fuel cell Enefarm, storage batteries and HEMS[*1].

By fusing our expertise in constructing wooden housing with advanced technology, Green Smart boosts energy efficiency in the home, thereby exceeding the Revised Energy Conservation Standards.

Green Smart




*1 Home Energy Management System—a amount of system whereby residents can visualize the energy they use.

### Proposal of More Advanced Energy-Efficient Houses toward the Creation of the Ideal House

Sumitomo Forestry is upgrading its next-generation thermal insulation specifications that pass the Revised Energy Conservation Standards to enhanced high thermal insulation specifications in order to support the creation of ideal houses that control energy consumption. In addition, we are actively promoting zero energy specifications, aimed at self-sufficient energy during residency; and zero utility cost specifications, which aim to reduce utility costs to zero by utilizing the electric power fixed-price purchase system.

In addition, the Sumitomo Forestry Group is making efforts in research and development of life cycle carbon minus (LCCM) housing to achieve negative $CO_2$ emissions across the entire life cycle of a home, from construction, during residence and renovation through to dismantling and disposal. In October 2013, a verification facility was completed at our Tsukuba Research Institute to evaluate the research to date with an actual building. In the future, we will apply the results of research to further evolve our Green Smart concept.

## Stakeholder Message

### It triggered all of my family to think about saving electricity and environmental preservation

——K. Family, Ibaraki prefecture

Generating electricity in the home is important, but what is more important is not to waste electricity. By incorporating electricity saving innovations, our electricity bill has dropped significantly compared to our previous home. Also, by watching a display which allows us to check daily electricity consumption, our family began to think of ways to save electricity. I am so happy that, as a result, our child has also gained an understanding of the importance of conserving electricity and an awareness of preservation of the global environment.

The family checks electricity usage

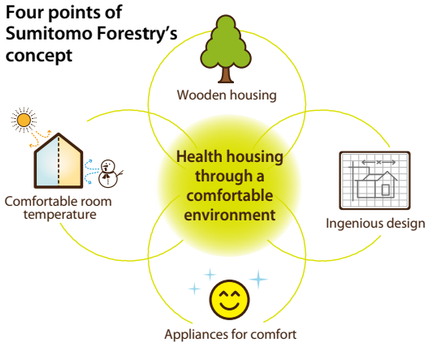
## Topics

### Efforts for the Creation of Housing which Promotes Health Maintenance

Against the backdrop of the aging of society in Japan, housing is gaining attention as the foundation of healthy living.

In order to realize Housing Promoting Health Maintenance as encouraged by the Japanese government, Sumitomo Forestry offers four propositions—wooden housing, comfortable room temperature, ingenious design and appliances for comfort. Sumitomo Forestry is taking advantage of the soothing effect which wood has upon people and also incorporating various ideas to enhance safety and comfort. For example, a key concept in the promotion of health maintenance is recuperation and sleep. In order to facilitate comfortable sleep, Sumitomo Forestry offers bedrooms that combine wooden interior materials with concealed lighting.

**Four points of Sumitomo Forestry’s concept**



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# MOCCA, a Future Society Inspired by Wood

## Aiming to help create a sustainable society in which people and trees live together in harmony

Centered around a wood culture that has been nurtured amid the harmonious coexistence of people and trees, Sumitomo Forestry promotes the MOCCA business, promoting wooden construction and the use of timber both in the housing and non-housing sectors.

Through the development of prosperous communities and society drawing on the value of trees, Sumitomo Forestry will help realize a sustainable society in which people and trees, and people and forests, live together in harmony.

**Kiichi Sugimoto**
Group Manager
MOCCA (Timber Solutions) Department
Housing Division

### Manufacturing that Makes the Most of the Appeal of Wood

"MOCCA" is a collective term for the promotion of wooden construction and the use of timber for interiors. It is indicative of all aspects of Sumitomo Forestry's activities based on the concept of "MOCCA, a future society inspired by wood."

The MOCCA (Timber Solutions) Department was established in April 2011 directly under the president, and has since strived for the development of a prosperous society, making the most of the appeal of wood based on Japan's traditional wood culture.

In areas affected by the Great East Japan Earthquake, we have provided Mocca Huts, temporary wooden facilities that take common structural materials and utilize them as interior spaces. These facilities have been used as clinics and cafes, and their popularity has been highly praised.

We have also built up a portfolio of proposals and achievements in the non-housing sector for a range of structures that make active use of timber, such as nursery schools and facilities for the elderly, including some proposals that were selected among the Leading Projects for Wood Construction Technology, a scheme promoted by the Ministry of Land, Infrastructure, Transport and Tourism.

In April 2013, in an effort to more actively promote the MOCCA initiative, the Company changed the Japanese name of the MOCCA (Timber Solutions) Department in the Housing Division to emphasize the commercial nature and size of the department. (The English name of the department remained unchanged.) With an aim of regenerating forests and rejuvenating forestry in Japan, and given the current social context encouraging the use of timber, we will continue to put forward a wide range of manufacturing proposals that make the best use of wood so that users can experience firsthand the virtues of wood.

Rebuilding with Wood

**Wooden Manufacturing Plant to serve as a symbol of reconstruction**
Kawauchi Plant, Codomo energy Inc.
(Kawauchimura, Futaba-gun, Fukushima Prefecture)

The Fukushima Industry Revitalization Subsidy on Business Location is a scheme designed to promote reconstruction and regional revitalization in areas affected by the Great East Japan Earthquake. Selected for a subsidy, work on the plant began in October 2013, and a ceremony to celebrate its completion was held in June 2014. This project marked the first large-scale structure in Japan to use structural laminated veneer lumber (LVL) manufactured by Nelson Pine Industries, a Sumitomo Forestry Group company located in New Zealand. It is hoped that, through the manufacture of phosphorescent tiles, the plant will help create new jobs and revitalize regional industry, with an aim of rebuilding the regional economy.

Resting with Wood

**A café abounds in the qualities of wood and in harmony with the surrounding green spaces**
Vegetable Club *oto no ha* Café (Bunkyo-ku, Tokyo)

This wooden café is enveloped in a fragrance of wood befitting an eatery serving dishes made from organic vegetables. By using engineered fire-resistant wood made from Japanese cedar, Sumitomo Forestry achieved qualities of wood for interior materials not possible in conventional fireproof wooden buildings, in a fire protection district in the very heart of Tokyo. The *oto no ha* Café is the first building in Japan to be made from pure laminated engineered fire-resistant wood.

Selected among the Fiscal 2012 Leading Projects for Wood Construction Technology by the Ministry of Land, Infrastructure, Transport and Tourism

Relaxing with Wood

**One of Kansai's largest nursing homes made of wood**
Charm Shijonawate (Shijonawate City, Osaka Prefecture)

Charm Shijonawate is a private retirement home with nursing care, boasting a total of 60 private rooms across two floors. This makes it the largest wooden nursing homes in the Kansai region. It marks the first time for the "exposed wooden post and beam frame," designed for residential use by Sumitomo Forestry's Tsukuba Research Institute using generally available materials, to be used in a semi-fireproof construction. This technique successfully combines the qualities of wood with fire resistance.

Selected among the Fiscal 2012 Leading Projects for Wood Construction Technology by the Ministry of Land, Infrastructure, Transport and Tourism

**Voice**

### Creating Spaces that Communicate the Distinctiveness of Wood Construction

**Naoki Nishide**
Manager
Design Team
MOCCA (Timber Solutions) Department
Housing Division

In designing Charm Shijonawate, our priority was to convey the distinctiveness of wood construction so that elderly residents can feel like being at home where they used to live in. We therefore employed an "exposed design" in which the timber used in posts and beams is left visible on walls, achieving both a distinctive wood interior space plus fire resistance. We were also particular about the selection of wooden flooring because they are often avoided for maintenance reasons in elderly homes. Through ingenuity in design, we enhanced the maintainability, safety and comfort of the flooring. One of the new residents commented that they had been looking for a retirement home where they could feel these intrinsic qualities of wood, and this has renewed our drive to take on the next challenge.

**Voice**

### Using the Latest Technology to Maintain Japan's Traditional Culture for the Future

**Mariko Seki**
Senior Researcher
Tsukuba Research Institute

The "exposed design," in which posts and beams are left visible on walls and ceilings, has long been popular as a design used in traditional Japanese-style rooms. However, regulations, construction costs and other factors had led to a decline in this technique being seen in ordinary homes of late. Our exposed design using generally available materials was developed in order to meet the needs of customers wanting to build special Japanese-style rooms even in districts with stringent fire safety regulations. The fact that this technology has been applied to a large wooden building helping to create a therapeutic space gives me a sense of great joy and fulfillment.

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# Promoting Sustainable Timber Procurement

## The present and future of the Action Plan for Timber Procurement

Wood is a renewable, natural resource that can be used sustainably through a cycle of nurture, harvest, use and plant.

However, in recent years, illegal logging, excessive slash-and-burn farming and other practices have resulted in forests vanishing all the world over. Consequently, from a perspective of mitigating global warming and preserving biodiversity, regulatory systems are being beefed up in countries around the world.

The Sumitomo Forestry Group has advanced efforts based on its own unique Timber Procurement Philosophy, not only for the purpose of promoting compliance with these regulations but also for promoting sustainable timber procurement.

### Formulating Specific Action Plans Based on the Timber Procurement Philosophy and Policy

Given that the world's forests are rapidly diminishing, timber regulations designed to eliminate illegal logging are being enacted in countries around the world with a view to the procurement of timber from sustainable forests. In 2008, the amended Lacey Act came into effect in the United States, and in 2013, the European Union Timber Regulation (EUTR) was enforced in the European Union. In Australia too, the Illegal Logging Prohibition Act will come into force in November 2014.

Ahead of these regulations, the Sumitomo Forestry Group established its Timber Procurement Philosophy and its Timber Procurement Policy in fiscal 2007. Every three years, the Group has also formulated an Action Plan for Timber Procurement with specific action targets based on these guiding principles. As well as steadily promoting measures based on these plans, the Group has also gradually strengthened the substance of its measures.

### Promoting Sustainable Timber Procurement through the Third Action Plan

Under the First Action Plan, which covered fiscal 2007–2009, all suppliers were investigated and the legal compliance of our directly imported timber was confirmed.

Under the Second Action Plan, which covered fiscal 2010–2012, the Sumitomo Forestry Group promoted initiatives from a perspective of sustainability, setting a goal of increasing the volume of certified timber, plantation timber and Japanese timber handled. For the purpose of strengthening efforts that include the supply chain, the Group also began surveying suppliers on CSR aspects such as labor practices and human rights protection.

Under the Third Action Plan, which covers fiscal 2013–2015, in addition to the earlier initiatives, the Group also sets a goal of utilizing timber resources more effectively. Hence, the Group is working on realizing a sustainable society through more diverse approaches, such as increasing the volume of fuel wood chips handled and promoting the use of wood leftover from logging and other unused wood materials.

### Strengthening Field Surveys at Suppliers in Light of the More Stringent Confirmation of Legal Compliance

In fiscal 2013, in accordance with the Third Action Plan, the Sumitomo Forestry Group continued to inspect suppliers in order to confirm their legal compliance.

A recent international trend has been the obligation of operators to exercise due diligence, that is, rather than confirming legal compliance by merely examining a logging license or other certificate, they have been required to conduct whatever investigations are practicable, including field surveys. In response, the Group has put more effort than ever into having overseas representatives conduct field surveys of suppliers. In fiscal 2013, the Group carried out field surveys in China. Staff from environmental departments headed to Guangzhou, and representatives and staff from sales departments visited plywood manufacturers that use timber produced from eucalypt plantations. There, they observed the series of processes, from harvesting to transportation, processing and shipment, and they interviewed the managers in charge of business at the suppliers of materials.

Since verification of legal compliance is predicated on actions conforming to the rules of each country, the Sumitomo Forestry Group will continue to keep a constant check on trends in regulatory systems in different parts of the world and on international trends regarding timber procurement, and where necessary, will respond by undertaking investigations, including on-site checks.

Field survey conducted in China by a staff member from the environmental department

**Voice**

### Sustainable Timber Procurement Begins with Communicating with Suppliers

**Kousuke Maruyama**
Log Group
International Marketing Department
Timber & Building Materials Division

Until now, the Sumitomo Forestry Group has verified legal compliance by getting local representatives to conduct field surveys of suppliers. Starting from my second year at Sumitomo Forestry, I was responsible for the procurement of logs in my capacity as the Malaysia representative, and so I also conducted surveys and checks at suppliers.

At the time, surveys based on the First Action Plan had only just begun, and so it was really difficult to get suppliers to appreciate their significance and necessity. Rather than simply imposing our demands upon the suppliers, first, we sought to gain a correct understanding of the country's processes from production to export, and then based on this, we patiently explained about the growing environmental awareness present in the Japanese market and about how certifying the legality of their timber would lead to an expansion in business in Japan. I think that proceeding this way also brought about a gradual change in the suppliers' awareness and facilitated the verifications.

Now, back in Japan, I verify legal compliance in cooperation with representatives. I am committed to maintaining close communication with suppliers based on the realization that the efforts of each and every one of us supports sustainable timber procurement.

## Topics

### Increasing the Amount of Japanese Timber Used in the Housing Business

In recent years, development of Japan's forests has halted because of an aging forestry workforce and a decline in price competitiveness compared to imported timber. Its forests are in a state of continual degradation.

In order to help resolve this issue, Sumitomo Forestry has actively worked to expand its use of timber produced in Japan, and has set targets in its Action Plans for Timber Procurement for the percentage of Japanese timber to be used in custom-built detached houses.

In fiscal 2013, the Company used Japanese timber for 60% of the structural and non-structural materials of custom-built detached houses, thus achieving its target of 60% by fiscal 2015 earlier than planned.

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# Commercial Forest Plantation Bringing Precious Forest Resources for the Future

## Conducting sustainable plantation forest operations overseas

Demand for wood is continuing to increase worldwide against a backdrop of rapid population growth and economic development in emerging countries, and as a consequence, securing sources of wood supply has become a significant challenge.

However, land suited to afforestation is often in competition with food production, and not enough plantation forests have been developed to satisfy the global demand for wood.

Utilizing its experience and know-how built up through the management of forests in Japan and overseas, the Sumitomo Forestry Group promotes sustainable plantation forest operations, managing some 200,000 hectares of plantation forests mainly in Asia. We are contributing to a stable supply of wood, as well as helping in the preservation of biodiversity and the development of local communities.

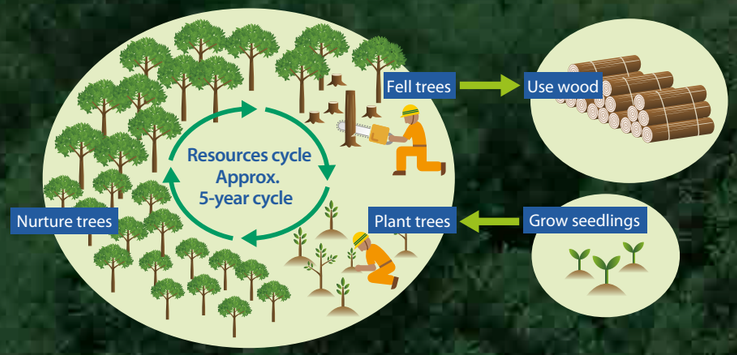
**Sen Nishimura**
Group Manager
Overseas Resources & Manufacturing Department
Overseas Business Division

### Maintaining Forest Resources for the Future Carrying out Plantation Forest Operations

Wood as a resource is renewable through a cycle of planting seedlings, nurturing them, harvesting and using mature trees, and planting seedlings again. A key to meeting the growing global demand for wood is the practice of sustainable forest management.

The Sumitomo Forestry Group, therefore, undertakes plantation forest operations, mainly in Indonesia and Papua New Guinea, by utilizing the Group's rich forest management know-how that we have built up in Japan and overseas. We have advanced initiatives with a long-term view from two perspectives: "commercial forest plantation," which is aimed at the sustained supply of plantation timber; and "environmental reforestation," which is aimed at planting trees for the purpose of environmental conservation.

Particularly with regard to commercial forest plantation, we carefully examin our managed lands and zones land separating high conservation value forests and plantation forests for the production of wood. In our plantation forests, by systematically following the reforestation process of nurturing and harvest, and by protecting high conservation value forests, we contribute to conserving biodiversity. Furthermore, by conducting these operations in areas with little industry, we create new jobs, thereby contributing to the development of local communities.




### Promoting Environmentally Friendly Industrial Reforestation in Indonesia

In Indonesia, where the Sumitomo Forestry Group has been involved in large-scale commercial forest plantation since fiscal 2009, we have established two local JV companies to handle operations: PT. Wana Subur Lestari (WSL) and PT. Mayangkara Tanaman Industri (MTI). They operate with 100-year business licenses granted by the government.

As for the land managed by these two companies, field surveys and extensive environmental surveys are conducted using image data from satellites, before the lands are designated as forest conservation zones, buffer zones, and plantation zones. Forest conservation zones are connected with tracts of vegetation corridors to prevent them from becoming isolated. With respect to plantation zones, the Group aims to develop the zones by planting numerous species of trees that are suited to each location, bearing in mind the topography, soil and water conditions and other environmental factors.

The Group also practices appropriate forest management, such as the prevention of illegal logging and forest fires, by conducting periodic patrols and fire drills within the project sites.

### Conducting Surveys Based on the HCVF Approach, Aimed at More Sustainable Forest Management

In 2013, WSL and MTI re-surveyed the project sites in accordance with the "high conservation value forest" (HCVF) approach on which there has been a growing emphasis in recent years. It was based on advice provided by the International Finance Corporation (IFC) with which an advisory agreement had been concluded in fiscal 2012. Areas were designated for protection as HCVFs, not just from the perspectives of preserving biodiversity and maintaining the functions of forests for the public good, but also from many other different aspects, such as their use as a place for indigenous people to live, as well as their cultural value. Reflecting the findings of this survey, the area of protected forests identified in the survey conducted prior to the project development phase was expanded. Furthermore, in addition to public hearings being held on the results of the HCVF survey, the results have also been shared with local residents, government officials and other stakeholders.

Also in fiscal 2013, the project acquired PHPL certification, a qualification established by Indonesia's Ministry of Forestry for sustainable forest management. The Group is also moving ahead with procedures aimed at acquiring FSC® certification, an international standard.

A public hearing

## Topics

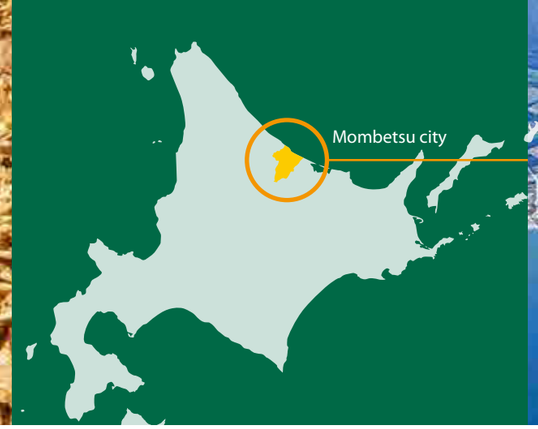
### "Social Forestry": Community-Based Tree Planting

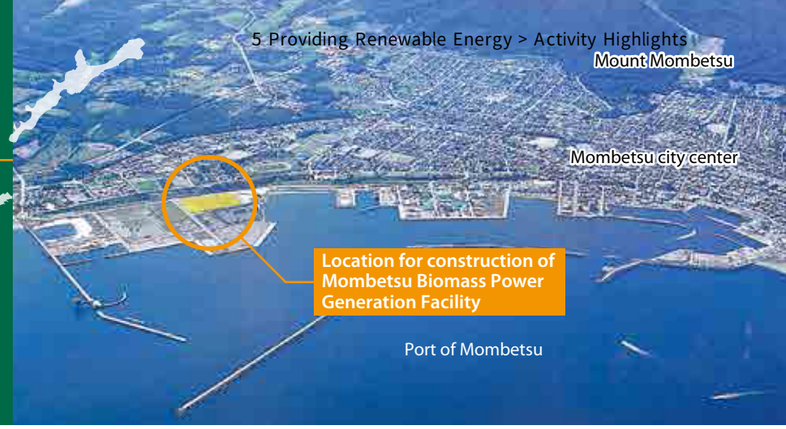
In conducting commercial forest plantation overseas, as well as the method of managing land and planting trees itself, the Sumitomo Forestry Group is also engaged in "social forestry" which is carried out in collaboration with local communities.

In overpopulated areas in emerging countries, land-use practices often give priority to the production of food, and most of the land that can be used for afforestation lies scattered. In such regions, the Group has introduced a system whereby free seedlings are distributed to local residents, the residents plant the seedlings on pockets of their land unsuited to cultivation, and then, when the trees are matured, the Group promises to buy the wood as timber.

The Group has also formed a reforestation cooperative together with local residents, and has acquired FSC®-FM certification. As well as generating economic benefits for local communities through afforestation, the Group has also endeavored to obtain a stable and sustainable supply of wood.

Guidance provided to local residents on planting trees






# Providing Renewable Energy through the Effective Use of Wood

## Launch of wood biomass power generation business in Mombetsu, Hokkaido

Wood biomass power generation is fueled by the natural resource, wood. Not only does it show promise as a renewable energy, but because it is carbon neutral*1, it also helps to curb global warming.

The Sumitomo Forestry Group will actively promote its wood biomass power generation business and create other new opportunities for wood as an energy resource, in an effort to raise the value of forests through making full use of unused wood materials, and to revitalize local economies through the creation of jobs.

*1 $CO_2$ generated when burning wood had previously been absorbed by the trees during their growth process, and so does not lead to any increase of $CO_2$ in the atmosphere.

### Creating New Value for Japan's Forests through the Effective Utilization of Unused Wood Materials

From early on, the Sumitomo Forestry Group focused on wood biomass power generation, hoping to revitalize the forestry industry by adding value to wood as an energy resource. In fiscal 2006, the Company commenced Indonesia's first wood biomass power generation, and has produced and supplied wood chips to domestic power producers in Japan.

In July 2013, the Group embarked on its Group's first forest sourced wood biomass power generation business in Mombetsu, Hokkaido. In collaboration with Sumitomo Joint Electric Power Co., Ltd., the Company established Mombetsu Biomass Power Co., Ltd. to handle power generation and Okhotsk Bio Energy Co., Ltd. to handle the manufacture of fuel chips. Generating 50MW of power, the power generation plant currently stands to become one of the largest biomass power generation facilities in Japan. Operations scheduled to begin in December 2016.

The significance of a forest-sourced wood biomass power generation business of Japan is the effective use of unused wood resources, such as thinnings and wood leftover from logging, as a fuel for generating power. As a consequence, not only will the value of forest resources rise, but ongoing jobs will be created, such as in the yarding of wood from the mountains and in the manufacture and transportation of wood chips. It is expected that the business will also contribute to the revitalization of local economies.

Unused wood materials

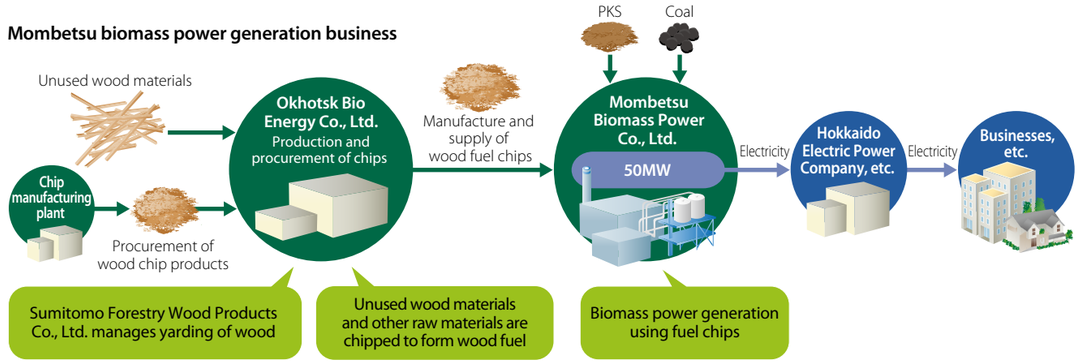
### Establishing a Cyclical Power Generation Business in Cooperation with Local Communities

There are a variety of issues facing forest-sourced wood biomass power generation, such as the collection of forest resources, the establishment of transportation routes, the drying of wet wood, and the establishment of efficient combustion technologies. The biggest challenge is the stable procurement of the main fuel, unused wood materials.

Okhotsk Bio Energy Co., Ltd. plans to procure unused wood materials for the Mombetsu Biomass Power Generation Facility from forests within a 75km radius, and essential for securing a more stable supply will be the cooperation of surrounding local communities, including forestry operators. The business scheme has already been praised by the City of Mombetsu as being "a business suited to the city's ideal symbiosis of the environment and industry." Going forward, the Company will continue to deepen its relationships of trust with the City of Mombetsu, forestry operators and surrounding communities, and to strengthen its cooperation with the regional forestry industry.

By utilizing local forest resources in the power generation business and plowing the profits earned back into the forests—that is, realizing a kind of cyclical power generation business—the Company aims for a harmonious relationship with the local communities.

**Mombetsu biomass power generation business**




## Stakeholder Message

### Creating a mechanism that utilizes unused wood materials to generate new revenue for forestry businesses

**——Masanori Santou, President, Okhotsk Bio Energy Co., Ltd.**

A considerable amount of hope and interest has been shown in this project as a "new development," not only by the forestry industry, but also by ordinary Mombetsu citizens. In order to live up to these expectations, first, we will work together with people in the local industry to build a mechanism of utilizing unused wood materials to generate a new source of profits for the forestry businesses. We will promote a business that places harmony among revitalization of the local forestry industry, stable operation of our power generation business, and development of the local economy.

### Supporting the business suited to our city's ideal "Symbiosis of the Environment and Industry"

**——Yoshikazu Miyakawa, Mayor of Mombetsu City**

Utilizing unused wood materials from forests to create value as a fuel for generating power, and returning that value to forestry businesses will result in sustainable forest management and a verdant cycle of "reforestation, nurturing, and harvest." A $CO_2$-neutral wood biomass power generation plant is good for the natural environment and accords with the "Plan for Symbiosis between People and the Natural Environment" listed under the Fifth Comprehensive Plan for Mombetsu City. We will provide support for the power generation business and strive for the creation of the "Mombetsu Model," under which the power generation plant and the local community can grow together, and community as a whole.

## Topics

### Biomass Power Generation Using Construction Wood Waste from Urban Areas

Prior to its initiative in Mombetsu City, the Sumitomo Forestry Group had been operating an urban-sourced wood biomass power generation facility since February 2011 in Kawasaki City, in collaboration with Sumitomo Joint Electric Power Co., Ltd. and Fuluhashi EPO Corporation. This power generation plant makes use of the large amount of wood waste that is generated in urban areas on a daily basis in the demolition of houses and other structures. As well as solving the problem of obtaining a steady supply of fuel, it has also resulted in taking a resource that had previously been treated as industrial waste and using it effectively as fuel.

Resource recycling efforts in the region have also been further expanded. For instance, in addition to recycling scrap wood from demolition, now, Japan Bio Energy Co., Ltd. also accepts waste pallets from local markets, as well as packaging materials and industrial food waste generated in Kawasaki City. The ash produced during biomass combustion is also recycled as ground material.

This urban-sourced wood biomass power generation initiative is the first of its kind in Japan, and so it has drawn a fair amount of attention from the community. Since starting operations, the facility has welcomed about 4,000 visitors, including civic groups and university students who are interested in environmental issues.

Exterior view of the Kawasaki Biomass Power Plant

# Assisting the Revitalization of Forestry, Generating New Vigor for Communities

## Developing a consulting business supporting sustainable forest management

We have long been engaged in sustainable forest management based on a spirit of Kokudo Ho'on (gratitude for nature's resources). In 1894, at the Besshi Copper Mine in Ehime Prefecture, where Sumitomo Forestry's business first originated, the Company instigated its Large-Scale Reforestation Plan to restore the forests that had been lost.

Amid growing attention in recent years for rejuvenation of Japan's forestry industry from such perspectives as land conservation and promotion of regional development, we now extend our expertise beyond our Company-owned forest. We contribute to revitalization of regional forestry across the country by offering our forest management expertise and technology accumulated in our 320-year-plus history to forests and forestry operators in Japan.

**Tatsuya Narazaki**
Team Manager
Forestry Department
Forestry & Environment Division

### Promoting Forestry Consulting Business in an Effort to Resolve Issues Facing Japan's Forestry Industry

Japan is a country blessed with rich forest resources, but in recent years, its forestry industry has waned due to such factors as an aging and decreasing population in the sector as well as a drop in prices caused by competition with imported timber. As a consequence, precious forest resources have been neglected, and the devastation of forests has become a grave nationwide issue.

In addition to helping to resolve the issues facing Japan's forestry industry, Sumitomo Forestry has sought to create a new core business by providing forest owners across Japan with the forest management know-how and technology that have been cultivated by the Company over time. The Company therefore established the new Forestry Planning Group within the Forestry & Environment Division in fiscal 2011, which has since been advancing the forestry consulting business. We provide a comprehensive consulting service by leveraging the Group's unique quality of having an extensive range of wood-related businesses; from drafting policies and visions based on the issues facing each region, to conducting forest surveys, formulating plans for forestry roads and harvesting, mechanization and IT development, product development, sale and distribution.

On-site boundary survey of privately-owned forests





### Supporting the Move of Regional Forestry to a Sixth-Order Industry: Initiative with Totsukawa Village

Totsukawa is a village located in southwestern Nara Prefecture. While forests account for 64,000 hectares, or 96% of its total area, given the remote mountain location and often steep terrain, the village had been unable to take full advantage of its plentiful forest resources. In response, the village administration and forest owners' cooperatives have partnered together to promote various initiatives, including development of a processing and distribution hub for timber, based on a vision of moving the forestry and timber to a "sixth-order" industry[*1].

Sumitomo Forestry received a request from Totsukawa Village in June 2011, and after first gaining a detailed understanding of the situation, we provided assistance in formulating a concrete policy and plan for achieving the above vision.

In fiscal 2012, the project shifted to an "implementation phase," and work commenced on building forestry roads and managing forests with forestry cooperatives and other groups. Sumitomo Forestry put forward proposals which drew on its own unique expertise and technology. This included introducing the "in-vehicle-type tower yarder," developed to improve the efficiency of harvesting wood on sloping terrain.

*1 The shift by businesses operating in the primary industry, such as agricultural producers and forestry operators, to also branch out into the secondary industry (processing, manufacture, etc.) and tertiary industry (distribution, sales, etc.)

An in-vehicle-type tower yarder in use

### Stakeholder Message

**I look forward to receiving ongoing advice as we head toward realizing a virtuous cycle model centered around forest resources**

**——Yoshiki Saratani, Mayor of Totsukawa Village**

Since fiscal 2011, we have commissioned Sumitomo Forestry for comprehensive advice with respect to policies on the revitalization of Totsukawa's forestry industry, including the formulation of our Forest Management Plan. Sumitomo Forestry has also provided us with diligent effort for our routine activities, such as the development of harvest and transportation infrastructure based on the demarcation of boundaries. This has included co-hosting briefing sessions for residents. These developments triggered good incentive like nothing before, and forest owners' cooperatives and other organizations have become more positive toward the harvest and transportation of forest resources. I look forward to continuing to receive advice as we pursue realizing a virtuous cycle model in which forest resources are turned to profit which are then returned to forest owners and local residents.

### Implementing a Wide Range of Support Based on Trusting Relationships with the Local Community

In Totsukawa Village, small-scale owners account for approximately 80% of forests, and so any attempt to genuinely promote the improvement and development of these forests requires building relationships of trust with the owners. Therefore, since fiscal 2013, employees from Sumitomo Forestry have been stationed almost full-time at the village office to provide even closer support. As well as operational support for the forest owners, the staff also endeavored to provide support for consensus-building aimed at demarcating the boundaries of owned forests and at developing and improving the forests.

Briefing for forest owners

The consultancy has also been proved financially effectual in applying to the Norinchukin Bank's Forest Rejuvenation Fund (FRONT80) and to the Forestry Agency's Strategic Project to Double the Use of Local Timber, with success in both schemes.

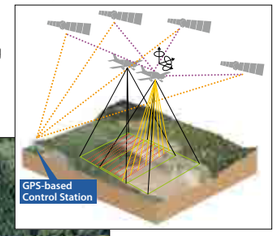
Furthermore, from fiscal 2014, the Company also dispatches staff to forest owners' cooperatives on an almost full-time basis. Besides strengthening assistance from a business aspect, they will also help to reinforce cooperation between the municipal government administration and forestry operators.

In addition to maintaining initiatives at Totsukawa, by taking the business model established here and rolling it out throughout Japan, the Company will contribute to the overall revitalization of Japan's forestry industry.

### Topics

#### Supporting the Revitalization of Regional Forestry by Making Full Use of Information Technology

Since July 2013, Sumitomo Forestry has operated a forest resources data analysis system utilizing "aerial laser survey technology" to support the revitalization of regional forestry in the town of Shimokawa in Kamikawa-gun, Hokkaido. The system employs state-of-the-art technology, combining aerial photographs with laser surveying, to conduct high-precision analysis of forest resources data such as tree species, height, population and density. The resultant information is used for designing and implementing harvest plans as well as plans for developing forestry roads, leading to the proper and efficient management of forests.




Provided by Hokkai Aerosurvey Corporation

Three dimensional image combining aerial photographs with laser surveying



CSR Report 2014

# Creating a Workplace where Women can Shine

## Establishment of "Declaration on Empowering Women"

Based on the falling birth rate and aging population, Japan expects its worker population to decline. Further promotion of the women's role has become a critical issue for business, as is recognized in the third arrow of Abenomics, the "Private Sector Growth Strategy."

The Sumitomo Forestry Group has always respected the diversity of each individual and has strived to enact diversity management that can optimize the Company's competitiveness.

In order to enhance these efforts, we established the Sumitomo Forestry Group "Declaration on Empowering Women," and the Group as a whole is further driving active participation by female employees.

**Naoko Ushiki**
Workstyle Diversification Department
Personnel Department

### Driving Various Initiatives from the Perspective of Diversity Management

The Action Guideline of the Sumitomo Forestry Group proclaims our "Respect for Humanity—We work to create an open and inclusive corporate culture that values diversity." Based on this guideline, the Group respects the differences of each individual regardless of their values, age, gender, nationality or disability, etc. and aims to harness this diversity for the Company's competitiveness through promotion of Diversity Management.

In April 2013, we established Workstyle Diversification Department within the Personnel Department, which serves as a single window for employees in relation to their workstyles.

Supportive functions cover career support, achieving a work-life balance, including the balance between work and care for children or family, re-employment after retirement, employment of people with disabilities, mental health and so on. By establishing an environment that makes it easier for employees to reach out for support, we are driving creation of a workplace where diverse employees can work happily.

Round-Table Discussion among women raising children

### Group-Wide Efforts Based on the "Declaration on Empowering Women"

In order to drive these initiatives, it is essential to have the understanding and support of all employees in the workplace. For this reason, the "Declaration on Empowering Women" was released Group-wide in the president's name, indicating the Group's commitment to support women's initiatives and to deepen the understanding within the organization as a whole. Based upon the three policies contained in the declaration, we have been advancing various initiatives.

**Three policies contained in the "Declaration on Empowering Women"**

1. Create an encouraging work environment for women
2. Leverage women's unique creative power
3. Create innovation through the participation of women

For example, in order to create an environment that is easy for women to work in, the Housing Division established a Working Group on Coping with Work and Care for Children, to discuss workstyles for those raising children. Furthermore, as an initiative to leverage women's unique creative power, we started the Development through Women's Perspective Project. In addition, we support skills enhancement for female employees through a variety of training to boost their participation, stimulate innovation and create new products and services.

The Company also regularly issues a Diversity Newsletter which reports on the progress of initiatives and is intended to reform employee awareness.





*ProjecT Report*

# Official start of the Development through Women's Perspective Project

**Yoshiko Morita**
Manager
Product Development Department
Custom-Built Housing Section
Housing Division

### Efforts to Leverage Women's Unique Creative Power for Product Development and Service Enhancement

In order to create the ideal home, we believe it is important to leverage the perspective of women, who is enthusiastic about homes and living. For this reason, the Housing Division is driving a product development by female employees, and has already produced "mamato," proposing to reduce the burden of household chores and child-rearing, and the *Nurturing Garden*, which enhances children's five senses.

While further enhancing such product development, we started the Development through Women's Perspective Project in March 2013 to leverage women's perspectives in areas such as marketing, promotional activities, customer service and after-service. The Project is composed of female employees from a wide range of divisions engaged in product development, interiors, installation and human resources. To kick off the initiative, in June we developed a proposal for a living room space called "comama" that enhances flexibility.

In addition, for the full-scale launch of the project, from October we included female employees who engage with our customers on a daily basis at sales branches across Japan.

In order to produce products and services that leverage the opinions of female users, a collaborative project was initiated with Shueisha's women's magazine "LEE." The magazine enjoys a high readership among women with a high degree of interest in natural homes incorporating wood and greenery. In this project, we actively promote the quality of wooden houses and reflect readers' opinions to our actual product development through reader surveys and round-table discussions.

Round-table discussion with readers in collaboration with Shueisha's women's magazine "LEE"

"Watching Garden," one example of *Nurturing Garden*

### To Further Empower Female Employees

Through our efforts to date, female employees have created a culture of cooperation across divisions and proactively share information. This culture of cooperation is now taking root and the effects are spreading beyond these team members. In the future, we will continue our initiatives as we aim to be a company that can earn support and brand loyalty of all women.

An example of the "mamato" concept.
A "dining concept" that places the dining room in the center of home life

# Corporate Governance

## Corporate Governance Guidelines

The Sumitomo Forestry Group's corporate philosophy is “to utilize timber as a renewable, healthy, and environmentally friendly natural resource, and to contribute to a prosperous society through all types of housing-related services.” In addition, one of its Action Guidelines is that “we conduct business that is beneficial to society based on the principles of integrity and sound management,” and reflecting this it works to ensure transparency in management, that its operations are appropriate and comply with laws, and to carry out quick decision-making and execution of operations.

Through these efforts, the Group is further strengthening its corporate governance and continuously increasing its corporate value while conducting management that lives up to the expectations that its many stakeholders have for the Group.

## Corporate Governance and Internal Control

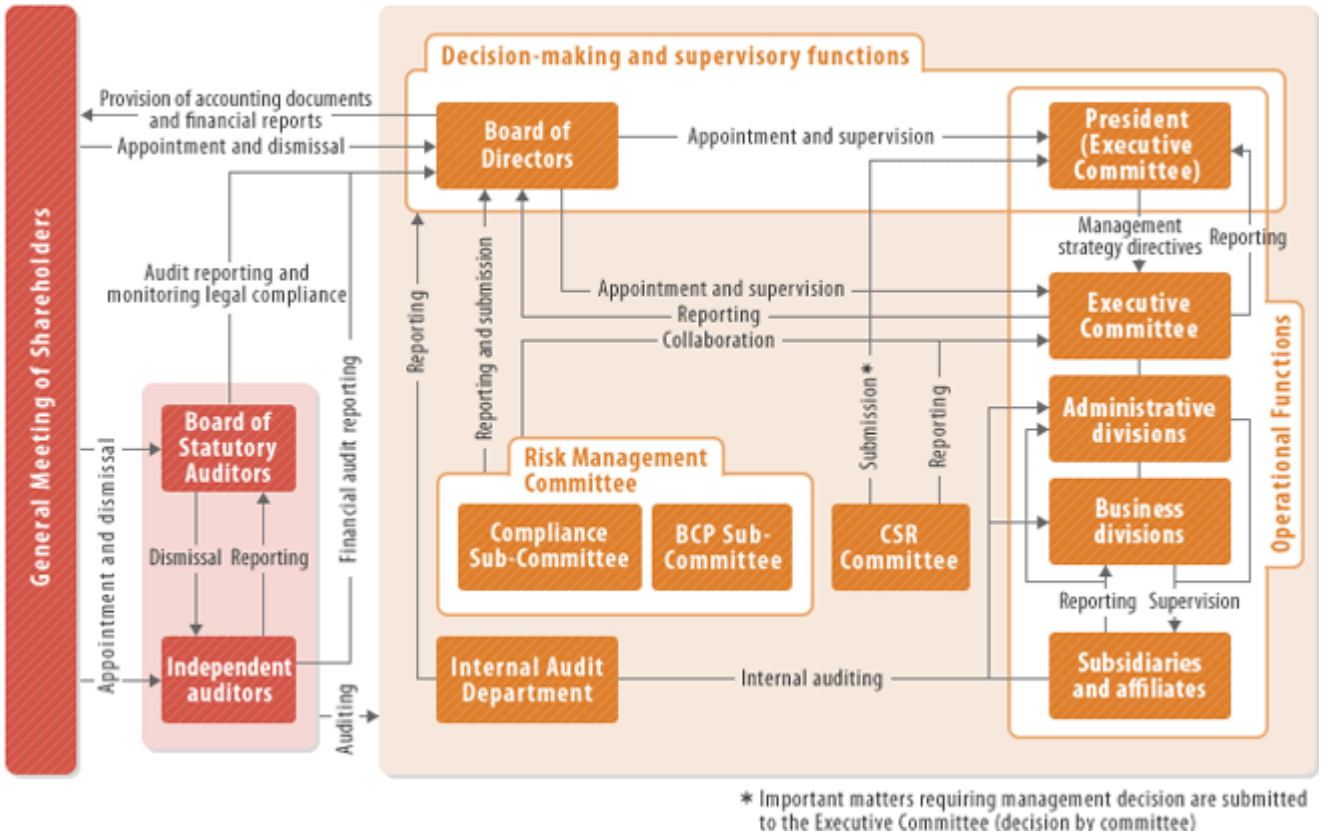
Sumitomo Forestry introduced the executive officer system to separate decision making and management oversight from operational execution functions. At the 74th Ordinary General Meeting of Shareholders held on June 20, 2014, a Board of Directors was formed with the appointment of nine directors (eight male, one female) including one new external director (female), establishing an organization able to take quick decisions. The oversight function of the Board of Directors has been strengthened, the lines of operational responsibility clarified, and the Chairman of the Board of Directors no longer serves as an executive officer.

Sumitomo Forestry has a board of company auditors. In addition to attending important meetings within the Company, the auditors provide oversight for the directors' execution of duties, through sharing information and opinions with auditors at Group companies and the staff in the Internal Audit Division, and by supervising staff assisting auditing operations.

As of June 20, 2014, nine directors (including one external director) and 18 executive officers had been appointed to the Company, and three of the five auditors were external auditors. The external director (one) and external auditors (three) have been registered as independent officers in accordance with stock exchange regulations.

▸ List of Directors and Executive Officers (link to Corporate Information)

**Corporate Governance Structure (as of June 20, 2014)**




## Board of Directors and Executive Committee

In principle, the Board of Directors meets once a month, making decisions and carrying out its supervisory function for important issues in accordance with its discussion standards. In addition to making decisions on all important items and confirming business results, it supervises the directors' execution of their duties.

The Executive Committee, which is an advisory body for the President, holds meetings twice a month, before the Board of Directors meeting to ensure that there is sufficient prior discussion on important issues. It is attended by those directors who also serve as executive officers, as well as the full-time statutory auditors.

In fiscal 2013, the Board of Directors met 15 times and the Executive Committee 27 times. Six of the seven directors attended all 15 meetings, and the seventh director, who was appointed at the 73rd Ordinary General Meeting of Shareholder held on June 21, 2013, attended all meetings thereafter.

In fiscal 2013, the Board of Directors twice implemented tentative resolutions in writing, in accordance with Article 370 of the Companies Act.

## Board of Statutory Auditors

The Board of Statutory Auditors meets to discuss and make decisions on important matters regarding audits. The five auditors, including the three external auditors, utilize the deep insights and diverse perspectives they have acquired from their various business backgrounds to provide oversight for the directors' execution of duties. The Board of Statutory Auditors met 14 times during fiscal 2013.

The Board of Statutory Auditors for the Group is comprised of the full-time auditors from Sumitomo Forestry and the auditors from the Group companies. It meets once every two months to exchange information and improve the effectiveness of the audits undertaken at Group companies.

**Attendance of External Auditors at Meetings of the Board Directors and Board of Auditors (FY2013)**

| Name and area of expertise | | Board of Directors | | Board of Statutory Auditors | |
|---|---|---|---|---|---|
| | | No. of meetings attended | % of meetings attended | No. of meetings attended | % of meetings attended |
| **Satoshi Teramoto** | Certified Public Accountant | 15 | 100% | 14 | 100% |
| **Shin Nagata** | Professor at the Graduate School of Agricultural and Life Sciences at The University of Tokyo | 13 | 87% | 14 | 100% |
| **Junko Hirakawa** | Attorney at Law | 14 | 93% | 14 | 100% |

## Risk Management Committee

Information concerning the Risk Management Committee appears under “Risk Management System.”

▸ Risk Management System

## CSR Committee

The CSR Committee is chaired by the executive officer in charge of CSR, and is comprised of general managers from Head Office and division departments. Its purpose is to promote improvements in CSR activities in cooperation with each division and department. Since fiscal 2011, the committee has conducted a CSR survey on the Group companies, the results of which have been used as the basis for driving the enhancement of CSR activities throughout the Group.

CSR Committee

In fiscal 2013, the committee met once to share the issues pertaining to CSR initiatives within the Group and discussed the reassessment of key CSR issues. In fiscal 2014, it plans to establish specific action plans to implement a PDCA cycle based upon these key CSR issues.

## Internal Audits

Every year, Sumitomo Forestry's Internal Audit Department draws on risk assessments in selecting about 60 business sites from among the roughly 200 business sites in the Sumitomo Forestry Group, and conducts internal audits on them. In the internal audits, the department checks on how a business site is executing its operations and managing its office work, including its compliance with laws and regulations, and it reports its findings to the President, the executive officer in charge of internal audits and to internal auditors, as well as to the manager responsible for the business site and the executive officer or director in charge of the business site. Furthermore, if any indications have been made, the department checks the improvement efforts implemented at the business site, such as by examining documents and conducting quarterly follow-up reviews, and reports on these to the President and to the executive officer in charge of internal audits.

## Officer Remuneration

In accordance with laws and regulations, Sumitomo Forestry discloses the remuneration paid to officers (directors and auditors, separated into external and internal) each fiscal year.

### Remuneration Paid to Officers (FY2013)

| Category | Number | Total amount |
|---|---|---|
| **Directors (External directors)** | 8<br>(0) | 446 million yen<br>(0) |
| **Auditors (External auditors)** | 5<br>(3) | 74 million yen<br>(25 million yen) |
| **Total** | 13 | 519 million yen |

1. The number of auditor includes one auditor who retired at the conclusion of the 73rd Ordinary General Meeting of Shareholders held on June 21, 2013.
2. The total amount of remuneration paid to directors includes a total of 120 million yen for bonuses to directors, which was resolved at 74th Ordinary General Meeting of Shareholders held on June 20, 2014.

# Risk Management

## Risk Management System

With the scope of establishing a risk management system that is integrated with internal control, and developing regulations for risk management, members of the Risk Management Committee of Sumitomo Forestry investigate and verify the priority risks to be addressed in their respective area of responsibility, before formulating plans for managing those risks, and sharing these with the committee. The Company has also established the Compliance Subcommittee and the BCP Subcommittee as subordinate organizations under the Risk Management Committee for dealing with “compliance risk” and “disaster risk,” which are regarded as cross-cutting risks affecting the Group. The status of these activities is regularly reported to the Board of Directors meetings and reviews are undertaken by management.

### Risk Management Committee

In order to reinforce its system for managing business risk—which also encompasses Sumitomo Forestry Group companies—the Group created the Risk Management Basic Regulations and the President of Sumitomo Forestry is appointed as the highest authority on risk management within the Company and Group companies.

The Company then established the Risk Management Committee, comprised of the Company President as chairperson, together with all of the executive officers, to appropriately and smoothly manage risk based on these regulations. Below this, the Company has established compliance and BCP subcommittees, with the general manager of the General Administration Department as Committee chairperson and comprised of the risk representatives from each of the main divisions from each Group. These committees create measures to effectively manage risk to be implemented horizontally across the Group preferentially. The committees regularly report to the Board of Directors and the system is organized such that, through management reviews, outcomes can be reflected in business activities.

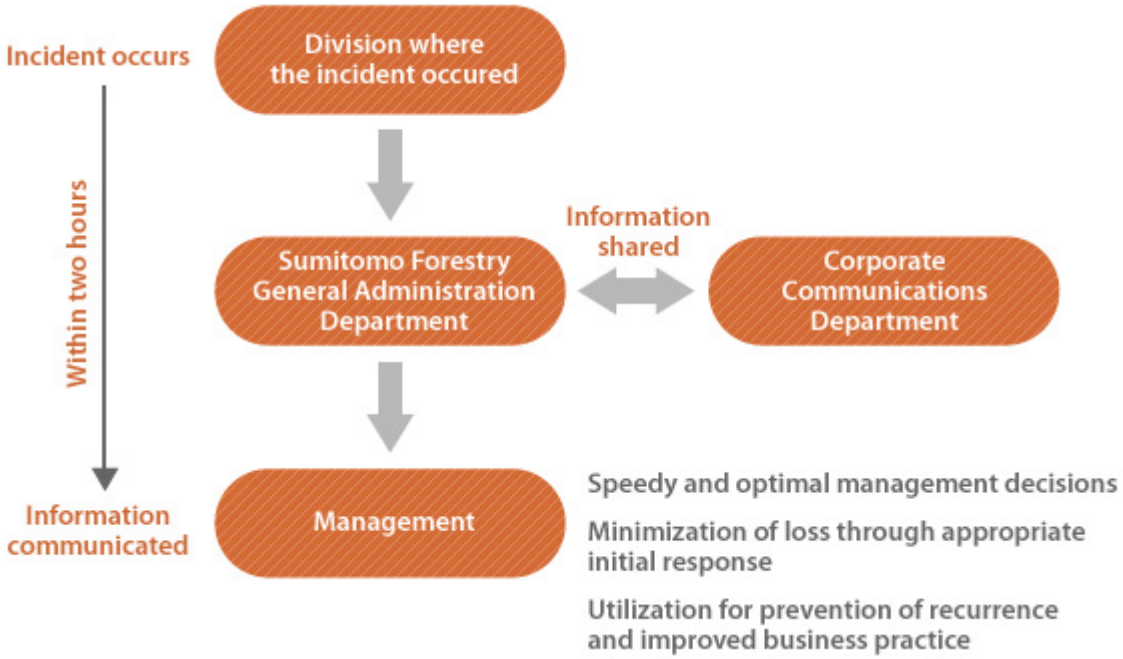
During fiscal 2013, a portion of the Risk Management Basic Regulations was revised and in addition to systematically and comprehensively organizing the risks facing the Group, division responsibility was established in detail to develop a structure which would effectively manage risk. The Risk Management Committee reported to the Board of Directors four times, while the Compliance Subcommittee and the BCP Subcommittee each met twice during the year.

## Rapidly Comprehending and Dealing with Risks

The Sumitomo Forestry Group operates a two-hour rule system designed to quickly and accurately communicate information to management in the event of an emergency situation that may have a grave impact on company management. It utilizes communication via the Division responsible for risk management, independent of the regular reporting line. Through this system, management can take the best decision speedily, ensuring an initial response which avoids loss and controls the situation. Moreover, it serves a role in collecting and accumulating reported cases and assists in improved business practice and prevention of recurrence.

Furthermore, the structure is organized so that, by sharing information with the public relations departments, important facts are disclosed to stakeholders properly and in a timely manner.

### Sequence of Events for the Two-Hour Rule



# Compliance

## Compliance Promotion System

Sumitomo Forestry established the Compliance Subcommittee as a subordinate organization under the Risk Management Committee, chaired by the general manager of the General Administration Department and comprised of the persons responsible for risk management from each department. As a cross-cutting organization across the Group, the subcommittee promotes responses to compliance risk. It has established the Group standard risk management system and tools to ensure compliance with the Construction Business Act and other laws, for efficient response to compliance risk.

In addition, by acquiring the latest knowledge in the field through compliance seminars featuring external expert instructors, the Company endeavors to align the perspectives of those persons throughout the Group who are responsible for compliance, working bottom-up. The seminars also provide an opportunity to build an awareness of dangers that can be shared across the Group.

These activities are reported to the auditors each month and the Group Audit Committee shares the compliance risk information of each company throughout the Group.

During fiscal 2013, the Compliance Subcommittee met twice, to investigate legal requirements related to the business and to reorganize a common response system for the Group so that the PDCA cycle functions properly. In addition, in preparation for the increase in the consumption tax, the committee strove to ensure thorough adjustment of subcontracting dealings as required by laws such as the Construction Business Act.

## Compliance Training

In order to heighten awareness among each and every employee about compliance, Sumitomo Forestry conducts compliance training for new employees to promote their understanding about traffic safety, information security and intellectual property. In fiscal 2013, training was delivered to 241 new graduate recruits and 114 mid-career recruits. Compliance training was also provided to groups of employees at specific levels, including “Training for Management” and “Training for New Managers.”

Furthermore, two e-learning courses, “Legal Compliance and Risk Management” and “Information Security” have been set as compulsory courses to be taken by all Group employees, and employees are required to take these courses every year. In addition, each Group company in Japan and overseas also has its own arrangements for training, such as for new employees.

## Compliance Counter

The Sumitomo Forestry Group is committed to creating a workplace environment equipped with a self-corrective function able to catch any impropriety concealed in day-to-day operations at an early stage. To this end, the Group established the Compliance Counters (advice desks) in 2002.

The Group has two Compliance Counters, one within the Group (general manager of the General Administration Department) and one external to it (lawyer), ready to provide advice and receive reports via telephone or a dedicated email address. The Counters not only assist Group company employees but are available for anyone who works continuously for the Group, such as employees at collaborative workshops. As well as stipulating in the relevant regulations and user manual about the protection of rights for persons seeking advice or making reports, and publishing this on the Sumitomo Forestry intranet, the user manual is also distributed to all Group employees.

In fiscal 2013, the Compliance Counters were contacted 17 times about such topics as workplace management and working hours. In cases where the facts were confirmed, in addition to implementing the necessary corrective measures, initiatives were promoted aimed at preventing recurrence including using these examples in training for managers.


Manual for the Compliance Counters

## Preventing Corruption

In April 2013, Sumitomo Forestry established its Regulations for Prevention of Bribery of Officials including Public Servants. These are aimed at preventing illegal corruption both in Japan and overseas.

One of the Company's CSR targets is the establishment of separate regulations at consolidated subsidiaries in Japan during fiscal 2014. Furthermore, consolidated subsidiaries overseas will conduct risk analysis, prepare regulations, implement staff training and promote general awareness. Some subsidiaries in China have already prepared and implemented regulations.

## Promotion of Fair Competition and Initiatives Targeting Risks Associated with Increased Orders for Public Works Projects

Sumitomo Forestry published an Antimonopoly Act Guide Book in 2010 and each year the Company works to enhance understanding regarding the risks involved in contact with competitors through training for new general managers. In addition, as an initiative to address compliance risk associated with the increased activity surrounding orders for public works projects and multi-unit residential housing projects, in fiscal 2012 the Company twice held seminars conducted by a lawyer for employees in the responsible divisions. In fiscal 2013 the Company also conducted workplace training to enhance adherence to the Construction Business Act in regards to deployment of technicians and record-keeping.

## Rejection of Influence from Anti-Social Elements

The Sumitomo Forestry Group's basic policy is that the “influence from anti-social elements will be met with a resolute attitude and no compromises will be tolerated.”

The General Administration Department is designated as the division to coordinate overall response and systematically cooperates with external expert bodies such as the police and lawyers in order to gather information about anti-social elements, and when required, gives guidance in issuing warning notices. In addition, in accordance with the enforcement of laws of each prefecture for the exclusion of crime syndicates, Sumitomo Forestry takes appropriate action including standardization such that all contracts that Group companies enter into with third parties include a clause to exclude anti-social elements.

To further strengthen its efforts, since fiscal 2013, the Company has started to request all business partners, including its existing contracted partners, to provide declarations guaranteeing that neither they nor their parent, subsidiary or subcontracting companies are anti-social elements, and the Company will continue this in fiscal 2014.

## Prevention of Traffic Accidents and Violations

Efforts are also being made to strengthen the Sumitomo Forestry Group's Safe Driving Management System. Given that the Group manages up to about 6,900 vehicles within Japan, in order to avoid or reduce the risks associated with traffic accidents and violations, the Group developed a Safe Driving Management System, which is deployed Group-wide. This is an integrated system whereby all business bases and Group companies are required to make a monthly report to the General Administration Department of information pertaining to drivers' licenses, vehicle inspection certificates, insurance, and administrative offenses. Furthermore, once a year, Certified Driving Records[1] are acquired for employees who drive either to work or at work. The Group also implements measures for preventing violations and conducts driver safety education programs. The Group is endeavoring to standardize safe driving management throughout the Group.

In addition, the driving aptitude assessment authorized by the Ministry of Land, Infrastructure, Transport and Tourism is conducted for new employees of Sumitomo Forestry so that they can be aware of their own driving aptitude. The Company subsequently conducts training on how to avoid traffic accidents and for participants to reaffirm their commitment to safe driving.

In recognition of these activities, the Company was awarded a certificate of appreciation from the Japan Safe Driving Center in November 2012.

1. A certificate issued by the Japan Safe Driving Center showing a driver's violations and administrative punishments, etc. Certificates are issued pursuant to an application made by either the driver or a place of business authorized by the driver.

# Business Continuity Management

## Business Continuity System

To counter risks which could significantly impact Head Office functions and are beyond a company's capacity to prevent, such as natural disasters and new strains of influenza, Sumitomo Forestry has established the BCP Subcommittee. The subcommittee sits under the Risk Management Committee, is chaired by the general manager of the General Administration Department and is comprised of the persons responsible for risk management from each department. Additionally, the Company promotes initiatives based upon business continuity plans (BCP).In view of the fact that Sumitomo Forestry Group companies are an integral link in the supply chain of one other's business, each Group company is committed to constantly improving the resilience of the whole Group, and tackling Group-wide issues with the intention of enhancing business continuity.

BCP simulation training

In fiscal 2013, Sumitomo Forestry convened a BCP Subcommittee with the key persons, such as branch managers and administrative officers, who are responsible for disaster prevention and BCP response at each business base in the Kyushu, Chugoku and Shikoku regions to increase awareness of the Group's standards for disaster prevention measures and initiatives based on these standards.

In addition, since fiscal 2011, the Company has conducted Group-wide BCP Large Scale Earthquake Countermeasures Simulation Training aimed at sharing risk awareness and enhancing cooperation between Group companies in neighboring regions. In fiscal 2013, the Company convened training in conjunction with the BCP Subcommittee meeting, with 49 participants. To date, a total of over 250 leaders have taken part in such training.

## Measures for Employee Safety and Systems for Business Continuity

- Disaster prevention cards have been distributed to all Sumitomo Forestry Group employees, promoting the basic response procedure to take in the event of a disaster. A safety verification system has also been introduced, allowing the safety of employees to be checked quickly in the event of a natural disaster, and drills using this system are conducted every year.
  In fiscal 2013, Sumitomo Forestry conducted a drill using the safety verification system and the emergency contact network, divided over two occasions in November. Each Group company also conducted safety verification drills.

- To ensure that employees stationed abroad and accompanying family members can receive appropriate treatment if they suffer an accidental injury or get sick while overseas, the Company has introduced a service for referring employees and their families to medical providers and making necessary arrangements.
  In fiscal 2013, the Company formulated an Overseas Crisis Management Manual which summarizes the safety management systems for employees overseas, as well as the principles of conduct and coping strategies in the event the employee suffers damage while overseas.

- Based on its Disaster Prevention Standards, the Company advanced office safety measures including measures to prevent office equipment from falling in an earthquake.
  In fiscal 2013, the Company endeavored to implement measures at Group companies throughout Japan to prevent office equipment from falling and to prevent rolling of multi-function printers in an earthquake. Furthermore, the Company has equipped all Group bases in Japan with emergency supplies, and those in the Tokyo metropolitan area, Osaka and Nagoya are also stocked with non-perishable food and water so that employees who are unable to return home after a disaster can be catered for at the office for up to three days.

- Accounting and customer data is backed-up and a system is in place so that important business transactions, such as payments to business partners can be actioned from home if it is difficult to come to the office following an emergency. Each year the Company conducts a simulation drill for actioning payments in an emergency.

Disaster prevention card

Overseas emergency contact card

## Supply Chain Business Continuity Initiatives

In readiness for potential disruption of its housing business supply chain following a disaster, Sumitomo Forestry shares the specifications and processes for property construction along with site progress status information with business partners including component makers and building contractors. By enabling advanced procurement of materials and production in this way, the Company is striving to reduce the risk of a disruption to operations.

## Continuity of Customer Service

- Sumitomo Forestry has established an overnight call center, thereby facilitating 24 hour after-sales service, however by splitting the base between Tokyo and Osaka, the Company has ensured that it is able to still handle customer calls via either of the centers in the event of an emergency.

- By managing information for each base through a unified emergency system, the Company can share damage information pertaining to owners nationwide, enabling us to respond quickly to requests for repairs.

# Information Security

## Information Security Policy

In order to ensure the confidentiality, integrity and availability of its information systems, the Sumitomo Forestry Group has raised the security level of its systems while maintaining the “regulation” aspects and “technology” aspects of information security in a mutually complementary manner. Based on the recognition that the protection of customer information in particular is of utmost importance, the Group continues to conduct employee training to ensure dissemination of the rules, and verifies their level of awareness.

With respect to the “regulation” aspects of information security, the Group has established the Sumitomo Forestry Group Information Asset Protection Guidelines for Group companies in Japan. At the same time, it has prepared a checklist based on these guidelines, and every year, the person responsible for the department in charge of information systems at each Group company runs a check for the purpose of ascertaining the actual information security situation at each Group company and improving the level of security. In fiscal 2012, the Group also formulated guidelines for Group companies outside of Japan.

On the other hand, with respect to the “technology” aspects of information security, the Group has introduced encrypted start-ups and restrictions on writing data from computers that are taken outside the Company.

## Systems for Managing Information Security

Under the supervision of the executive officer in charge of information systems, the general manager of the Information Systems Department promotes information security measures for the Sumitomo Forestry Group, such as the formulation and management of rules and regulations, the proposal and implementation of technical measures, the education and training of employees, and the investigation of accidents and implementation of countermeasures.

Furthermore, the person responsible for each department provides guidance and management for the execution of that department's operations as the information security supervisor, and assigns an information security officer who is the working-level manager for the department's information security.

The Group also holds regular meetings of the Affiliated Companies IT Managers Council, which is attended by the persons responsible for departments in charge of information systems at Group companies in Japan. The council checks the content of the guidelines and promotes the introduction of security systems.

## Initiatives to Strengthen Information Security

The Sumitomo Forestry Group has introduced a self-check system provided by an external systems supplier, and performs self-checks once a year Group-wide. In fiscal 2013, due to the increased use of smartphones and tablets for work, the Group revised the check points, adding such items as cautions when using these devices. Training was conducted for 144 employees, focused on those who are responsible for promoting information security at each base.

In addition, once a year, the Group commissions an assessment from an external IT vendor and carries out a security assessment on the public websites of Sumitomo Forestry and each Group company.

# Intellectual Property Management

## Intellectual Property Management Policy

Imitation and unauthorized use of trademarks and copyrights have become one of the risks for corporate management. The Sumitomo Forestry Group strives to protect the intellectual property it creates, such as by claiming rights for whatever it can, and concealing as know-how that property for which rights cannot be acquired.

The Group is also putting effort into preventing rights violations from being caused by or to the Group. It endeavors to improve awareness about intellectual property rights for all Group employees, not least those in the research and development departments and in the marketing and planning departments, such as by means of group study sessions, e-learning and educational activities via posters and the Company's intranet.

## Systems for Managing Intellectual Property

Sumitomo Forestry established the Intellectual Property Department and it employs a number of patent lawyers on its department staff. In addition to providing support for creating intellectual property, support for filing applications and preserving rights for intellectual property, and support for concluding various technology-related contracts, the department also raises awareness for intellectual property among employees, conducts internal and external intellectual property trend analysis, and makes recommendations for the direction of research and development.

Furthermore, in order to prevent rights violations from being caused by or to the Group, the Company has also established an Intellectual Property Hotline and promotes this service to employees.


Poster advertising the Intellectual Property Hotline

# Initiatives for Managing Intellectual Property

## Intellectual Property Training

The Intellectual Property Department conducts classroom training for Sumitomo Forestry Group employees as required, for the purpose of promoting the creation of intellectual property and preventing any conflicts with the rights of other companies. Each year since fiscal 2012, a compliance-focused e-learning program for all Group employees has been conducted using the intranet. In addition, every year, Sumitomo Forestry enlists employees from research and development departments, including at Group companies, and sends them to training provided by external organizations, such as the Japan Intellectual Property Association.

In fiscal 2013, the Company held four study sessions on intellectual property at the Tsukuba Research Institute in an effort to ensure thorough compliance and risk management. In addition, group training on trademarks was conducted focused on sales and planning division employees to emphasize the importance of trademarks and raise the level of awareness of key points.

Study session on intellectual property at the Tsukuba Research Institute

## Intellectual Property Award

The Intellectual Property Awards are conducted annually by the Group based on an Intellectual Property Award Code to recognize groups and individuals who have contributed to enhancing the Group's business competitiveness through inventions and other notable achievements.
In fiscal 2013, an awards ceremony was held at Head Office and seven employees received awards or commendations.

VOICE

## Received an Intellectual Property Award for the Proposal of Timber Beams with Enhanced Fire Prevention and Resistance

I conduct research and development into fire prevention and resistant materials for the construction of timber buildings at Sumitomo Forestry's Tsukuba Research Institute and proposed the creation of timber beams with enhanced fire prevention and resistance. This award is a great encouragement and in the future I will strive to develop safer and easy-to-use fire prevention and resistant technologies.

**Mariko Seki**
**Senior Researcher, Tsukuba Research Institute**

## Education through the Company Intranet

Sumitomo Forestry has set-up a company intranet site called Intellectual Property Farm. The site provides Sumitomo Forestry Group employees with a fundamental grounding in intellectual property as well as a simple explanation about trademark rights that employees ought to understand when promoting business activities. The site also posts information on the latest topics concerning intellectual property.

With the website being used for employees to acquire knowledge and to educate them about intellectual property, its hit count has increased. The Company plans to continue enhancing the content posted on the site.


Front page of the Intellectual Property Farm

# CSR Management

## Corporate Policies

The Sumitomo Forestry Group's corporate philosophy advocates utilizing timber as a renewable, healthy, and environmentally friendly natural resource, and contributing to realizing 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 for what should be considered as most important in relation to their actions, we formulated the statement, “Our Values and Ideals.” These have been translated into English and Chinese, and have been published on the Company’s website. The Corporate Philosophy has also been translated into Indonesian, with an aim of instilling it among local Group employees.

**Corporate Policies of the Sumitomo Forestry Group**

## 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 expertise on timber and housing, we intend to create “spiral 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
2. Utilize Forests
3. Utilize Traditions

### Joy in Development

1. Nurture Families
2. Develop Homes
3. Foster Communities

### Joy in Bringing People Together

1. Bring Employees Together
2. Bring Society Together
3. Bring the World Together

## Our Values and Ideals

**The Group sets great store by the following three ideals: “Inspire Emotion,” “Blaze a Trail to the Future,” and “Act with Dignity.”**

### 1. Inspire Emotion

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

### 2. Blaze a Trail to the Future

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

### 3. Act with Dignity

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

## Sumitomo Forestry‘s Business and CSR

The history of Sumitomo Forestry dates back more than 320 years. At the time, the Besshi Copper Mine in Shikoku in Japan was being constructed, and so wood was in great demand for use as props in mine shafts and as fuel. Sumitomo Forestry's business originates in the management of the forests around the mine. Soon after the beginning of the Meiji era, Sumitomo carried out a large-scale reforestation plan to restore the mountain forests of Besshi which had been devastated due to overharvesting and smoke pollution. Having planted more than one million trees annually in some years, Sumitomo succeeded in returning the mountains surrounding Besshi to their original lush condition we see today. The spirit behind this “sustainable forestry,” of continuing to utilize resources while protecting the environment through a pattern of logging followed by planting, is harnessed by Sumitomo Forestry in its current operations.

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

## Business of the Sumitomo Forestry Group

### Forestry & Environment Business

Implementing the planned forest management of broad tracts of Company-owned forests in Japan, based on the principle of “sustainable forestry.” In addition to supporting the provision of timber materials, we also provide consulting services.

### Environmental Energy Business

Developing new businesses to contribute to the environment through the expanded use of Japanese timber and utilization of renewable energy.

### Timber & Building Materials Business

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

### Custom-Built Housing Business

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

## Renovation & Leasing Business

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

## Residential Property Development Business

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

## MOCCA (Timber Solution) Business

Promoting the expansion of timber use through wood construction in non-residential sectors and in interiors. Reevaluating the history people and wood living in harmony to create a new culture surrounding trees.

## Greenery Business

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

## Overseas Resources & Manufacturing Business

Developing sustainable business using wood in response to the evolving environmental issues and demand for timber materials worldwide. Engaged in large scale plantation and production of high-quality timber building materials.

## Overseas Housing & Real Estate Business

Engaged in the creation of comfortable housing adapted to local residential cultures and lifestyles around the world, leveraging expertise gained through building homes in Japan.

## Lifestyle Services

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

## CSR Management Based on Four Material Issues

Through a process of identifying social issues that are particularly relevant to its business, and, while taking stakeholder feedback into account, narrowing them down to four priority issues for which there are high expectations on the Group, the Sumitomo Forestry Group has stipulated “Four Material Issues.”
While keeping a close watch on changes in society and incorporating the suggestions of its stakeholders, the Group constantly reviews the progress and outcomes of its activities as it promotes CSR management with an aim of realizing a sustainable society.

## Four Material Issues

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

## The Process for Determining the Material Issues

### (1) Selection of candidate material issues

Based on discussions with specialist third parties, responses to previous CSR Report, and opinions received through employee workshops, a total of 27 issues were identified that Sumitomo Forestry should tackle.

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

Total of 143 customers, business partners, analysts, investors, members of the press, employees, and relevant experts were surveyed for these 27 issues, which allowed us to prioritize 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.

**Results of Mapping the Identified Iss**


### (4) Determination of material issues

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

## Participation in the United Nations Global Compact

In December 2008, we formally signed the United Nations (UN) Global Compact to declare our support for its principles. The ten principles of the UN Global Compact are based on globally established agreements, including the Universal Declaration of Human Rights, and the International Labour Organization's (ILO) Declaration on Fundamental Principles and Rights at Work. They incorporate support of and respect for the protection of human rights and the eradication of forced labor and child labor.

### 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**
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 labor; 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.

Social Report

# Housing Safety and Quality Control

## Major Initiatives and FY2013 Results

### Ongoing Promotion of Enforcement of the Japanese Housing Performance Indication System and Improvement to Acquisition Rate of Excellent Long-term Housing Certification

Sumitomo Forestry sets the standard specifications for its Sumitomo Forestry Home houses to exceed the highest level of Excellent Long-term Housing[1] certification conditions[2] (applying the evaluation under the Japanese Housing Performance Indication System[3]). From product development through to construction and after-service, the Company has established its framework for product safety and quality control in order to deliver high quality homes with superior overall balance.

In addition, the Company is actively promoting the use of the Japanese Housing Performance Indication System for customer peace of mind and safety and in order to enhance property value.

1. Excellent Long-term Housing: A life-long housing certification system which aims to popularize housing that will help realize a society that values its housing stock.
2. Detached housing is evaluated for durability, seismic resistance, ease of maintenance and energy efficiency in accordance with the Japanese Housing Performance Indication System.
3. The Japanese Housing Performance Indication System: Third-party evaluation of design performance at the time of design and of construction performance upon completion so that customers can objectively assess the quality and performance of a house. The system comprises 10 evaluation items, including structural stability, fire safety, alleviation of deterioration, and thermal environment.

## Excellent Long-term Housing Standards and Standard Performance of Sumitomo Forestry Home Houses

The higher the rating value, the better the evaluation.

| Certification type | | Certification criterion | Standard performance of *Sumitomo Forestry Home* houses |
|---|---|---|---|
| Durability | The house will **last a long time** | Rating of measures against deterioration **Highest level 3 Measures that are able to be inspected periodically** | Equivalent to **highest level 3!** |
| Seismic resistance | The house is **resistant to earthquakes** | Rating of earthquake resistance **2 or higher** | Equivalent to **highest level 3!** |
| Ease of maintenance | The house is **easy to maintain** | Rating of measures for maintenance **Highest level 3** | Equivalent to **highest level 3!** |
| Energy-saving performance | The house is **energy efficient** | Rating of measures for energy conservation **Highest level 4** (Compatible with next-generation energy conservation standards) | Equivalent to **highest level 4!** |

### Boosting Implementation Rate of the Japanese Housing Performance Indication System

**Targets**

Targets are set at each plant based upon each country's laws and regulations

**Results and progress in FY2013**

Implementation of Design Performance Evaluation *4 **100.6%**
(FY2012 : 98.9%)

Implementation of Construction Performance Evaluation *4 **95.4%**
(FY2012 : 91.0%)

### Enhancement of Excellent Long-Term Housing Certification Acquisition

**Targets**

Enhancement of Excellent Long-Term Housing Certification Acquisition

**Results and progress in FY2013**

Excellent Long-Term Housing Certification Acquisition **90.7%**
(FY2012 : 88.4%)

4. Performance evaluation implementation indicates the number of applications against the total number of detached houses constructed, including extensions and/or alterations (applications for design and construction performance evaluation, April 1, 2013–March 31, 2014).

## Basic Policy for Product Safety and Quality Control in the Housing Business

Sumitomo Forestry believes that popularizing durable, high-quality houses as social assets plays an important role in creating a prosperous society. Based on this belief, and taking the opportunity of the enforcement of the Excellent Long-Term Housing Promotion Act in Japan in June 2009, the Company formulated a basic policy for product safety and quality control in its housing business in fiscal 2009.

### Basic Policy for Product Safety and Quality Control in the Housing Business

1. Make houses more reliable by improving their basic functions
2. Increase future options for layout to accommodate changes in lifestyles
3. Enhance maintenance programs to support long-term upkeep
4. Monitor information on any production faults, and share information on handling faults promptly

## Framework for Product Safety and Quality Control in the Housing Business

In the housing business, Sumitomo Forestry has established a strict framework for safety and quality control in all steps through to delivery of the home to the customer.


- At meetings held once every two months, the Product Strategy Committee sets themes to tackle and determines its road map based upon information obtained through consumer awareness surveys and owner questionnaires.
- The Housing Division and Tsukuba Research Institute are collaborating in experiments at validation facilities and testing of prototypes, promoting the creation of products that incorporate customer feedback, including even in the details of guarantees.

The Product Strategy Committee


- Sumitomo Forestry uses a unique system to check design and structure at the time of contracting and through the final design stage.

A dedicated designer responsible for the work


- The Materials Selection Subcommittee, which meets once every month to decide upon all materials, conducts design reviews. All materials are checked to ensure that they meet the acceptance and quality standards set by the Tsukuba Research Institute and the Materials Selection Subcommittee.
- The Quality Improvement Committee, which meets once every two months, shares information on materials that have been newly accepted, and discusses improvements to materials that have already been accepted. During fiscal 2013 they reported and discussed progress relating to nine themes.

## Construction

- Sumitomo Forestry centrally manages and shares up-to-date information on the construction, process management, quality control and safety management of each building through its own site management system.
- Each on-site operator, contractor manager and construction manager during such stages as foundation, construction and completion, conducts inspections covering 170 items which are managed using a construction management record. Additionally, the Head Office inspection division checks the status of the inspection and management.

Construction management

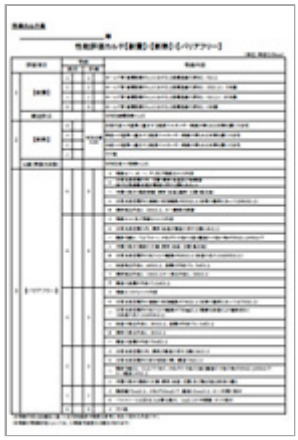
## After-Sales Support

- Sumitomo Forestry includes 60 years of after-sales service with homes.
- Sumitomo Forestry's Long-Term Support System offers renovation and maintenance proposals and manages maintenance records in order to support its customers.

Regular inspection

## Renovation

- Based on the Company's own performance evaluation chart, Sumitomo Forestry quantifies the performance grade of existing and planned homes for seismic resistance, thermal insulation and accessibility to indicate to customers the degree to which the performance grade has been enhanced.

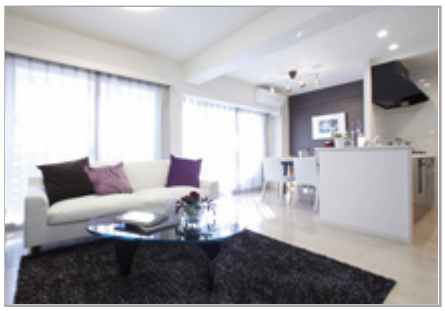


The Company's own performance evaluation chart

## Renovation (Purchase for Resale)

- Building purchase stage:
  For detached houses, a reliable home inspection is performed and an overall seismic-resistance certificate is issued. For condominiums, an inspection and survey of the present condition and any defective areas is conducted using the Company's own check sheet.
- Construction stage:
  Quality is controlled by conducting in-house checks with the main focus on safety, functionality and durability.
- After handover:
  Support systems have been enhanced. For detached houses, a Long-Term Livability Plan is prepared to systematize retrofitting and maintenance. An enhanced after-sales service system also exists for condominiums.

Pre-renovation



Post-renovation

## Improvement of Safety and Comfort in the Housing Business

Sumitomo Forestry offers homes that integrate seismic resistance, fire resistance, thermal insulation, age-deterioration countermeasures and universal design to improve all aspects of home performance so as to offer customers homes where they can live in peace of mind and comfort for many years to come.

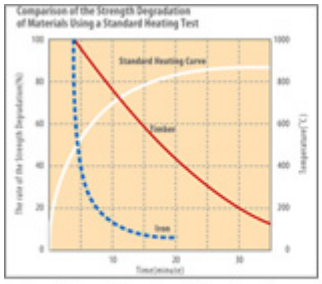
## Improved Seismic Resistance and Durability

- For newly constructed homes, standard specifications are set at Level 3—the highest level—for evaluations based on the Japanese Housing Performance Indication System in regards to structural stability (seismic resistance, etc.).

- With renovation, the Sumirin REP construction method, Sumitomo Forestry's original seismic resistance technology, which won a Good Design award in fiscal 2013, is used to increase the seismic rating by at least 1.0,[1] followed by the fitting of S-shaped vibration dampers. This double level of reliability not only improves seismic resistance, but also achieves better seismic resistance and damping.

## Ensuring Safety in the Event of a Fire

- Sumitomo Forestry's products ensure fire prevention and resistance while taking advantage of the merits of wood.
- The Company is boosting its lineup of products which offer government-regulated semi-fire-resistant construction[2] as standard specifications.




Results of standard heating test

Char layer on the surface of structural material

## Reduced Deterioration and Measures Addressing Operation and Maintenance of Equipment

The Company uses the highest specifications in the Japanese Housing Performance Indication System relating to deterioration alleviation, and maintenance.

## Universal Design

Sumitomo Forestry is driving research based on human lifestyle engineering using 3D motion and view-tracking analysis equipment. The Company offers homes which take universal design into consideration.

## Improvement of Crime Prevention

Based on the “crime prevention” category under the Japanese Housing Performance Indication System, Sumitomo Forestry provides customers with proposals for crime prevention measures from the site survey and design stage.

Comparison of damage caused by breaking glass(Left: Double-glazed security window, Right: Float glass window)

## Preserving Air Quality inside Houses

- Sumitomo Forestry is working to reduce emissions of volatile organic compounds (VOCs), which have been identified as a cause of “sick house” syndrome to below the guidelines prescribed by the Ministry of Health, Labour and Welfare, and has separate provisions for prohibited chemical substances.
- In accordance with the standards contained in these guidelines, F☆☆☆☆-rated timber, building materials, insulation and adhesives,—which have the lowest level of formaldehyde emissions—are used in the Company's products. Moreover, F☆☆☆☆-rated furniture, lighting and curtains are recommended in interior design proposals.

1. Seismic rating of 1.0: Level where the building will avoid complete collapse in an earthquake of intensity level 6.
2. Government-regulated semi-fire-resistant construction: A house that meets the standards prescribed by the Japan Housing Finance Agency as being a construction with fire prevention properties corresponding to semi-fire resistance prescribed in the Building Standards Act.

# Development of New Technology

## Precast Concrete Mat Foundation Construction Method that Improves ConstructionAccuracy

In April 2013, Sumitomo Forestry and precast housing foundation company, Sigma Base Limited Liability Partnership, announced the joint development of a new precast concrete (PCa) mat foundation construction method that offers benefits including improved construction accuracy, streamlining and a reduction in building time. Through incorporating the new PCa mat foundation construction method it has become possible to recommend optimal methods to customers, based mainly on design plans and construction conditions. The method is offered in Miyagi, Fukushima, Hyogo and Okayama prefectures, areas where the required PCa foundation beams are currently available, and the reach will gradually be expanded, with the aim of making it available nationwide.

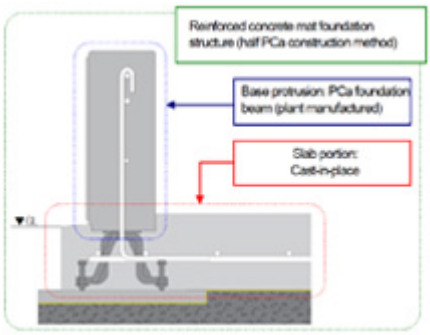
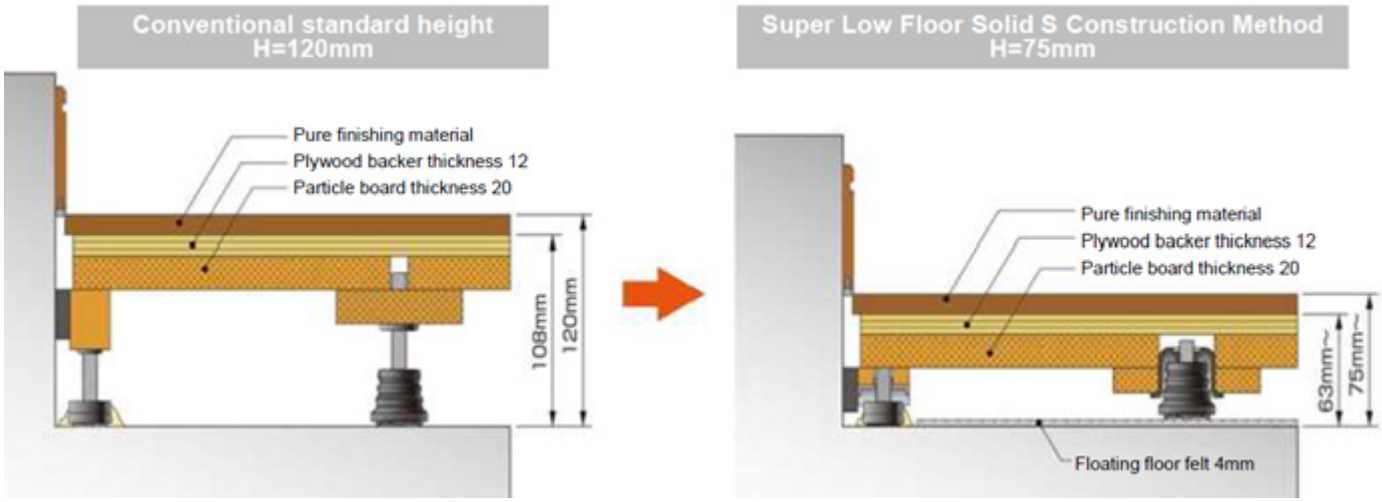



Illustration of incorporation of PCa mat foundation construction method

- News Release: Introducing a Precast Concrete Foundation Construction Method —Improving Building Precision for Custom-built Detached Housing Foundations and Achieving Quicker, Streamlined Construction—

## "Ultra-low Floor Solid S Construction Method" Condominium Renovation Technology which Achieves Interior Space with Solid Flooring

In March 2014, Sumitomo Forestry Home Tech Co., Ltd. announced a Ultra-low Floor Solid S Construction Method (patent pending), a dry-type sound insulation double-floor construction method jointly developed with Awaji Giken Co. Ltd., Sumitomo Forestry Tsukuba Research Institute, and Sumitomo Forestry Crest Co., Ltd.
This method expands the potential for solid flooring in condominium renovation. By enabling the finished floor to be lower, this construction method achieves a greater ceiling height. The unique technology also provides improved sound insulation. These factors make it possible to renovate condominiums to create an interior space with solid flooring and a woody feeling. Sumitomo Forestry Home Tech will actively apply this construction method to offer condominium renovation which takes maximum advantage of the merits of wood.




Difference Between Conventional and Super Low Floor Solid S Construction Methods Used in Renovation

Social Report

# Product Safety and Quality Control of Building Materials

**Product Safety and Quality Control in the Manufacture of Wood Building Materials in Japan (Sumitomo Forestry Crest Co., Ltd.)**

## Basic Policy for Product Safety and Quality Control

Sumitomo Forestry Crest Co., Ltd. has established quality policy for fiscal 2013 and fiscal 2014 based on ISO 9001 as described below. Each plant and division has formulated specific quality targets and action plans in line with this quality policy, and is committed to maintaining safety and improving quality.

In fiscal 2014, the company plans to determine an action policy for a quality management system.

### Sumitomo Forestry Crest Co., Ltd.'s Quality Policy

1. Provide products that always give first priority to customer satisfaction, from product development and manufacture, to distribution and post-construction follow-up.
2. Cooperate with internal and external partners, understand appropriate costs, and manufacture in a way that ensures safety, performance and quality.
3. Establish quality targets, and develop systems that allow all employees to make continual improvements.

## Framework for Product Safety and Quality Control

Since October 2010, Sumitomo Forestry Crest Co., Ltd. has been operating with integrated ISO 9001 at its six plants nationwide. Having developed a framework for quality control based on the quality policy as well as a strict framework for process control, the company manufactures products of high quality. Furthermore, by utilizing a quality information management system, the company endeavors to reflect market feedback and demands back into the production site.

Internal audits are also carried out twice a year at all plants for the purpose of following the PDCA cycle for the quality management system established under ISO 9001. In addition, in order to build the capacity of employees in quality control, the company also puts effort into education on how audits are conducted and into employees getting qualifications. As of March 31, 2012, 167 employees had been certified as internal auditors.

Moreover, in an effort to ensure product safety, a system is in place whereby, in the event information is received about a major product fault that could result in a recall, a report will reach the President from whoever is in charge within two hours via the emergency contact network.

## Promotion of Quality Improvement Activities Based on Company-Wide Targets

Sumitomo Forestry Crest Co., Ltd. has set quality targets at each plant and division, and is promoting quality improvement activities. During fiscal 2013, a Quality Improvement Committee was launched for a companywide review of control systems at manufacturing locations and also of internal rules. They also produced a risk assessment manual from the perspective of product safety and have begun risk assessment during product development.

In fiscal 2014, the company will continue to improve activities, aimed at achieving a 20% reduction of complaints (to 8,308) from fiscal 2013.

Quality check in plant

# Product Safety and Quality Control in the Overseas Manufacture of Wood Building Materials (Overseas Companies Manufacturing Wood Building Materials)

## Basic Policy and Framework for Product Safety and Quality Control

Overseas Group companies responsible for the manufacture of wood building materials have acquired ISO 9001 and other quality management certifications. In line with these certifications, each company has established policies and standards for product safety and quality control, and strives to ensure that its employees understand them well. Furthermore, each company also has systems in place for implementing product safety and quality control, and undergoes an external review every year aimed at further enhancing and improving those systems.

▸ Acquisition of Quality-Related Certification

## Standardization of Operations, and Promoting Acquisition of ISO 9001 Certification

Vina Eco Board Co., Ltd. (VECO), which started commercial production of particleboard in Vietnam in May 2012, acquired ISO 9001 certification in April 2014. In the process of acquiring ISO certification, the company has standardized operations and built a system which will allows it to provide consistent quality.

Furthermore, in order to differentiate itself from its competitors, the company attaches the product specifications on the packaging of each product. This practice is still not common in Vietnam, and so by clearly stating the product specifications, the aim is to establish VECO as a high-quality brand.

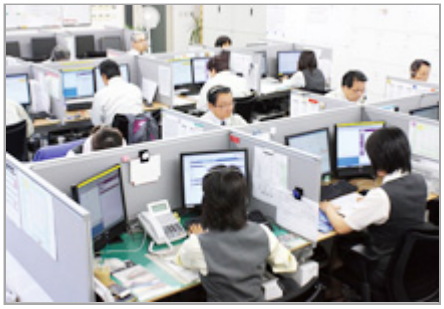
Laboratory at VECO

# Communication with Our Customers

## Respect for and Application of Customer Feedback

### Operation of Sumitomo Forestry Call Centers

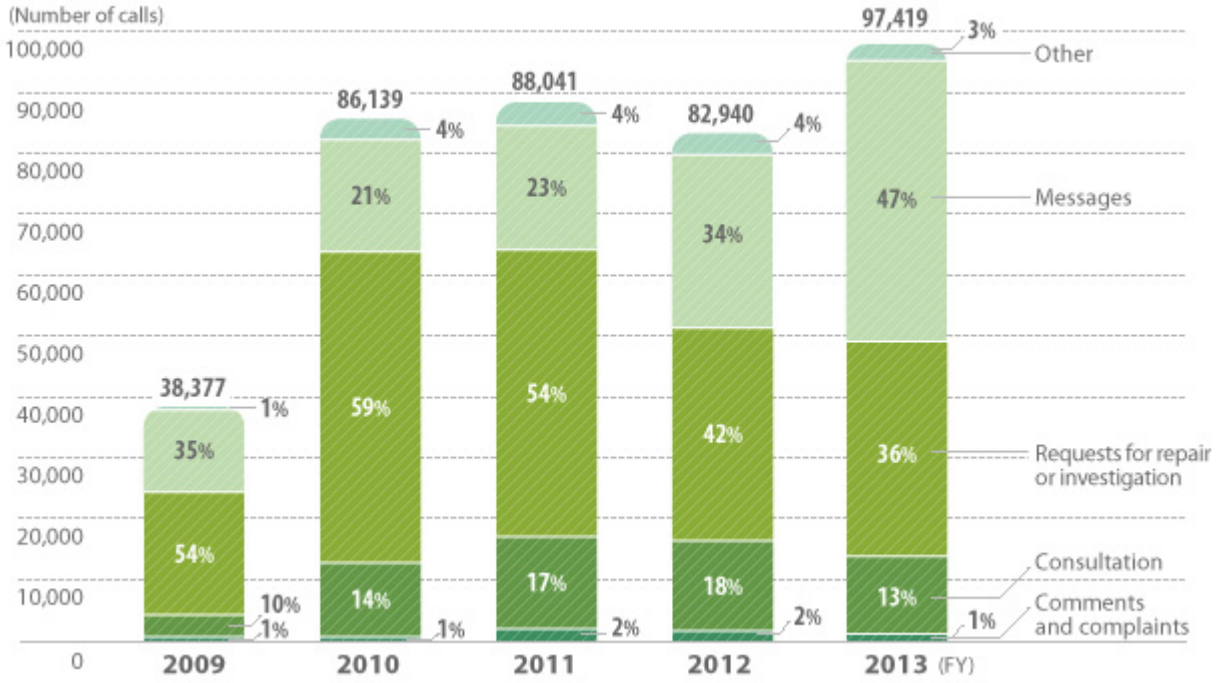
In order to enhance customer service, Sumitomo Forestry established an after-hours call center in 1999, providing a prompt response in situations such as when customers need a lifeline in the event of an emergency. Additionally, in 2010, the Company established Sumitomo Forestry Call Centers, unified national 24-hour 365-day toll-free call center dedicated to receiving calls for repairs and maintenance. In order to raise broad awareness of the centers among customers, direct mail was sent to those who had already moved into their homes, magnets with contact details were given to new home owners at handover, and the Company has also featured them on its website and magazine exclusively for home owners.



A Sumitomo Forestry Call Center

Presently the centers are located in Tokyo and Osaka, and are linked together, shortening wait times for customers who call via the unified national free-dial number. In addition, the system is organized to enable response in emergency situations. The system facilitates prompt response to customer requests and consultations and also strives for improved customer satisfaction.

**Volume of calls to Customer Support Centers and the Sumitomo Forestry Call Centers, and breakdown of those calls**




## Customer Surveys

To accurately assess customer views and customer satisfaction, Sumitomo Forestry distributes a questionnaire three times: once when an owner moves in, and then during the second and tenth year of their residence. The survey questions primarily cover specifications, design, building materials, systems and fixtures, and the support service provided by the staff. The Company then statistically processes and analyzes these results, and applies any findings to product development and employee training. Customers are also given a short questionnaire at the end of any after-sales maintenance visit or inspection, requesting feedback on such subjects as the attitude and behavior of the maintenance contractor, as well as their response speed and repair techniques.

In fiscal 2013, the following common targets were adopted with the aim of achieving even greater improvements in customer satisfaction.

- 100% return rate for questionnaires distributed when owners move in
- Minimum 80% response rate for “I would recommend *Sumitomo Forestry Home* houses” in the survey conducted when owners move in
- Minimum 70% response rate for “I would recommend *Sumitomo Forestry Home* houses” in the survey conducted in the second year of residence

Because the benefits of improvements in customer satisfaction will only appear after ongoing efforts, Sumitomo Forestry implements initiatives conscious of PDCA management so that they do not end as simply a goal-setting exercise.

**Target**

Minimum 80% response rate for “I would recommend *Sumitomo Forestry Home* houses” in the survey conducted when owners move in

**FY2013 result**

**87.4%**

**Target**

Minimum 70% response rate for “I would recommend *Sumitomo Forestry Home* houses” in the survey conducted in the second year of residence

**FY2013 result**

**84.0%**

## Keeping Customers Informed in the Housing Business

### Hosting of Sumai Haku

Sumitomo Forestry has hosted its Sumai Haku housing fair every year since fiscal 1998, focused on the three major metropolitan areas of Tokyo, Nagoya and Osaka, to comprehensively promote the structural framework, design methods, systems and fixtures of Sumitomo Forestry Home houses. For fiscal 2013, the fair was held in Osaka and Yokohama in November and in Nagoya in February 2014. For the first time in its history the Osaka fair continued for one month.

The Sumai Haku

In hosting the Sumai Haku, efforts were made to reduce the environmental impact ranging from construction through to the hosting and dismantling. This involved the offset of the equivalent of $CO_2$ emissions through electricity, gas and water used at each location through J-VER offset credits acquired through the Company-owned forests.

**Sumai Haku Visitor Numbers**

| Location | Period | Visitors |
|---|---|---|
| **Osaka (Nishi Umeda Square)** | November 1–12, 2013 | Approximately 9,000 parties |
| **Yokohama (Minato Mirai)** | November 9–10, 2013 | Approximately 4,500 parties |
| **Nagoya (Kinjofuto)** | February 8–9, 2014 | Approximately 2,500 parties |

## Hosting Home Building Consultation Meetings at Commercial Facilities

Sumitomo Forestry hosted Home Building Consultation Meetings at a total of 20 Daimaru Matsuzakaya Department Stores and Parco department stores for four days from August 1 to 4, 2013. The event provided a forum for people considering new construction, rebuilding, renovation or utilization of land to learn about Sumitomo Forestry's home building technology, the quality of wooden homes, and the latest technology without having to visit model homes in a casual manner. The Company is considering holding such events again in the future.


Home Building Consultation Meetings event site

## Website Operation and Magazine Publication

Sumitomo Forestry operates its Club Forest special website for owners of Sumitomo Forestry Home houses. As of March 2014, about 64,600 owners had registered as members.

*Lovely Family* is a home and lifestyle magazine sent out twice a year. It also features details about Group company activities such as renovation and utilization of land. Print runs for each issue were about 260,000 in fiscal 2013.


The cover of *Lovely Family*

## Sumitomo Forestry Home Establishes Century-old Home Club

Sumitomo Forestry Home Tech Co., Ltd. established a Century-old Home Club in July 2013 as part of its safe and reliable renovation ideas. Members include owners of historic homes (constructed prior to 1950) renovated by the company, people currently living in a historic home, or those who plan to purchase a historic home.

VOICE

### This Membership-based Century-old Home Club Aims to Pass Homes of High Cultural Value Down through the Generations.

Sumitomo Forestry Home Tech Co., Ltd. established a Century-old Home Club in order to preserve historic homes[1] of high cultural value for future generations. Members gain access to a number of benefits, including a consultation service, an email magazine and quarterly journal to regularly share various home-related information.

Moreover, to coincide with the establishment of the club, the company also offers a “paid long-term maintenance system” exclusively for historic homes in an effort to create homes that people can live in safely and comfortably for many years.

**Kiyoshi Yamada**
**General Manager**
**Marketing Strategy Department**
**Sumitomo Forestry Home Tech Co., Ltd.**

1 Sumitomo Forestry Home Tech Co., Ltd. defines homes built using traditional techniques prior to the introduction of the Building Standards Act of 1950 as “historic homes.”

# Appropriate Dissemination of Information and Protection of Personal Information

## Observance of Laws, Standards and Norms in Advertising and Publicity

When creating advertisements, Sumitomo Forestry complies with relevant legislation, including the Building Lots and Buildings Transaction Business Act, the Act against Unjustifiable Premiums and Misleading Representations, and the Copyright Act. The Corporate Communications Department, the Intellectual Property Department and the Legal Group in the General Administration Department cooperate to confirm and verify the content of advertisements as required.

The Brand Communication Executive Committee

Furthermore, the Company holds monthly meetings of the Brand Communication Committee comprised of advertising personnel from relevant departments and relevant Japanese affiliates. Sumitomo Forestry also notifies all Group companies of any matters necessary for preventing non-compliance. Through these efforts, the Company made certain of prior checks, and endeavored to ensure that unreliable information was not communicated and customers not otherwise misled.

In fiscal 2013, the Group conducted training concerning trademarks and worked to ensure prevention of infringement of rights both of and by the Group. At the same time, efforts were made to drive a unified sense of branding within the Group.

## Systems for Protecting the Privacy of Customers (Protection of Personal Information)

Sumitomo Forestry has formulated internal rules to safeguard the personal information of customers. In addition, the executive officer responsible for general administration is designated as chief executive in charge of protection of personal information. The Company has also placed an information security officer in each department. In these ways, the Company has established a protection system covering Head Office through to each office.

The Company has also established a help desk for inquiries regarding the handling of personal information within the Customer Service Department. In addition, collective training is provided for the head and general administration representative for each organization. E-learning is provided for all other employees and efforts are made to increase awareness at subcontractors, in order to prevent the leaking of personal information. It is also mandatory for employees at Group companies to undertake the e-learning training.

▸ Information Security

# Acquisition of Quality-Related Certification

## Acquisition of Quality-Related Certification

| Group Company | Country | Type of Certification | Date Acquired |
|---|---|---|---|
| **Sumitomo Forestry Crest Co., Ltd.** | Japan | ISO 9001 | 3[1]/1999 |
| **Sumitomo Forestry Landscaping Co., Ltd. Environmental Greenification Division** | Japan | ISO 9001 | 9/2002 |
| **Sumitomo Forestry Home Engineering Co., Ltd.** | Japan | ISO 9001<br>JIS Q9001 | 3/2006 |
| **Alpine MDF Industries Pty Ltd.** | Australia | JIS certification(MDF) | 5/2003 |
| | | New JIS certification(MDF) | 9/2008 |
| | | CARB certification[2] | 1/2009 |
| **Nelson Pine Industries Ltd.** | New Zealand | JIS certification(MDF) | 3/2003 |
| | | ISO 9001 (MDF) | 7/2003 |
| | | ISO 9001 (LVL) | 7/2004 |
| | | JAS (LVL) | 5/2008 |
| | | New JIS certification | 5/2008 |
| | | CARB certification | 10/2008 |
| | | ISO 9001 | 9/2011 |

| Group Company | Country | Type of Certification | Date Acquired |
|---|---|---|---|
| **PT. Kutai Timber Indonesia** | Indonesia | ISO 9002 | 9/1997 |
| | | JAS | 7/2000 |
| | | Q-Mark | 6/2010 |
| | | ISO 9001 | 8/2010 |
| | | CARB certification(PB) | 11/2012 |
| | | CARB certification(plywood) | 12/2012 |
| | | CE Marking | 12/2012 |
| | | JIS certification | 2013 |
| **PT. Rimba Partikel Indonesia** | Indonesia | ISO 9001 | 12/1999 |
| | | JIS certification(PB) | 3/2007 |
| | | CARB certification | 2/2009 |
| | | SVLK certification[3] | 12/2012 |
| **PT. Sinar Rimba Pasifik Indonesia** | Indonesia | JAS | 3/2012 |
| **PT. AST Indonesia** | Indonesia | ISO 9001 | 10/2002 |
| | | JAS | 12/2012 |
| **PT. Wana Subur Lestari** | Indonesia | SVLK certification | 2/2013 |
| **Vina Eco Board Co., Ltd.** | Vietnam | CARB certification(PB) | 11/2012 |
| | | ISO 9001 | 4/2014 |
| **Canyon Creek Cabinet Company** | United States | ISO 9001 | 3/2007 |

1. Acquired first by the Kyushu plant in March 1999 and all other plants subsequently. All plants had acquired integrated certification by October 2010.
2. Air pollution regulation stipulated by the California Air Resources Board in the United States. CARB standards are stricter than federal regulations.
3. Certification under the new timber legality assurance system in Indonesia.

# Policy and System for Sustainable Procurement of Timber

## Thorough Green Procurement

The Sumitomo Forestry Group formulated the Green Procurement Guidelines in 2002. The Guidelines establish standards for procuring products from two perspectives, namely: the supplier's stance toward the environment (corporate activities assessment); and the product's impact on the environment throughout its life cycle (product assessment).

Since timber is essential to the Group's business operations, the Group has also separately established the Timber Procurement Standards, and the legal compliance of timber materials handled is verified by the Timber Procurement Committee. Moreover, in order to conduct procurement that is not only lawfully and environmentally responsible but also socially responsible, in 2012, the Group commenced CSR surveys to check that all suppliers of timber and timber products directly imported from overseas are observing human rights and appropriate labor practices, and the results of these surveys have been used when screening suppliers.

Following the start of the CSR survey, in January 2013, the Group published the Green Procurement Guidelines, Third Edition, in which new items were added for confirming occupational health and safety, considerations for human rights and other CSR initiatives. The Timber Procurement Standards have also been updated.

### Green Procurement Guidelines (extract)

**(Corporate activities assessment)**

1. Acquisition of ISO 14001 certification, and adoption of environmental policies and philosophy.
2. Active in global environmental conservation, such as biodiversity preservation and the prevention of global warming.
3. Committed to CSR in its entirety, such as workplace health and safety and respect for human rights.

**(Product assessment)**

1. No use of hazardous materials which are likely to have an adverse effect on health and the environment.
2. No leaching of hazardous materials from the product during construction or use.
3. Ability to be reused or recycled after use.
4. Use of processes and materials to lengthen the life span of the product.

## Timber Procurement Philosophy and Policy

The Sumitomo Forestry Group formulated its Timber Procurement Philosophy and Timber Procurement Policy in 2007, and since then, in cooperation with the Group's business partners, it has endeavored to procure timber from forests that have been verified as legally compliant and are appropriately managed.

### Timber Procurement Philosophy

Timber is a renewable, natural resource. Sumitomo Forestry considers forest ecosystems and the blessings from nature provided by forests to be precious assets shared by all of humanity, and in order to realize a sustainable society in which people and forests can live in harmony, it cooperates with its business partners to procure timber that is considerate to the environment and to society.

## Timber Procurement Policy

### 1 To procure legal and sustainable wood

- Observe all relevant laws and regulations and maintain a system for confirming that the timber is legal
- Procure timber from forests that are managed to be sustainable
- While promoting the use of plantation timber, carry out plantation activities that contribute to the maintenance of forest resources

### 2 To build a highly reliable supply chain

- Cooperate with business partners and work to improve the reliability of traceability measures
- Confirm with business partners that High Conservation Value Forests are being managed appropriately
- Appropriately disclose information to ensure procurement transparency
- Maintain dialogues with business partners to ensure that human rights and the fundamental rights of workers are being protected and to prevent corruption

### 3 To reduce the environmental burden and effectively use timber resources during their life cycle

- To contribute to land conservation and the revitalization of the forestry industry by actively using domestic timber
- Utilize thinnings and wood waste, reuse and recycle wood, and develop the technologies to facilitate these actions
- Reduce the environmental impact of procurement, such as by increasing distribution efficiency

### 4 Together with our stakeholders

- Carry out continuous reforms in cooperation with stakeholders
- Respect biodiversity and the culture, traditions, and economies of regions that live in harmony with forests
- Communicate to stakeholders the importance of timber procurement that is considerate to the environment and society

## Systems for Promoting the Sustainable Procurement of Timber

The Sumitomo Forestry Group established the Timber Procurement Committee as an organization for promoting sustainable timber procurement. The committee is chaired by the General Manager of the Environmental Management Department. The Environmental Management Department serves as its secretariat, and its members are comprised primarily of working-level managers in departments related to the procurement of timber.

The committee meets three times a year, and in addition to confirming how the Action Plan for Timber Procurement is progressing, it discusses such topics as measures for promoting activities for achieving the goals and measures for dealing with overseas timber regulations. The committee also examines the legal compliance of timber procured from each supplier based on documents certifying legality, which are submitted by the timber supplier, and on the field survey reports submitted by the Group's representatives.

Social Report

# Sustainable Procurement of Timber

## Initiatives for Timber Procurement

### Focused on the procurement of sustainable timber and the effective use of timber resources, by formulating Three-Year Action Plans for Timber Procurement.

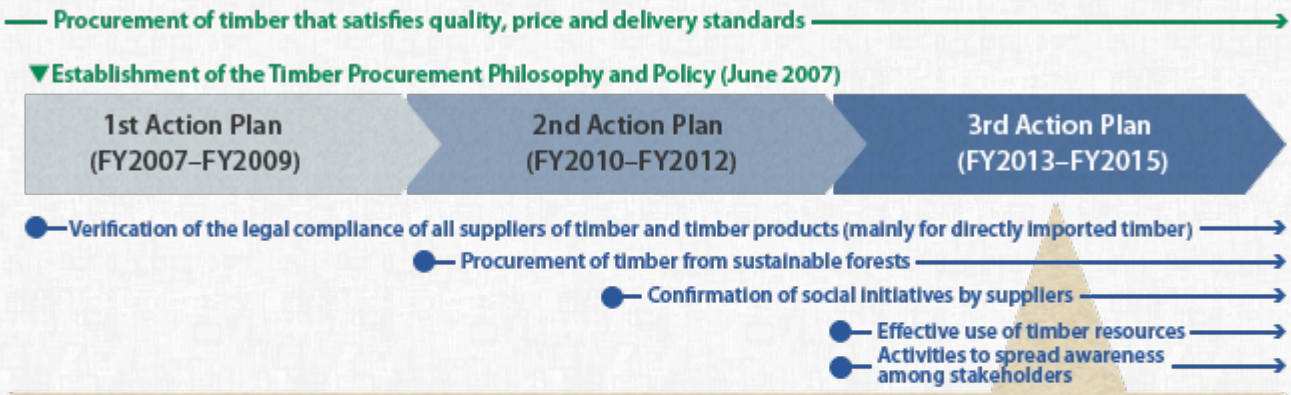
As the world's forests continue to vanish as a consequence of illegal logging, excessive slash-and-burn farming and other practices, countries around the world are proceeding to strengthen their laws and regulations to eliminate illegally logged timber from the market. Meanwhile, in Japan, development of forests, and of plantations in particular, has halted in part because of an aging and declining forestry workforce, and there are growing concerns about some forests becoming devastated.

Being engaged in business centered around wood, the Sumitomo Forestry Group promotes the procurement of sustainable timber, including along its supply chain. The Group established a philosophy and policy on timber procurement, and once every three years, it formulates an Action Plan for Timber Procurement with specific action targets based on these guiding principles.

The Third Action Plan for Timber Procurement, which covers fiscal 2013–2015, strengthens the initiatives advanced through the first and second action plans. For instance, it promotes verifying the legal compliance of procured timber, as well as procuring and using certified timber, plantation timber and Japanese timber. It also involves the effective use of timber resources, such as increasing the volume of fuel wood chips handled and utilizing wood left over from logging, as well as activities to spread awareness among stakeholders.

▸ Policy and System for Sustainable Procurement of Timber


**Evolution of Action Plans for Timber Procurement**




**Objectives of the Third Action Plan for Timber Procurement**

- Improve accuracy of verifying legal compliance
- Confirmation of environmental and social initiatives (human rights, labor practices, etc.) by suppliers
- Procurement of timber from sustainable forests (promote procurement of certified timber, plantation timber and Japanese timber)
- Effective use of timber resources (increase the volume of fuel wood chips handled and promote the use of wood left over from logging)
- Promotion of activities to spread awareness among stakeholders

▸ Activity Highlight 3-Promoting Sustainable Timber Procurement

## Procuring Timber with Verified Legal Compliance

### Targets based on the Third Action Plan for Timber Procurement and FY2013 results

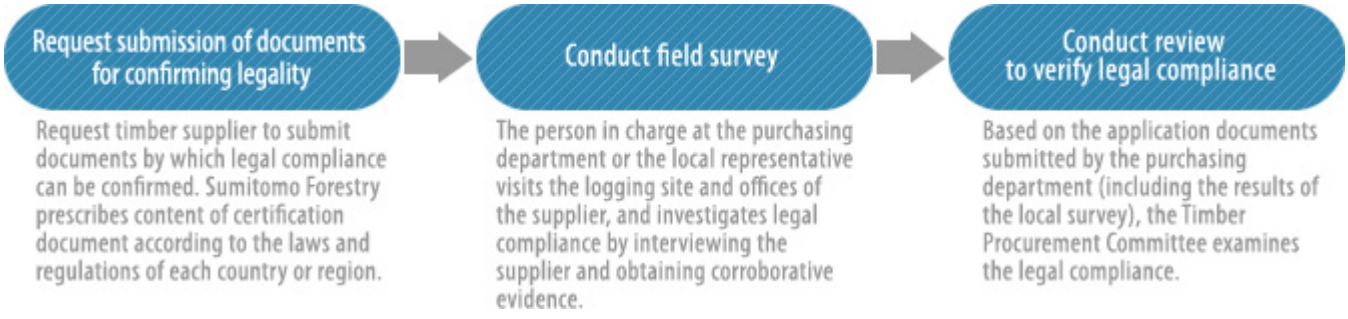
| FY2015 target | FY2013 result |
|---|---|
| Maintain 100% verified legality[1] for timber and timber products handled | 100% |
| Verify the CSR management situation (environmental and social considerations) of suppliers | Continued to survey suppliers |

1. Inspect all suppliers of timber and timber products in order to verify their legal compliance

To prevent deforestation and forest degradation, countries around the world are proceeding to prepare legal frameworks aimed at eliminating illegal timber. At the Sumitomo Forestry Group, based on documents certifying legality which are submitted by the supplier, and on the field survey reports which are submitted by the Group's representatives, the Timber Procurement Committee verifies whether the timber handled by the Group has been properly managed and harvested in accordance with the regulatory systems of each country and region.

In fiscal 2013, reviews to confirm legal compliance were carried out at the three meetings of the Timber Procurement Committee. Also, at the time of the survey, the Group has used a questionnaire to interview suppliers in order to confirm their CSR management situation. In continuing these activities, the Group remains committed to the procurement of sustainable timber and timber products.

System for Verifying Legality Based on the Timber Procurement Standards



## Conducting Field Surveys at Suppliers in China

Continuing on from the field survey conducted in the Malaysian state of Sarawak in fiscal 2012, in December 2013, the Sumitomo Forestry Group conducted its own unique traceability survey for the purpose of understanding the legal framework and flow of timber in China, and to review the way it verifies legal compliance. An officer of the Environmental Management Department, which serves as the secretariat of the Timber Procurement Committee, visited the afforestation areas, logging and transportation sites and processing facilities used by the suppliers to conduct surveys, and reported the results of those surveys to the relevant divisions via the Timber Procurement Committee. In addition, the results have also been used to revise the evidence documents obtained for the purpose of verifying legal compliance.

Field survey in China

- Activity Highlight3-Promoting Sustainable Timber Procurement

## Procuring Timber from Sustainable Forests

The Sumitomo Forestry Group regards certified timber, which has been verified as sustainable by certification audit agency, plantation timber, which is planted and harvested in a systematic manner, and Japanese timber, which will lead to revitalization of the Japanese forestry industry, as sustainable timber, and is increasing the amount of this timber it uses and handles. Furthermore, based on this policy, divisions and departments within the Group are also proceeding to obtain forest certification.

## Forest Certification

| Type of Forestry Certification | | Name of Certified Division or Company |
|---|---|---|
| **SGEC**[1] | Forestry certification | Forestry Department, Forestry & Environment Division (Company-owned forests) |
| | CoC certification[4] (Group-wide certification) | International Marketing Department, Timber & Building Materials Division (pre-cut materials); Housing Division (pre-cut materials) |
| | CoC certification | Sumitomo Forestry Wood Products Co., Ltd.; Sumitomo Forestry Crest Co., Ltd. |
| **FSC™** [2] | FM certification | PT. Kutai Timber Indonesia (reforestation cooperative); Open Bay Timber Ltd. |
| | CoC certification | International Marketing Department, Timber & Building Materials Division; Domestic Marketing Department (branches and offices); Sumitomo Forestry Crest Co., Ltd.; Kowa Lumber Co., Ltd.; Alpine MDF Industries Pty. Ltd.; PT. Kutai Timber Indonesia; Sumitomo Forestry (Singapore) Ltd.; Nelson Pine Industries Ltd.; Open Bay Timber Ltd. PT. Rimba Partikel Indonesia; PT. Sumitomo Forestry Indonesia |
| **PEFC**[3] | CoC certification | International Marketing Department, Timber & Building Materials Division; Domestic Marketing Department (branches and offices) |

1. The Sustainable Green Ecosystem Council (SGEC) is Japan's own forestry certification system through which forest management is verified as sustainable by a certification audit agency. Certification is based on seven criteria that include the preservation of biodiversity and the conservation and maintenance of soil and water resources.
2. The Forest Stewardship Council (FSC™) is a certification audit agency that provides a global forestry certification system. Its Forest Management (FM) certification authenticates forest management, while FSC Chain of Custody (CoC) certification confirms that forest products from certified forests are appropriately separated and marked in the storage, processing and distribution processes.
3. Abbreviation of the Programme for the Endorsement of Forest Certification Schemes. It is implemented by the international supervisory organization that inspects forest certification schemes independently created in various countries and promotes mutual recognition between these schemes.
4. Certification by a third-party organization that the operator is appropriately separating and labeling timber from certified forests during storage, processing and distribution.

## Increasing the Percentage of "Directly Imported Timber" That Is Certified Timber or Plantation Timber

**Targets based on the Third Action Plan for Timber Procurement and FY2013 results**

| FY2015 target | FY2013 result |
|---|---|
| Increase the percentage of directly imported timber[1], including both certified timber and plantation timber, to 68% by fiscal 2015 | **62%** |

1. Timber and timber products directly imported into Japan

Sumitomo Forestry aims to increase the percentage of directly imported timber, including both certified timber and plantation timber, to 68% by fiscal 2015.

In fiscal 2013, the percentage of certified timber and plantation timber used as a raw material in medium density fiberboard (MDF) was 99%, but the substantial rise in the price of falcata plantation timber (one of the raw materials in plywood) led to a decrease in the volume of falcata handled, and as a result the percentage of all directly imported timber, including both certified timber and plantation timber, was 62%. In fiscal 2014, the Company will increase the proportional volume of certified timber and plantation timber it handles by developing and increasing sales of new plywood products that are made with these types of timber.

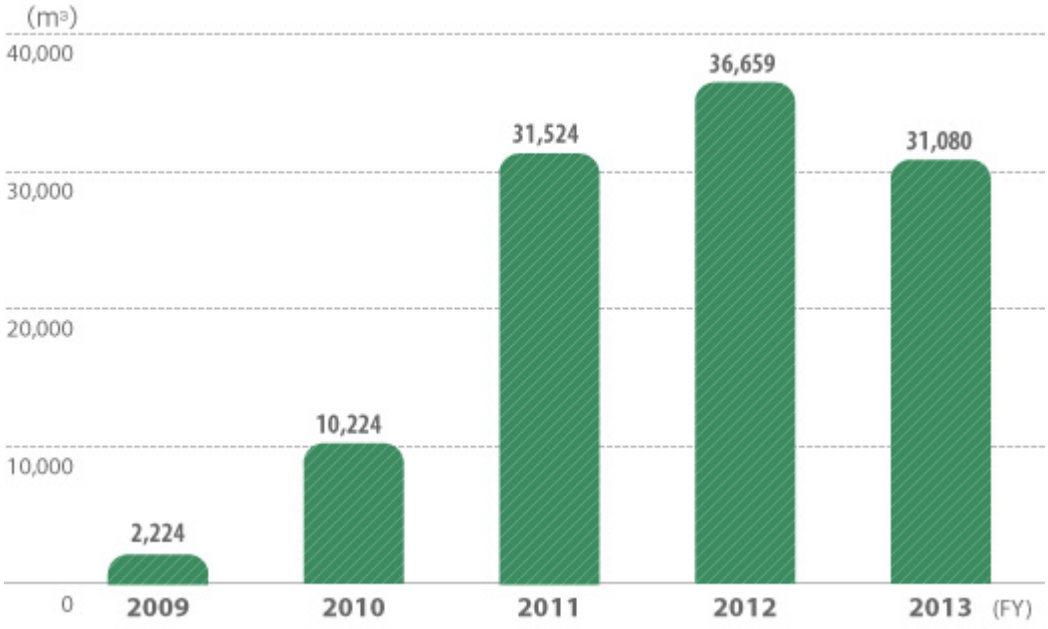
### Sales of Environmentally Sound Plywood *KIKORIN-PLYWOOD*

Sumitomo Forestry sells *KIKORIN-PLYWOOD*, an environmentally sound plywood manufactured using certified timber and plantation timber for more than 50% of the raw materials. In fiscal 2013, the volume of *KIKORIN-PLYWOOD* sold was 31,080 $m^3$.

*KIKORIN-PLYWOOD*

Part of the proceeds from this product is used for reforestation expenses in regenerating forests, such as in the degraded forests of Indonesia. In fiscal 2013, the area of land reforested in line with the sales of *KIKORIN-PLYWOOD* was approximately 18 hectares, bringing the cumulative total since the initiative began in fiscal 2009 to approximately 42 hectares. The Company will continue putting effort into increasing the volume of *KIKORIN-PLYWOOD* sold.

Sales Volume of *KIKORIN-PLYWOOD*




## Increasing the Percentage of Japanese Timber Handled in the Timber Distribution Business

**Targets based on the Third Action Plan for Timber Procurement and FY2013 results**

**FY2015 target**

By fiscal 2015, increase the percentage of Japanese timber handled in the timber distribution business by 71% compared to fiscal 2011

**FY2013 result**

**2%** decrease

Sumitomo Forestry Wood Products Co., Ltd. is engaged in the timber distribution business. It aims to increase the percentage of Japanese timber it handles by 71% compared to a base year of fiscal 2011.

In fiscal 2013, a nationwide shortage of logs coupled with delays in logging due to heavy snowfalls resulted in a 2% decrease compared to fiscal 2011. In fiscal 2014, Sumitomo Forestry Wood Products will aim to increase the volume of Japanese timber it handles by expanding its yarding area, cultivating new suppliers, and expanding the business of purchasing standing trees based on the condition of reforestation.

## Increasing the Percentage of Certified Timber, Plantation Timber and Japanese Timber Used by Domestic Manufacturers of Building Materials

**Targets based on the Third Action Plan for Timber Procurement and FY2013 results**

| FY2015 target | FY2013 result |
|---|---|
| Increase the percentage of certified timber, plantation timber and Japanese timber used by domestic manufacturers of building materials to 64% by fiscal 2015 | **59%** |

Sumitomo Forestry Crest Co., Ltd. is engaged in the domestic manufacture of building materials. It aims to increase the percentage of certified timber, plantation timber and Japanese timber it uses to 64% by fiscal 2015.

In fiscal 2013, by increasing the percentage of plantation timber used in the core of doors and other fittings and in the base of wood flooring, Sumitomo Forestry Crest achieved a ratio of 59%. In fiscal 2014, it will work to further increase the percentage, such as by developing new products made from Japanese timber.

### Launch of the *BeRiche* Series of Wooden Housing Materials Made from Timber Grown in Japan

In November, 2013, Sumitomo Forestry Crest Co., Ltd. launched *BeRiche* Color Flooring TR-J and *BeRiche* Sist S-J as part of the *BeRiche* series of wooden housing materials made from Japanese timber. Both products use Sakhalin fir and Japanese cypress timber grown in Japan as the flooring base material, and *BeRiche* Color Flooring TR-J also uses a domestic birch wood for the surface veneer.

An interior furnished using the *BeRiche* series

- News release: New eco-friendly flooring products made from domestic wood Product included in the Wood-Use Points Program
  Launch of *BeRiche* Home Wood Flooring Made from Domestic Materials

## Increasing the Percentage of Japanese Timber Used in the Housing Business

**Targets based on the Third Action Plan for Timber Procurement and FY2013 results**

| FY2015 target | FY2013 result |
|---|---|
| Increase the percentage of Japanese timber used in the Housing Business to 60% by fiscal 2015 | Reached **60%** |

Sumitomo Forestry has set a target for the Housing Business to increase the percentage of Japanese timber used for structural and non-structural timber in houses to 60% by fiscal 2015.

In fiscal 2013, the Company began using load-bearing wall panel “lattice panels” made from Japanese cedar and other timber grown in Japan in one of its methods for constructing homes, the Big-Frame Construction Method. As a result, the Company achieved its target of 60% earlier than planned. The Company will endeavor to maintain this ratio of Japanese timber used.

▸ Activity Highlight3-Promoting Sustainable Timber Procurement

### Supplying Homes that Actively Use Local Materials

In Hokkaido, Sumitomo Forestry offers 100% “made in Hokkaido homes” that use only locally grown Japanese larch and Sakhalin fir. The Company also offers homes in Nara, Wakayama, Yamaguchi and Oita prefectures using some locally produced timber. Given the limited area from which raw materials can be harvested, the challenge with local materials is how to procure a stable volume. The Company will continue to be actively involved in areas where a certain volume of timber can be supplied.

### Selling Homes that Use Certified Timber

Sumitomo Forestry has been marketing houses built using SGEC-certified timber since 2008 in Hokkaido, where certified timber can be procured on a stable basis throughout the year, and since April 2011 in Miyagi Prefecture.

In fiscal 2013, the Company used 951 $m^3$ of certified timber in its houses. Although this did not reach the target of 1,200 $m^3$, it was on par with the previous fiscal year. In fiscal 2014, the Company will work to increase its use of certified timber by considering the adoption of additional candidate materials.

# Effective Use of Timber Resources

## Increasing the Volume of Fuel Wood Chips Handled

**Targets based on the Third Action Plan for Timber Procurement and FY2013 results**

| FY2015 target | FY2013 result |
| --- | --- |
| Increase the volume of wood chips handled as fuel, including for biomass power generation by 10% compared to fiscal 2011 | **10%** decrease |

Sumitomo Forestry contributes to resource recycling through its wood chip operations, whereby offcuts generated during the timber milling process and wood waste from new housing construction and demolition sites are turned into wood chips to be used as a raw material for products such as paper and particle board, and also as a fuel for power-generating boilers or other equipment.

During fiscal 2013, the volume of fuel wood chips decreased by 10% compared to a base year of fiscal 2011 due to biomass boilers malfunctioning at certain firms that make regular purchases. In fiscal 2014, the Company will aim to handle a greater volume, such as by securing alternative customers while the above boilers remain out of order and by establishing new sales routes.

▸ Recycling of Wood Resources into Chips

## Promoting the Use of Unused Wood Materials

**Targets based on the Third Action Plan for Timber Procurement and FY2013 results**

| FY2015 target | FY2013 result |
|---|---|
| Increase the handling of wood leftover from logging and other unused wood materials by 240% compared to fiscal 2011 | **68%** increase |

In fiscal 2013, Sumitomo Forestry Wood Products Co., Ltd. supplied approximately 39,000 $m^3$ of wood left over from logging, primarily to power producers. Broadening the use of wood leftover from logging and other previously underutilized wood materials will lead to revitalization of the Japanese forestry industry, and also to the public functions of forests being maintained and enhanced.

In fiscal 2013, Sumitomo Forestry Wood Products began collecting unused wood materials to be utilized as fuel wood chips in the wood biomass power generation business being advanced by the Sumitomo Forestry Group in Mombetsu City, Hokkaido, and as a consequence, the handling of unused wood materials increased by 68% compared to a base year of fiscal 2011.

In fiscal 2014, Sumitomo Forestry Wood Products plans to increase the volume of unused wood materials it handles, such as by increasing the volume supplied to the wood biomass power generation business in Mombetsu, and by also increasing the supply to biomass power generation plants operated by other corporations.


- Activity Highlight 5-Providing Renewable Energy through the Effective Use of Wood
- Wood Biomass Power Generation Business


## Activities to Spread Awareness among Stakeholders

Sumitomo Forestry believes that getting stakeholders to appreciate the importance of procuring timber in a way that takes environmental and social considerations into account is also an important activity for putting sustainable timber procurement into practice. For this reason, the Company continually holds in-house seminars and disseminates information through CSR reports.

# Communication with Our Business Partners

## Communication with Housing-Business Partners

Sumitomo Forestry's housing-business worksites are found in every region of the country, and they rely on the many supporting partner companies that the Sumitomo Forestry Group collaborates with. The Company considers communication with these companies to be vital in order to share with them its philosophy of improving the quality of homes while protecting the environment.

**Main Communication Activities with the Business Partners of Sumitomo Forestry Landscaping Co., Ltd.**

| Name / scale | Description |
|---|---|
| **Evaluation and feedback based on the Supplier Evaluation Standards Response rate: 100% of main business partners (2013)** | Every year, the Company evaluates its main business partners in the housing business after visiting their manufacturing plants. Feedback is then provided to them for the future improvement of their operations. |
| **Annual Survey on Production Systems and CSR Response rate: Approximately 80% of all contractors (2013)** | This survey is useful for detached housing building contractors to making their operations more viable and to improve their safety and technical capabilities, and as an opportunity to familiarize their employees with the concepts underlying corporate social responsibility (CSR), such as compliance, environmental protection, respect for human rights, and contributions to local communities. The results of the surveys and the associated trends are provided as feedback to the Association of Sumitomo Forestry Safe Building Contractors and to the Matsu Association of Building Contractors, an annual social gathering of superior building contractor partners. |

## Communication with Our Timber and Building Materials Business Partners

In the Timber and Building Materials Business, given that it is characterized as being a regional industry, Sumitomo Forestry maintains close communication with the supplier and purchasers of timber and building materials in each region.

### Main Communication Activities with the Business Partners of the Timber & Building Materials Division

| Name / scale | Description |
|---|---|
| ***The Sumirin club* –a membership organization to communicate with regional suppliers of timber and building materials**<br>**851 people nationwide (as of February 2014)** | Established in different regions around Japan as a forum for communication with business partners of timber and building materials. Training sessions and information exchange meetings are held two or three times a year in each region, allowing members to deepen mutual friendships, promote product R&D, enhance production and distribution, and support improvements in the industry as a whole. |
| **Publication of *Building Materials Monthly***<br>**Monthly print run of approximately 4,400 copies** | For suppliers and purchasers of timber and building materials, this is a distinctive informational magazine with a history spanning half a century. It aims to “inspire everyone involved in the industry” through the timely publishing of relevant news and topics. Each month, the magazine disseminates information on a special theme. In fiscal 2013, the themes included: housing for the elderly, the resale of pre-owned homes, and cross laminated timber (CLT). |

# Information Disclosure and Communication

## Basic Policy on Information Disclosure and Communication

In the interest of greater management transparency, Sumitomo Forestry takes a proactive approach to information disclosure. At the Ordinary General Meeting of Shareholders held every June, the Company presents reports and information as clearly as possible and publishes printed and online versions of its Annual Report in both English and Japanese, as well as Japanese reports for shareholders on business activities. It also discloses a range of other IR information on its English and Japanese websites, including financial information such as the short financial statements, summary of financial results and forecasts, and also information on monthly orders. Moreover, the Company publishes notifications of its Ordinary General Meeting of Shareholders in both English and Japanese, in these and other ways creating opportunities to communicate with its stakeholders.

The Company will continue to communicate the business operations, corporate stance and future vision of the Sumitomo Forestry Group to all investors, whether shareholders or institutional or individual investors in Japan and overseas, in a fair and appropriate manner, and it will conduct IR activities that are recognized fairly in stock markets.

Investor Relations


Annual Report 2013


Japanese reports for shareholders on business activities(Year ended March 31, 2014)

# Two-Way Communication with Shareholders and Investors

## General Meeting of Shareholders

Sumitomo Forestry holds its Ordinary General Meeting of Shareholders every June. Through various initiatives, the Company endeavors to get as many shareholders as possible to participate at the meeting and exercise their right to vote. These initiatives include sending out and posting online convocation notices (in Japanese and English) earlier than legally required, scheduling the meeting to avoid the date when most other shareholder meetings are held, and accommodating shareholders who wish to cast their votes online or via their mobile phones.

## Explaining Business Performance and Conference Calls

In its efforts to continue gaining greater trust from shareholders and investors, Sumitomo Forestry holds earnings briefings and individual meetings to explain its business performance to institutional investors and analysts following the announcement of interim and year-end results, as well as conference calls following the release of Q1 and Q3 results.

## Individual Meetings

Sumitomo Forestry holds individual meetings for institutional investors following the announcement of its quarterly results. In fiscal 2013, the Company held about 120 of these individual meetings both inside and outside of Japan.

## Hosting IR Meetings for Individual Investors

Sumitomo Forestry holds regular IR meetings for individual investors. During fiscal 2013, it held one each in Tokyo and Osaka, and these were attended by about 210 individual investors. At the meetings, in addition to presenting on the business operations of the Sumitomo Forestry Group, the Company talks about current issues, such as increases in the consumption tax and energy-related problems, and Group's initiatives to tackle them.

## IR Activities for Overseas Institutional Investors and Shareholders

Sumitomo Forestry distributes English versions of financial documents to institutional investors and shareholders residing overseas. In addition, in fiscal 2013, senior management visited institutional investors and shareholders in Europe, the United States and Singapore, to present the Company's business results and strategies and to exchange opinions.

Social Report

# Returns to Shareholders

## Basic Policy on Returns to Shareholders and Retained Earnings

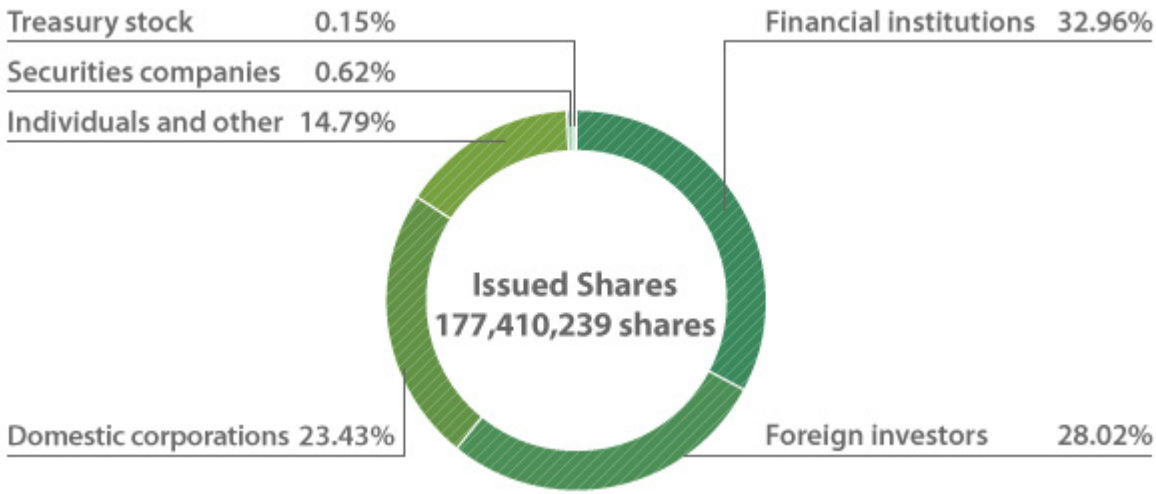
Sumitomo Forestry acknowledges that providing returns to shareholders is one of its most important tasks. The Company's basic policy is to maintain the provision of stable dividends, based on a comprehensive and long-term view of such factors as profits levels, the state of retained earnings and business expansion prospects.

Retained earnings will be utilized effectively for investments, research and development and other activities that bring about positive results and contribute to the improvement of corporate value in line with long-term management plans.

## Dividends in Fiscal 2013

In fiscal 2013 (the year to March 31, 2014), a year-end dividend of 9.5 yen per share and an interim dividend of 9.5 yen per share were issued. This corresponds to a full-year dividend of 19 yen per share.

### Share Distribution by Shareholder Type



# Fair Employment and Treatment

## Basic Policy on the Employment and Treatment of Employees

Sumitomo Forestry aims to be a “truly excellent company” in housing and wood products businesses, by making efforts to put in place effective personnel systems, carrying out appropriate and efficient placement of “human assets,” developing and training personnel, and building a group of employees who are always willing to take up challenges, all in accordance with one of the Company’s action guidelines: “Respect for Humanity—We work to create an open and inclusive corporate culture that values diversity.”

With respect to the employment and treatment of employees, in addition to respecting equal opportunity and diversity, the Company has prescribed in “Our Values and Ideals,” a set of guidelines on ethical conduct, that it will not discriminate on a basis of gender, age, nationality, race, religion or disability. In its recruitment activities too, the Company emphasizes the ambition and volition of the applicant, and does not differentiate selection processes according to academic background or gender. At Group companies outside Japan, the employment of local staff is actively promoted, and talented personnel are employed and promoted to management positions, irrespective of race or gender.

As for the disciplinary punishment and dismissal of employees, if there has been a compliance violation, the employee will be dealt with appropriately in accordance with Employment Regulations. Unfair dismissals are not allowed.

▸ Our Value and Ideals (link to Corporate Information)

## Promoting the Active Involvement of Female Employees

The Sumitomo Forestry Group is committed to a workplace environment where motivated employees can be actively involved irrespective of age, gender or disability. In an endeavor to actively engage female employees in particular, the Group has sought to improve its systems relating to childcare, education and training, and at the same time, has taken a proactive stance on promoting the use of these systems.

During fiscal 2013, the Group surveyed the attitude and needs of employees with respect to: work and careers; promoting the active involvement of female employees; and childbirth and parenting. A survey was conducted to gauge the awareness of all female employees at Sumitomo Forestry to assist the Group in promoting the active involvement of female employees and in supporting the workstyles of employees currently raising children.
In December 2013, the Group released the “Sumitomo Forestry Group Declaration on Empowering Women.” It was issued to the entire Group under the name of the President, and formally summarizes the significance of promoting the active involvement of female employees into three policies. The Group has actively promoted the Declaration in an effort to unify the consciousness within the Group.


- Activity Highlight 7-Creating a Workplace where Women can Shine
- Support for Childcare


### Sumitomo Forestry Group Declaration to Promote Women’s Participation

Based on the action guideline of “we work to create an open and inclusive corporate culture that values diversity,” the Sumitomo Forestry Group believes that it is important to have business strategies built on making the most of diverse human assets and diverse ideas. Actively promoting the involvement of female employees as part of diversity management not only meets the demands of society, but also raises the Group’s corporate value.

The Sumitomo Forestry Group hereby declares to expand opportunities for female employees to become actively involved, to make use of women’s unique creative power, and to create innovation through the fusion of diverse values.

**1. Create an encouraging work environment for women**
**2. Leverage women’s unique creative power**
**3. Create innovation through the participation of women**

**Main Initiatives Aimed at Increasing the Motivation of Female Employees**

| | Name of seminar | Date | Main participants |
|---|---|---|---|
| **Sales training** | Knowledge-Based Training for Female Sales Staff | June 2013 | 47 female sales staff in at least their 2nd year of employment |
| | Networking Event for Female Housing Sales Staff: Joint Program by Nine Housing Builders | November 2013 | 10 female sales staff |
| | Talk by High-Achiever Female Sales Staff | December 2013 | 39 |
| **Production training** | Production Training for Female Employees | July 2013<br>December 2013 | 10 at each session |
| **Management training** | Training for Female Managers | July 2013<br>October 2013 | 1 at each session |
| | Joint Cross-Industry Business Skills Training | January 2014 | 3 |
| | Joint Cross-Industry Training for Female Managers | February 2014 | 3 |

## Promoting the Employment of People with Disabilities

Sumitomo Forestry promotes the employment of people with disabilities, giving the highest priority to matching the individuality of each person with a disability with the workplace and business activities. During fiscal 2013, the Company employed ten new people with disabilities, and the ratio of disabled employees as of the end of March 2014 was 2.18%. Furthermore, to improve the retention rates for current employees, the Company provides regular face-to-face meetings as well as phone interviews and career advice as required.

## Re-Employment of Retired Employees

Sumitomo Forestry has a system in place whereby it re-employs personnel, who retired at 60, on temporary contracts until they turn 65, on the condition that they have had at least 10 years of continuous service, they have specific qualifications and experience, and they wish to be re-employed. The Company re-employed 27 people in fiscal 2011, 33 in fiscal 2012, and 28 in fiscal 2013. They are all actively involved in the Company, making the most of their abilities and experience.

Over the past three years, Sumitomo Forestry has re-employed 74% of employees who retired, and 88% of those who sought re-employment. As an interim measure following revision of the Act on Stabilization of Employment of Elderly Persons on April 1, 2013, the Company's policy is to re-employ all workers who wish to return to work.

## Return to Work Application System

Sumitomo Forestry has operated the Return to Work Application System since fiscal 2008. The aims of the system are to meet the re-employment needs of workers to secure talented personnel who retire due to unavoidable circumstances such as caring for children or other family members. Employees register their wish to return to work at the time they retire, and applicants must have worked for three or more consecutive years.

When the company receives an application for return to work from a registrant after they have retired, it goes through a selection process based on the employment needs of the Company and the skills of the applicant. Moreover, applicants hired within three years of leaving are able to return to the same grade as their former position. As of March 31, 2014, 76 people are registered under the system.

## Direct Employment of Non-Permanent Employees

In recent years, regulations for dispatched employees have been strengthened to correct disparities arising out of different forms of employment. In response, Sumitomo Forestry reviewed its personnel systems from a compliance perspective, and in April 2011, changed the status of its dispatched employees to directly employed fixed-term employees, referred to as "partner employees." The Company also operates a system for promoting partner employees to permanent status. It promoted 18 workers to permanent employee status in fiscal 2012, 38 in fiscal 2013, and 28 in fiscal 2014.

# Respect for Human Rights

## Basic Policy on Respect for Human Rights

The Sumitomo Forestry Group states in Our Values and Ideals, a set of guidelines on ethical conduct, that everyone belonging to the Group shall respect people in terms of diversity such as gender, age, nationality, race, religion and disability and acknowledge that everyone is equal, and that no discrimination whatsoever will be tolerated. The Group makes efforts to raise awareness of these matters, for example through training. Our Values and Ideals is available for viewing on the Sumitomo Forestry website in Japanese, English and Chinese and therefore accessible to a large number of stakeholders.

▸ Our Value and Ideals (link to Corporate Information)

## Measures against Human Rights Risks

Since fiscal 2011, Sumitomo Forestry has carried out a survey on the CSR initiatives at each Group company. In doing so, it also verifies each Group company's efforts with respect to human rights.

Furthermore, the Sumitomo Forestry Group is a signatory to the United Nations (UN) Global Compact, and has posted this on the Company's website in both Japanese and English. For the purpose of more widely disseminating the Global Compact's ten principles in four areas (human rights, labor, the environment and anti-corruption), in April 2014, the Company also prepared a poster in English, Chinese and Indonesian, and has distributed it for display to all Group companies overseas.

A poster promoting the UN Global Compact

## Basic Policy on Respect for Human Rights

In order to ensure that everyone respects human rights and works to create workplaces free of discrimination, since fiscal 2011, Sumitomo Forestry has made it compulsory for all Group employees in Japan with access to its intranet to take the "Work + Human Rights" e-learning course on an annual basis. In fiscal 2013, 9,862 employees took the course. The Company will continue to utilize e-learning to further raise human rights awareness among employees.

## Prevention of Sexual Harassment and Workplace Bullying

Sumitomo Forestry makes its policy on sexual and power harassment in the workplace clear, having included in its Employment Regulations, under one category of rules to be observed by employees (discipline on the job), a provision prohibiting such harassment as well as disciplinary standards. “Our Values and Ideals,” a set of guidelines on ethical conduct, also prohibits all forms of harassment and this is communicated via the in-house Web and pamphlets. In addition, awareness within the Company is fostered by providing information, with case examples, through human rights and ethics training and other activities.

Furthermore, a framework for appropriately handling of inquiries and complaints was put in place in fiscal 2000 with the establishment of the Sexual Harassment and Power Harassment Consultation Hotline within the Personnel Department and Compliance Hotlines both inside and outside the Company. When handling a case of harassment, the Sexual Harassment and Power Harassment Consultation Hotline promptly and appropriately verifies the facts and gathers information with the accused, the complainant, and third parties, and then takes the necessary procedures with those concerned. The privacy of all those involved is protected and every effort is made to ensure that neither the complainant nor those cooperating are treated detrimentally.

▸ Our Value and Ideals (link to Corporate Information)

# Occupational Health and Safety

## Basic Policy on Occupational Health and Safety

Sumitomo Forestry has established Rules for OHS Management with an aim of fostering a workplace environment in which employees can perform their jobs in a safe and healthy manner. The rules prescribe that a general OHS manager is to be stationed at each place of business regardless of how big it is, and every year, the Company checks on the status of the officer and committee meetings.

With an aim of preventing accidents at construction sites and maintaining the health of their workers, each division, such as the Forestry & Environment Division and the Housing Division, has also established separate OHS management policies and manuals in view of the distinctive characteristics of their respective businesses.

## Occupational Health and Safety Management System

In addition to developing occupational safety and health management systems in accordance with the laws and regulations of the respective country, each Sumitomo Forestry Group company also promotes acquisition of certifications such as OHSAS.[1]

1 Occupational Health and Safety Assessment Series (OHSAS): An international standard developed for the purpose of reducing occupational health and safety risks and clarifying where responsibilities lie.

### Acquisition of Occupational Safety-Related Certification

| Company | Country | Type of certification | Date acquired |
|---|---|---|---|
| **Sumitomo Forestry Crest Co., Ltd.** | Japan | OHSAS18001 | February 2013 |
| **PT. Rimba Partikel Indonesia** | Indonesia | OHSAS18001 | March 2013 |
| **PT. Kutai Timber Indonesia** | Indonesia | OHSAS18001 | October 2013 |
| **Nelson Pine Industries Ltd.** | New Zealand | AS/NZS4801 | December 2012 |
| | | ACC WSMP Tertiary | November 2009 |
| **Alpine MDF Industries Pty. Ltd.** | Australia | AS/NZS4801 | August 2010 |

## Initiatives in the Forestry & Environment Business

In Japan, Sumitomo Forestry manages 45,808 hectares of Company-owned forests and 33 hectares of forests contracted for management. Contractors conduct harvesting, planting, weeding, improvement cutting and thinning operations. For the purpose of preventing occupational injuries to these contractors, the Group conducting safety patrols and holds Workplace Safety Conferences at each forestry office once every half year. In fiscal 2013, there were no occupational injuries1 involving contractors at forestry work sites in Company-owned forests.

A safety patrol

1. Indicates the number of injuries eligible for compensation benefits for a temporary absence from work under the Industrial Accident Compensation Insurance Act of Japan.

## Lectures Given by External Experts

The Sumitomo Forestry Group in Japan has enhanced awareness-raising activities at its Workplace Safety Conventions, including education on accident prevention using examples of common forestry accidents, as well as environmental education, lectures given by experts on such topics as emergency first aid, and on-site inspections. Furthermore, so as to prevent any decline in attentiveness when performing dangerous work by becoming accustomed to the work, the Group repeats safety education.

AED course given by the Hyuga City Fire Department

At the Workplace Safety Convention held at the Hyuga Forestry Office during fiscal 2013, an expert from the Nobeoka Labor Standards Inspection Office delivered a lecture on measures for preventing accidents based on an analysis of factors in recent examples of occupational injuries in the forestry industry, and an instructor from the Hyuga City Fire Department gave a course on automated external defibrillators (AED).

## Initiatives in the Manufacture of Wood Building Materials

Sumitomo Forestry Crest Co., Ltd.'s basic policy is to move "from zero accidents to zero danger." Its goal is to achieve zero occupational injuries by nipping danger in the bud. To achieve this, Sumitomo Forestry Crest began operating an Occupational Health and Safety Management System (OHSMS) in July 2012, and acquired OHSAS 18001 certification in February 2013. By repeating the PDCA management cycle, with employees actively brainstorming through small group activities in the workplace and using near miss reports, the system promotes risk reduction. During fiscal 2013, there were five occupational injuries.[1]

1. Indicates the number of injuries eligible for compensation benefits for a temporary absence from work under the Industrial Accident Compensation Insurance Act of Japan.

## Safety Patrols and Risk Assessments

With an aim of "zero danger," Sumitomo Forestry Crest Co., Ltd. conducts regular workplace safety patrols at each of its plants. If any burgeoning risks are discovered during a patrol, safety measures are promptly implemented to prevent the risk from being realized.

A safety patrol

Furthermore, the Company is committed to ensuring the safety of its workplaces, by identifying operations and facilities at risk, such as of workers getting caught in machinery, and by focusing on reducing those risks.

## Initiatives in the Housing Business

Safty check at construction site

At the beginning of every fiscal year, a notice on the OHS Management Policy is sent to all branches under the name of the Manager of the Housing Division. Based on this, each branch sets specific targets for reducing the risk of occupational injury, and promotes activities for enhancing awareness for the prevention of occupational injuries and for reducing risk. Subcontractors are also advised about these branch-specific targets, and they are requested to manage the targets and prevent accidents. Furthermore, the results of each branch's activities are verified at monthly OHS meetings, and efforts are made to reinforce the activities by reviewing them every month.

At the same time, flow charts of emergency contacts have also been prepared in case of an accident, and systems have been developed so that quick action can be taken 24 hours a day in case of an emergency. In addition, a Worksite Access Control System has been introduced for all construction sites, and the certainty of on-site management has also been enhanced, such as checking the safety of workers and allocating qualified workers appropriately. In the unlikely event an accident occurs, an OHS meeting for accident countermeasures is held, at which an investigation is conducted to determine the cause of the accident and to consider countermeasures from the perspectives of people, objects and management, and the findings of this investigation are shared with all branches.

During fiscal 2013, there were 11 occupational injuries[1]★ involving contractors at housing construction and subdivision worksites. Sumitomo Forestry will continue to use onsite guidance to lead to a reduction in occupational injuries, and will strive to improve both health and safety and quality by continually holding training sessions.

1. Indicates the number of injuries eligible for compensation benefits for a temporary absence from work under the Industrial Accident Compensation Insurance Act of Japan.

### Lost-time injury frequency rate for contractors on housing construction sites★

| | FY2009 | FY2010 | FY2011 | FY2012 | FY2013 |
|---|---|---|---|---|---|
| **Lost-time injury frequency rate[1]** | 2.01 | 2.75 | 2.34 | 2.16 | 1.98 |

1. Lost-time injury frequency rate = Number of occupational fatalities or injuries resulting in an absence from work of at least one day ÷ Total number of working hours × 1,000,000

## Training Designed to Improve Awareness for Occupational Health And Safety

Based on the results of the monthly safety patrols and worksite surveys, the Housing Division organizes training programs with specific cases promoting health and safety, targeting the OHS managers of each branch or region, as well as the leaders (subcontractors) in each job category on construction sites. In addition, training is provided for branches nationwide, designed for maintaining safety such as when workers use grinders, which are fraught with great hazard, and when they work with circular saws, which are susceptible to accidents due to misuse despite being simple and easy to use.

Training for circular saw work

# Human Resources Development

## Basic Policy on Human Resources Development

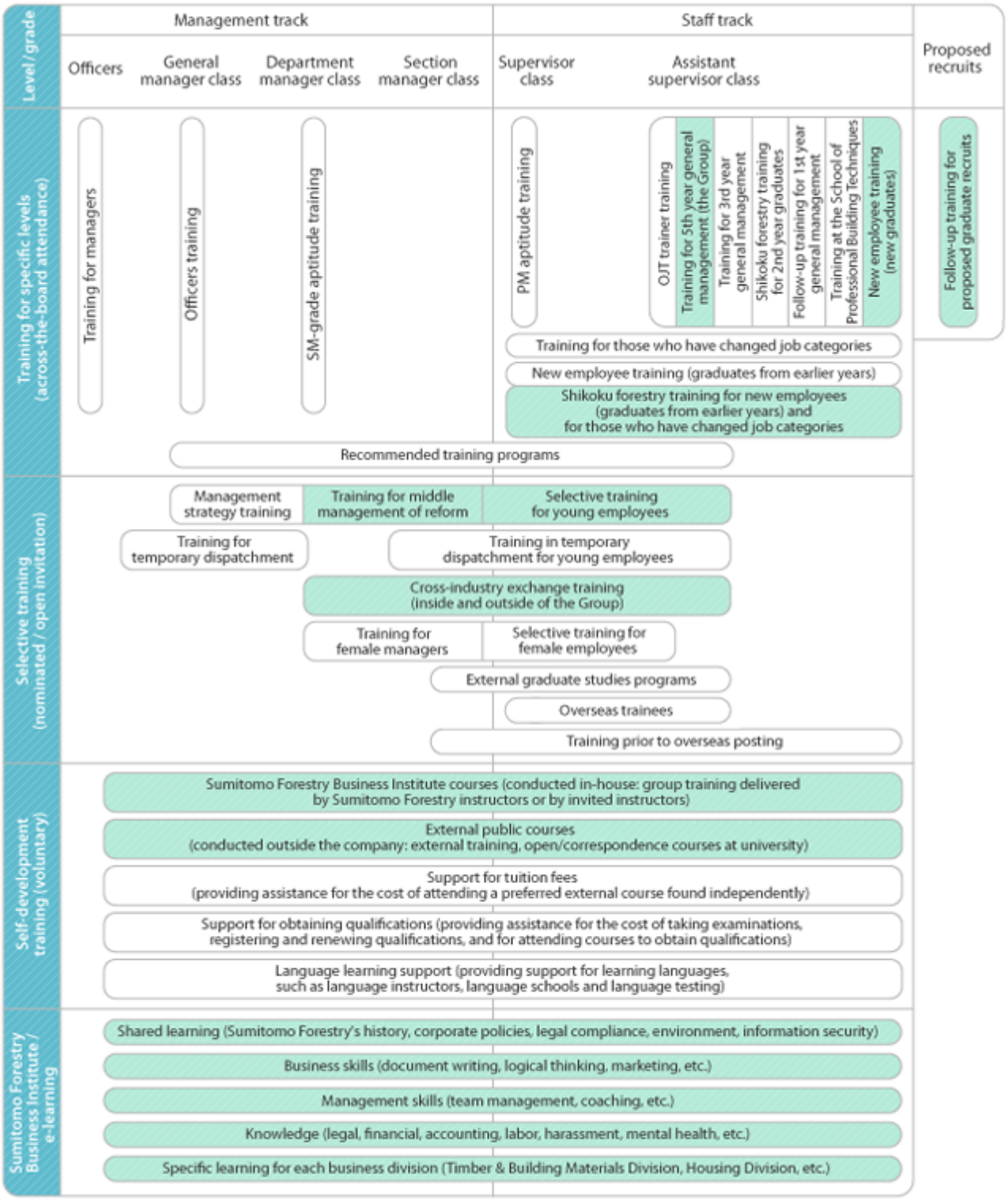
Guided by the policy for human resources development of “autonomy” and “support,” Sumitomo Forestry aims to realize its Corporate Philosophy by developing employees with a strong sense of pride and motivation, and by creating a culture that is open and inclusive. At Group companies as well, the Company looks for individual workers to enhance their skills, by presenting the ideal type of worker it is looking for on the Sumitomo Forestry intranet. As for Group companies outside Japan, the Company instills the Sumitomo Spirit and its Corporate Philosophy such as through employee training. Moreover, the Company also actively employs foreign nationals in Japan and dispatches staff to local worksites. Going forward, it will reinforce training programs for management personnel overseas, and endeavor to reciprocally utilize the human resources of both the Company and Group companies.

## Development of the Sumitomo Forestry Business Institute

In an effort to strengthen the Sumitomo Forestry Group's development of human resources, the Group has been improving and expanding the Sumitomo Forestry Business Institute since fiscal 2011 as a common Group platform for human resources development. Under a theme of “Supporting Motivated People,” since its establishment, the Institute has shifted emphasis, from “training for each level,” which had previously been advocated across-the-board, to more “self-development” and “selective” training. It has also endeavored to expand the content of e-learning. As a result, an awareness for “learning of one's own accord” has begun to sprout among employees, and the development policy of “supporting self-reliance” is gradually taking form.

During fiscal 2013, a Skills Development Sheet was added at the goal-setting interview conducted every half year in an effort for supervisors to strengthen their educational support, and for employees to improve themselves. In addition, the Group further expanded the training programs available to Group company employees in Japan. The Group aims to continue improving its overall capacity for human resources development.

## Sumitomo Forestry Business Institute Training Structure and Training Program (Fiscal 2014)




* Shading indicates training courses that are also partly available to employees from Sumitomo Forestry Group companies in Japan.

**Main Content of E-Learning**

| Area | Training categories | |
|---|---|---|
| **Common training** | • Work + human rights<br>• Compliance and risk management<br>• Information security | • History of Sumitomo Forestry<br>• Policies of the Sumitomo Forestry Group<br>• Environmental problems and corporate initiatives |
| **Business models** | • Document writing<br>• Presentations<br>• Framework for improving strategic thinking | • Logical thinking<br>• Marketing |
| **Management skills** | • Advice for managers<br>• Basics of coaching<br>• Mental health for management | • Team management<br>• Harassment for management<br>• Providing evaluation feedback for developing staff |
| **Knowledge** | • Outline of the Sumitomo Forestry Group<br>• Financial knowledge<br>• Labor-related knowledge<br>• Insider trading<br>• Mental health for ordinary employees | • Legal knowledge<br>• Accounting knowledge<br>• Intellectual property<br>• Harassment for ordinary employees |
| **Personnel systems** | • Personnel evaluation system | |

**Number of Employees Attending Main Training Programs**
**(fiscal 2013, non-consolidated)**

| Training program | Number of people attending |
|---|---|
| Promotion training (2 courses) | 198 |
| Follow-up training for management (6 courses) | 35 |
| Training for specific levels (7 courses) | 424 |
| Selective training (8 courses) | 51 |
| Self-development training (55 courses) | 344 |
| e-learning (6 mandatory courses only) | 5,630 |

**Number of Employees Attending Main Training Programs**
**(fiscal 2013, Group companies)**

| Training program | Number of people attending |
|---|---|
| Follow-up training for management | 65 |
| Training for specific levels | 43 |
| Selective training | 24 |
| Self-development training | 54 |
| e-learning (6 mandatory courses only) | 4,232 |

## Support for Obtaining Qualifications and Attending External Education

Sumitomo Forestry promotes independent efforts for capacity building and career development. For instance, the Company's Regulations for Assistance in Obtaining Qualifications and Attending External Education include provisions for assistance when an employee seeks to obtain qualifications or use an external educational institution.

With regard to obtaining qualifications needed for managing operations and qualifications recommended for capacity building, the regulations prescribe assistance limits for preparation costs, examination fees, registration costs, renewal costs and transportation costs for each qualification.

As for using external educational institutions approved by the Company, in addition to contributing up to 50,000 yen per person each fiscal year, the regulations also state that the Company will bear the costs of admission fees and tuition fees incurred by an employee who enrolls into a graduate school while continuing to work their scheduled working hours. Furthermore, the Group has also established Regulations for External Study Opportunities for cases when an employee remains employed, but leaves their workplace to enroll in a graduate school in Japan or overseas. In fiscal 2013, four employees used this system to study at graduate schools.

VOICE

### I Make Use of My Expert Knowledge of Business Management in Consulting with Customers and in My Daily Work.

Utilizing the program for graduate/overseas studies, in 2012, I completed a course at the Graduate School of Otaru University of Commerce and obtained a Master of Business Administration (MBA). Through attaining the MBA, I expanded my knowledge and experience and I improved my time management and presentation skills. However, the best gain for me was the experience of studying together with classmates with diverse backgrounds.

By drawing on this specialized knowledge in performing my work, I hope to repay the kindness given to me by customers since my earlier years.

**Jun Morita**
**Manager**
**Vancouver Office**
**Timber & Building Materials Division**

## Development of Global Human Resources

Sumitomo Forestry is expanding its comprehensive housing and wood products businesses globally, and so promotes the development of global human resources who can play an active role overseas.

In fiscal 2013, the Company again concentrated support on language learning. In addition to a total of 32 employees taking courses for English and Chinese, one employee was sent to Indonesia as an overseas trainee to master the language. An intensive course run by an external language training company was also started, with 21 employees attending the course, and another 11 making use of correspondence course materials. Another employee was dispatched overseas for the purpose of learning business operations.

When sending employees to an overseas post, the Company issues Overseas Travel Preparation Announcements with, in principle, a minimum of two months until a new appointment starts, and provides basic language learning plus training in knowledge necessary for business (obtaining local working visas, legal affairs, labor, accounting, tax affairs, etc.).

## New Business Proposition Program—Power for the Future Project

Sumitomo Forestry has established the Power for the Future Project, a program for soliciting new business proposals, harnessing the ambitions and skills of employees to create new businesses. The project enables everyone who works in the Sumitomo Forestry Group in Japan to make new businesses proposals based on their own ideas. The biannual program has been run four times since the inaugural program in fiscal 2006, and up until fiscal 2013, five proposals had been commercialized.

## Handing Down the Techniques Used in Building Wooden Houses

Sumitomo Forestry recognizes that in order to preserve the way of building houses that makes best use of the traditional Japanese wooden post-and-beam construction method, it is important to pass on these skills and techniques to the next generation of workers. The Sumitomo Forestry School of Professional Building Techniques is an in-house educational institution certified by the governor of Chiba Prefecture, and was founded by the Company in 1988 as a corporate boarding school for vocational training. Incorporating a one-year training curriculum, the school provides training for new employees at Sumitomo Forestry Home Engineering Co., Ltd. who aspire for a job in carpentry. In terms of construction-related subjects, students study classroom-based subjects such as an introduction to building, structure, drawing, methods of construction, materials and supervision, as well as practical subjects, such as tool operation and maintenance, marking timber with *sumi* ink and a carpenter's square, processing, safety work, model-based practical training, demonstration-based practical training and computing. On completion of their training, graduates are assigned to places all around Japan, and after a few years, they return to the school to undertake 7–10 days of training in Japanese rooms[1] and in a preparatory course for acquiring certification as a certified specialist.

In fiscal 2013, there were 37 new enrolments and 35 graduates. In fiscal 2014, the school welcomed another 58 new enrolments. Out of concern over the long-term shortage of carpenters, in fiscal 2015, the school will also begin accepting carpenters employed at partner firms outside the Company, bringing the number of accepted enrolments to about 70.

1. Training designed to hand down time-honored techniques used around the tokonoma alcove, from generation to generation. Studies include fitting cedar posts and cross-pieces.

Practical training in building

Lesson on erecting framing

# Work-Life Balance

## Basic Policy on Employee Work Styles

Sumitomo Forestry recognizes employees' diverse work styles and strives to create a workplace where they can be motivated in their jobs, and still enjoy a fulfilling family life. Reflecting these aims, the Company has worked on such initiatives as providing childcare and family care programs, promoting greater participation by women, and reducing overtime.

In fiscal 2013, the new Workstyle Diversification Department was established within the Personnel Department, bringing together support desk functions relating to work styles and careers, including childcare and family care, career support, mental health and post-retirement re-employment. In developing a counseling system which is easier for employees to access, the Company supports diverse work styles. In fiscal 2014, the Company will establish a working group on “Workstyles of Employees with Children” to summarize any current workstyles that require improvement and to examine how to develop workplace environments that are more comfortable for employees who are parenting children.

## Supporting the Workstyles of Employees Currently Raising Children

Sumitomo Forestry has put in place a number of support programs that allow employees to work while also raising children.

For example, interviews are arranged for employees who are planning to take childcare leave, allowing them to discuss with their supervisors and Personnel Department staff about childcare leave programs and work style options when returning to work, as well as to hear examples of other employees' experiences. The Company also organizes information exchange meetings and round-table discussions where employees can exchange ideas and ask each other for advice about workstyles for people who are also raising children.

## Discussion among Female Employees who are Raising Children

Sumitomo Forestry holds round-table discussions targeting female employees who are raising children, for the main purposes of alleviating their concerns, boosting motivation and developing networks. The meeting held in fiscal 2013 comprised a general discussion and theme-based group discussions, and was attended by a total of 10 female employees, six who had just returned to work from childcare leave, and four who are parenting children already at elementary and junior high schools.

The President and the responsible director also participated in the general discussion, where opinions were exchanged on such topics as the challenges experienced while parenting, future concerns, and the mental preparedness needed to continue working while also raising children. Given the importance of taking a long-term view when balancing work and parenting, as a new initiative, some time was also set aside to hear the personal experiences of female employees whose children had already reached adulthood.

Round-table discussions targeting female employees who are raising children

## Information Exchange Meetings for Male Employees who are Raising Children

In February 2013, Sumitomo Forestry held special parent discussions targeting male employees who are raising children, for the purpose of creating a workplace environment which is conducive to male employees getting involved in parenting. The meeting was attended by six male employees with children aged three years or younger. With the Head of the Personnel Department also in attendance, ideas and views were exchanged on such topics as the significance of men being involved in the raising of children, the effects that parenting has on work, the extent to which childcare-related programs are being used, and areas for improvement to facilitate employees using the programs.

Furthermore, since the discussions, the content of the meeting has been introduced on the Company intranet in an effort to heighten the awareness of parenting among male employees.

Discussions targeting male employees who are raising children

## The 5th Next Generation Law Action Plan (for Fiscal 2013 to 2014)

Sumitomo Forestry formulates and implements action plans for supporting employees who are raising families, in accordance with the Act on Advancement of Measures to Support Raising Next-Generation Children (Next Generation Law). The Company obtained certification for its 4th Action Plan (for fiscal 2011 to 2012), and since fiscal 2013, it has acted based on the three goals set forth in its 5th Action Plan (for fiscal 2013 to 2014): create new intranet content encouraging employees to take paid leave; establish a new childcare grant program to support employees who are raising children; and create workplace environments that facilitate employees in using childcare support programs.

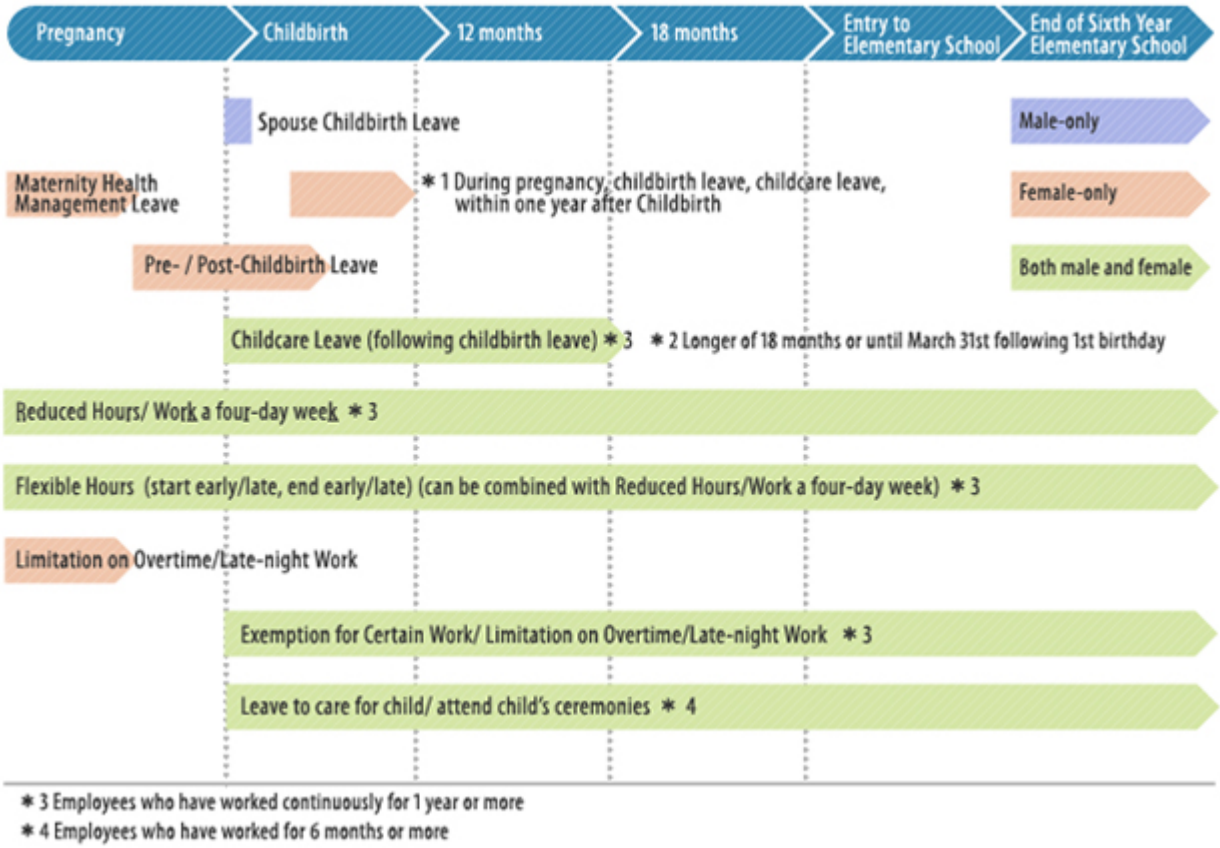
Based on this latest plan, during fiscal 2013, the Company redesigned its intranet, and created a lump-sum childcare assistance program.


The *Kurumin* mark of certification

**Main Childcare Support Programs and Usage (FY2013) (Non-Consolidated)**

| Program | Description | Usage in FY2013 |
|---|---|---|
| **Childcare leave** | Childcare leave may be taken by employees for the longer of the first 18 months of the child's life or until March 31 immediately following the child's first birthday. | • No. of female employees giving birth who took childcare leave: 29 (100%)<br>• No. of male employees who took childcare leave: 12 |
| **Shorter working hours** | Until the child completes the sixth grade of elementary school, employees may begin or end work earlier or later, work shorter hours, or work a four-day week, and be exempted from overtime work. | |

| Program | Description | Usage in FY2013 |
|---|---|---|
| **Leave to care for child and attend special events** | Employees may take the equivalent of 10 days a year in one-hour increments (with full pay) to care for a sick or injured child until their children have completed the sixth grade of elementary school. Of these 10 days, up to five days may be used for attending special events with their children. Employees with two or more children are granted an additional five days. | |



VOICE

## Actively Participating in Parenting Also Has a Positive Effect on My Job

Since the birth of our second child, I have been in charge of feeding our older son in the mornings, as well as getting him changed and taking him to the day nursery. I have also taken an active part in getting him vaccinated and caring for him when he is sick, by utilizing the Company's nursing leave.

When bringing up a child you become aware of various things. In some respects, customers choose a sales manager before they choose a *Sumitomo Forestry Home* house. Therefore, I really feel that my parenting experience has been a big plus for my work too. The period we spend raising children is limited, and so I am keen to see more people make good use of the systems.

**Hiroyuki Sakurada**
**Supervisor**
**Sales Group, Chiba Branch**
**Housing Division**

## Supporting Workstyles for Employees Caring for Family Members

Sumitomo Forestry provides support to employees who are working while also nursing family members. In fiscal 2010, family care leave was revised so that employees may take up to 365 days of leave per applicable family member, and provisions were introduced enabling employees to begin and end work earlier or later, work shorter hours, or work a four-day week. The Company has also established family illness and injury leave, enabling employees to take up to 10 days of leave each year in hourly increments.

**Main Family Care Support Programs and Usage (FY2013)**

| Program | Description | Usage in FY2013 |
|---|---|---|
| **Family care leave** | This system allows up to 365 cumulative days of leave per family member requiring care, and is available to employees and contract employees. | • No. of family care support program users: 1 (flexible starting and finishing times; reduced working hours)<br>• No. of employees who took family care leave: 1 |
| **Shorter working hours** | Participants may also begin and end work earlier or later, work shorter hours, or work a four-day week. | |
| **Family illness and injury:** | Regular and contract employees may take the equivalent of 10 days a year (measured by the hour) to care for their family. Five of the days annually may be used to care for family members who are ill or injured. Employees with two or more family members requiring care are granted an additional five days. | |

## Refresh Leave and Family Friendly Day Leave

So that employees can engage energetically in their jobs with healthy body and mind, Sumitomo Forestry is developing workplace environments that allow employees to take leave as they wish. As part of those efforts, employees are encouraged to take consecutive days of “refresh leave” at a time that suits them in addition to the summer and New Year holiday periods. Each workplace is required to draw up refresh leave schedules for individual employees, and ratios showing the percentage of schedules formulated and the percentage of employees who take refresh leave are tabulated for each department and posted to the in-house Web. This has created an environment making it easy for employees to take leave.

At housing business branches, which are regularly closed on Tuesdays and Wednesdays, employees often meet with customers on the weekends, which sometimes makes it hard to take time off to participate in family events and other private occasions. This has been addressed with the introduction of Family Friendly Day leave, which allows employees to take either one Saturday or one Sunday off each month to spend with family or on a chosen pursuit. Branch employees are encouraged to cooperate on adjustment of job responsibilities and meeting schedules, thereby helping to create a workplace environment that makes it easy to take leave on the weekends.

The percentage of employees who made use of refresh vacation was 38% in fiscal 2012 and 42% in fiscal 2013, and the percentage of employees who made use of Family Friendly Day leave was 23% in fiscal 2012 and 26% in fiscal 2013.

## Reducing Long Working Hours and Encouraging Employees to Take Paid Leave

Sumitomo Forestry encourages employees to take 10 days of planned paid leave each year, inclusive of refresh leave and the summer holiday period. Each business site draws up an Annual Vacation Schedule every January, and periodically reports to the Personnel Department on how much paid leave has actually been taken. Based on this, the results for each site are published on the intranet to encourage employees to take their paid leave. The Company has also listed “take at least 10 days of paid leave” as one of the CSR targets for fiscal 2014, and so will continue to further promote this initiative.

## Mental Health Care

Based on the *Guidelines for Maintaining and Improving Workers' Mental Health* formulated by the Ministry of Health, Labour and Welfare in August 2000, Sumitomo Forestry implements four types of care for mental health: self-care; care provided by line managers; care provided by occupational health staff within the workplace; and care using resources from outside the business. In fiscal 2013, the Company established the new Workstyle Diversification Department within the Personnel Department. It is responsible for providing support related to childcare and family care, career support and support for mental health. In order to further enhance mental health care, the Company put effort into providing mentally ill individuals with follow-up support and help in returning to work. The Company assigned an employee, who is a qualified clinical psychologist, to the Workstyle Diversification Department, and it worked in close cooperation with Medical Consultation and Treatment for Mind and Body, an external provider of the employee assistance program (EAP)[1] which was introduced in fiscal 2006.

Also in fiscal 2013, as part of its prevention of mental health disorders, the Company offered an online Mental Health Checkup (Self-Check) for the first time. 4,405 employees, equivalent to 85.8% of employees covered by health insurance (excluding those employees on long-term leave, such as maternity leave or convalescence leave), underwent the checkup. The Company also provided a mental health education program run by the company counselor (clinical psychologist) for 224 managers. In fiscal 2014, the Company plans to continue with the Mental Health Checkup (Self-Check) and with the mental health education program for management.

Mental health education for management

1 Employee assistance program (EAP): A workplace mental health service

## Telework Program

Sumitomo Forestry introduced the telework option in fiscal 2009 for such reasons as the time saved from commuting can be spent on work or family activities, and employees can concentrate when working in a quiet home environment.

The program is limited to employees who are paid based on a deemed number of working hours and excludes managers and supervisors, but there is no limit to the length of the period of use. The program was used by 15 employees in fiscal 2012 and 21 in fiscal 2013, In fiscal 2014, in order to promote diverse workstyles further, the Company will again work to expand use of the program, such as by explaining the program details and recommending its use to employees on an individual basis when they appear for childcare interviews or work style consultations.

## Transfers to Accommodate Spouse Transfer

In fiscal 2008, Sumitomo Forestry established a program facilitating the transfer of employees to a certain destination for reasons limited to marriage or a spouse transfer accompanied by a change of residence. The program enables employees to continue working for the Company even after marriage or their spouse being transferred. To date, a total 19 employees have made use of this program to transfer to the same location as their spouse.

# Communication with Employees

## Basic Policy on Communication with Employees

Sumitomo Forestry strives to create an environment that facilitates free and vigorous expression and exchange of opinions by employees, where they can perform their responsibilities with vigor, integrity and consideration for others. The Company wants each and every employee to grow within a corporate culture of respect for individual employees, and fair evaluation of accomplishments and efforts.

## Communication in Employee Evaluation and Job Execution

Sumitomo Forestry requires that all employees are given feedback on their evaluation results with the main objective being to make employee evaluations contribute to the nurturing and development of human resources. Meetings between individual employees and supervisors must be held once every six months, providing an opportunity to set targets and receive an explanation of evaluation results. In addition, the Personnel Department conducts direct self-report hearings of all employees once a year to ascertain opinions on jobs and workplaces, transfer requests and family circumstances, among other matters.

## Open Discussions

Open Discussions have been held on a regular basis since 2007 as a platform for discussion between the President and employees, with an aim of facilitating new ideas for the Sumitomo Forestry Group. In two discussions held during 2013, dialogue on a wide range of subjects unfolded on a theme of “How can we make Sumitomo Forestry better?” As an opportunity for face-to-face dialogue between management and employees, discussions will be organized again in 2014.

An open discussion

## Employee Satisfaction Survey

In July 2013, Sumitomo Forestry conducted its sixth Employee Satisfaction Survey, targeting 4,814 employees. The response rate was 90.6%. The level of employee satisfaction was 79.1%, marking the second consecutive increase in satisfaction. The next survey will be conducted in July 2015.

## Relations with the Labor Union

As of April 1, 2014, 100% of the 3,460 employees eligible under the collective labor agreement to join the Sumitomo Forestry Labor Union had done so. Within the labor agreement completed between the Company and the Sumitomo Forestry Labor Union, the Company recognizes the Labor Union's right to freely engage in activities and to collective bargaining, to guarantee the safety of labor-union members during their work activities, and to constantly strive to the best of its ability to maintain and improve labor conditions.

Following on from last year, in 2013, negotiations between labor and management again proceeded on the topic of reducing long working hours. With an aim of further improving the Company, views were also exchanged at regular meetings and other forums on revising the various employee programs, such as for childcare support.

# Employee Data

## Employee Data Trends

### Number of Employees

| | FY2009 | FY2010 | FY2011 | FY2012 | FY2013 |
|---|---|---|---|---|---|
| Non-consolidated | 4,539 | 4,470 | 4,452 | 4,416 | 4,486 |
| Consolidated | 13,601 | 13,778 | 14,736 | 14,890 | 17,413 |

### Employee Breakdown (Non-Consolidated)

| | FY2013 |
|---|---|
| Management level | 2,053 |
| Non-management level | 2,292 |
| Contract employees (interior coordinators) | 3 |
| Contract employees (non-interior coordinators) | 108 |
| Hosted from other companies | 30 |
| Total | 4,486 |

## Number of New Employees - New Graduates[1](Non-Consolidated)

| | | FY2009 | FY2010 | FY2011 | FY2012 | FY2013 | FY2014 |
|---|---|---|---|---|---|---|---|
| Housing sales | Male | 98 | 71 | 56 | 55 | 55 | 60 |
| | Female | 19 | 16 | 15 | 15 | 16 | 13 |
| Housing engineering | Male | 22 | 22 | 16 | 19 | 22 | 23 |
| | Female | 14 | 7 | 4 | 6 | 7 | 8 |
| General management | Male | 27 | 21 | 20 | 14 | 20 | 14 |
| | Female | 7 | 9 | 5 | 6 | 7 | 5 |
| Clerical | Male | 0 | 0 | 0 | 0 | 0 | 0 |
| | Female | 14 | 1 | 6 | 1 | 0 | 13 |
| Total | | 201 | 147 | 122 | 116 | 127 | 136 |

1 Calculated based on the number of new employees joining on April 1.

## Employment and Promotion of Women[1](Non-Consolidated)

| | FY2010 | FY2011 | FY2012 | FY2013 | FY2014 |
|---|---|---|---|---|---|
| Female employees including contract employees (%) | 16.9 | 16.8 | 17.2 | 17.7 | 18.4 |
| Female employees in management positions (%) | 1.3 | 1.4 | 1.5 | 1.8 | 2.2 |
| Female new graduates[1] (%) | 22.4 | 24.6 | 24.1 | 23.6 | 28.7 |

1 Calculated based on the number of workers employed as of April 1.

### Average Length of Service (Non-Consolidated)

| | FY2009 | FY2010 | FY2011 | FY2012 | FY2013 |
|---|---|---|---|---|---|
| **Average length of service** | 12 years and 3 months | 12 years and 8 months | 13 years and 6 months | 14 years and 0 months | 14 years and 3 months |

### Job Separation Rate[1](Non-Consolidated)

| | FY2009 | FY2010 | FY2011 | FY2012 | FY2013 |
|---|---|---|---|---|---|
| **Voluntary separation rate (%)** | 2.3 | 3.0 | 3.4 | 3.3 | 2.3 |
| **Separation rate[2] (%)** | 3.7 | 4.6 | 4.2 | 4.2 | 2.9 |

1. Calculated by dividing the number of people who left during the year by the number of employees at the beginning of the year.
2. The separation rate includes voluntary separations.

### Employment of People with Disabilities (Non-Consolidated)

| | FY2009 | FY2010 | FY2011 | FY2012 | FY2013 |
|---|---|---|---|---|---|
| **Ratio of disabled employees (%)** | 1.83 | 2.04 | 1.93 | 1.95 | 2.18 |

### Rate of Local Employment in Group Companies Outside Japan[1]

| | FY2009 | FY2010 | FY2011 | FY2012 | FY2013 |
|---|---|---|---|---|---|
| **Rate of local employment in Group companies outside Japan (%)** | 99.2 | 99.3 | 99.3 | 99.2 | 99.3 |

1. Calculated by dividing the number of employees hired locally by consolidated subsidiaries and working for the company at the end of the year by the total number of employees at the end of the year.

## Hours of Training and Expenditure on Training (Non-Consolidated)

| | FY2009 | FY2010 | FY2011 | FY2012 | FY2013 |
|---|---|---|---|---|---|
| Hours of training received per employee | 2.8 | 2.6 | 4.7 | 6.9 | 7.5 |
| Expenditure on training (japanese yen) | 111,000 | 98,000 | 105,000 | 103,000 | 91,000 |

## Work-Life Balance Program Usage (Non-Consolidated)

| | | FY2009 | FY2010 | FY2011 | FY2012 | FY2013 |
|---|---|---|---|---|---|---|
| No. of child care leave users | Male | 16 | 20 | 15 | 6 | 12 |
| | Female | 11 | 20 | 20 | 15 | 29 |
| No. of reduced hours program users[1] | | 15 | 18 | 24 | 29 | 29 |
| No. of telework program users | | 8 | 10 | 12 | 15 | 21 |

1. Calculated by adding the number of reduced hours program users and the number of four-day week program users.

## Paid Leave Usage Ratio (Non-Consolidated)★

| | FY2009 | FY2010 | FY2011 | FY2012 | FY2013 |
|---|---|---|---|---|---|
| **Paid leave usage ratio[1](%)** | 34.6 | 32.4 | 30.7 | 30.4 | 31.6 |

1. Paid leave entitlements are issued each year in January, therefore the table shows figures for December 31. Calculated by dividing the number of days of paid leave taken by the number of days of paid leave issued.

## Occupational Injuries (Non-Consolidated)[1]★

| | FY2009 | FY2010 | FY2011 | FY2012 | FY2013 |
|---|---|---|---|---|---|
| **No. of work-related accidents[2]** | 0 | 3 | 6 | 0 | 6 |
| **Lost-time injury frequency rate[3]** | 0.22 | 0.45 | 0.8 | 0 | 0.28 |

1. No work-related accidents resulting in death occurred during the reporting years shown.
2. The number of work-related accidents resulting in payment of compensation benefits for absence from work in accordance with the Industrial Accident Compensation Insurance Act is disclosed.
3. Lost-time injury frequency rate = Number of occupational fatalities or injuries resulting in an absence from work of at least one day ÷ Total number of working hours × 1,000,000
   The frequency of occupational diseases during the above reporting year was 0★.

## Labor Union Membership (Non-Consolidated)[1]

| | FY2009 | FY2010 | FY2011 | FY2012 | FY2013 |
|---|---|---|---|---|---|
| **Labor union membership rate(%)** | 100 | 100 | 100 | 100 | 100 |

1. The scope of eligibility for labor union membership is stipulated in the labor agreement.

# Promotion of Social Contribution Activities

## Policy on Social Contribution Activities

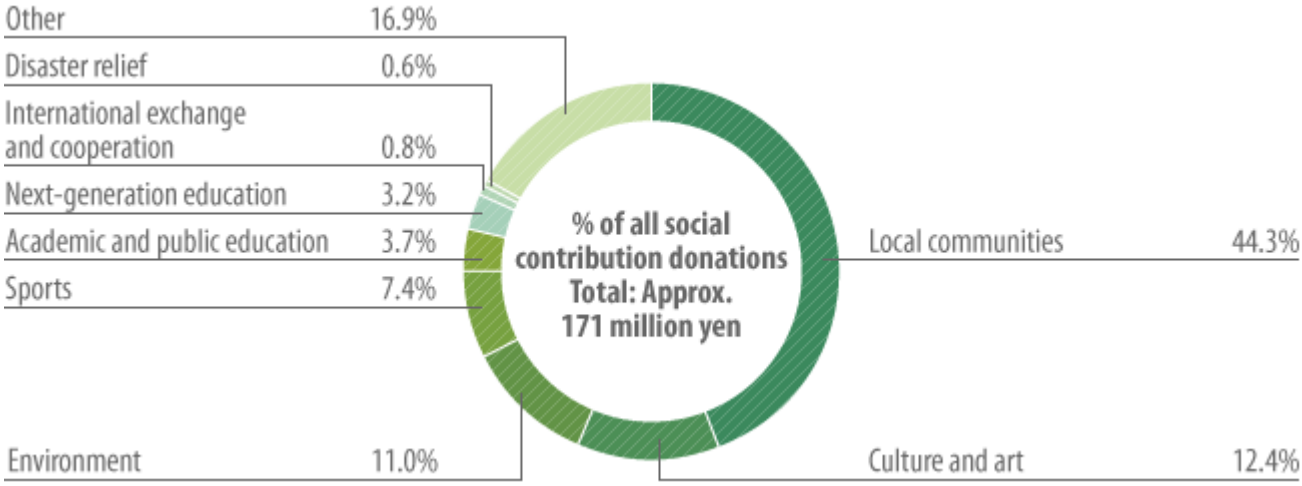
The Sumitomo Forestry Group advances a wide range of social contribution activities to protect abundant forests into the future and to contribute to sustainable use of timber resources and local community development. Fostering greater understanding about forests over a large section of society is particularly important for forest conservation. This motivates Sumitomo Forestry to dedicate itself to environmental education through lectures and programs for elementary and junior high school students. The Company is also actively involved in activities which make a contribution to the wider society, such as the restoration of forests damaged by disaster. Sumitomo Forestry also supports volunteer activities undertaken by individual employees in local communities to create a workplace environment that encourages people to contribute to their local communities.

## Introducing a Volunteer Leave Program

To support its employees' volunteering activities, in May 2011 the Company established a volunteer leave program that allows employees a total of five days of leave a year for volunteer activities. Moreover, the Company provided special support for volunteer activities for the Great East Japan Earthquake, for a specific time period, it paid the travel expenses and volunteer insurance premiums of employees who wanted to help. In fiscal 2011, 2012 and 2013, the number of employees who took leave to participate was 12, 2 and 6 respectively.

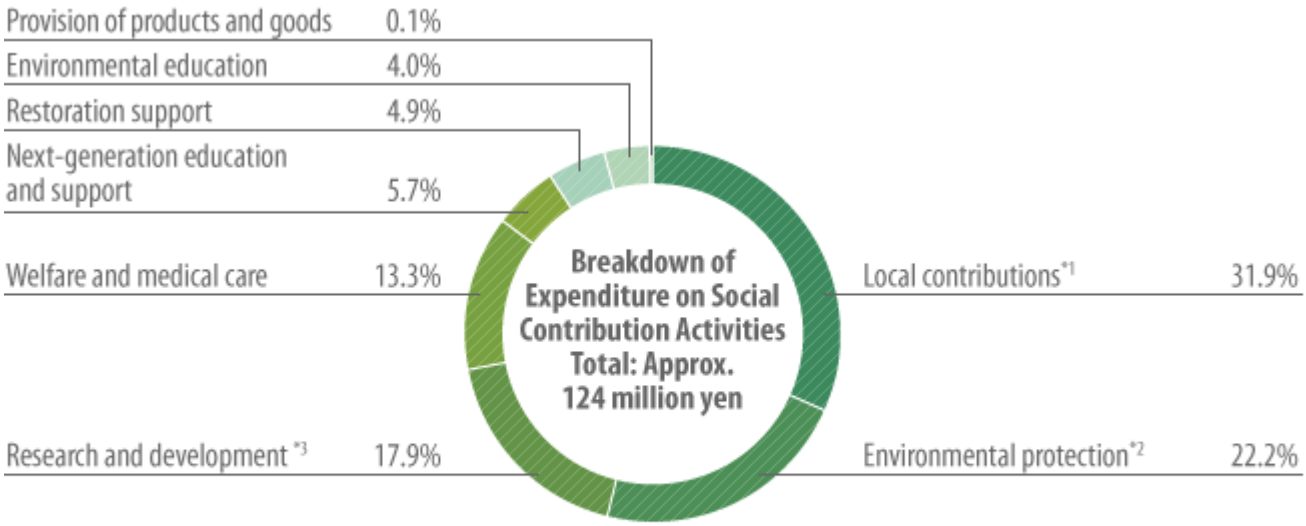
## Social Contribution Donations

### Breakdown of Social Contribution Donations by Category (FY2013)




## Expenditure on Social Contribution Activities

### Breakdown of Expenditure on Social Contribution Activities (FY2013)




*1. Includes local clean-up activities and Forester House operational costs
*2. *Manabi no Mori* operational costs
*3. Research and development costs for heritage and precious trees

# Examples of Social Contribution Activities in Japan

## *Mt. Fuji Manabi no Mori* Project

National forest cloaking the foothills of Mt. Fuji was extensively damaged when a typhoon struck southern parts of the Kanto region in 1996. In 1998, setting out to restore the vitality of the original forest, Sumitomo Forestry launched a natural forest restoration project to commemorate the 50th anniversary of the Company's establishment; encompassing around 90 hectares of the damaged forest named *Mt. Fuji Manabi no Mori*. The *Mt. Fuji Manabi no Mori* is opened up not only for the volunteer activities and environmental education programs, but also for NPOs and other organizations. Between the start of activities in 1998 and the end of fiscal 2013, a total of 20,548 people had visited the *Mt. Fuji Manabi no Mori*; in fiscal 2013, a total of 1,478 people from both inside and outside the Company visited the *Mt. Fuji Manabi no Mori*.

### Volunteer Activities (Planting, Underbrush Clearing, Thinning, Etc.)

Tree-planting activities carried out by many volunteers from both inside and outside the Company since the start of the project in 1998 have already been completed and the project is now in the cultivation stage. Cultivation activities such as underbrush clearing, pruning and thinning will be continued.

Two volunteer activities were implemented on 13 occasions with 671 visitors participating during fiscal 2013.

Underbrush clearing

### Environmental Education Program

Sumitomo Forestry has been implementing an Environmental Education Program for local elementary and junior high school students since fiscal 2006 in collaboration with the NPO Whole Earth Institute. Activities include nature observation and games incorporating the five senses. The aim of these opportunities to rediscover the natural world is for the students to learn about the importance of nature and encourage them to consider new ways in which people can coexist with nature in the future. In fiscal 2013, a total of 596 students participated in the program. An Environmental Education Program for children living in nursing homes is being carried out since fiscal 2007, and 10 children participated in fiscal 2013.

Environmental Education Program

## Vegetation Monitoring and Wildlife Censuses

Experts have been carrying out surveys, including vegetation monitoring and wildlife censuses, since fiscal 2000, providing valuable data for understanding the biodiversity of the region. Cultivating a forest is a never-ending job and *Mt. Fuji Manabi no Mori*, too, is a 100-year project.

To ensure that the project is still running 100 years from now, forest management and environmental activities will be continued as a way to communicate the importance of nature to as many people as possible.

### Forest Maintenance Activities at Gunma *Manabi no Mori*

In July 2012, Sumitomo Forestry and Gunma Prefecture signed a prefectural forest maintenance partnership agreement, and are working with the prefectural authorities to promote the maintenance of forest at the foot of Mt. Akagi. In fiscal 2013, forest maintenance activities were conducted twice in August. Around 100 people participated in total, including Sumitomo Forestry Home owners, employees of Sumitomo Forestry and partner building contractors, and their families. With guidance from the local forestry co-operative, Japanese cypress seedlings were planted in the Gunma Akagi Forest Park, which has suffered damage from pine weevils and prefectural woodland which was devastated by typhoon. The activity was conducted during the summer holidays with the participation of many children of Sumitomo Forestry Home owners to raise their awareness regarding nature conservation and environmental protection through tree planting. In 2014, the Company plans to conduct activities on July 26 (for employees of Sumitomo Forestry and partner building contractors) and August 10 (for home owner families).

Gunma *Manabi no Mori*

# Development of Technologies to Ensure the Survival of Heritage and Precious Trees

To help ensure the survival of heritage trees and precious trees into the future, Sumitomo Forestry is directing efforts into the development of cloning techniques that enable the qualities of trees to be passed down as-is.

Sumitomo Forestry is working toward propagation of historically and culturally important trees around Japan, particularly cherry trees using the latest clone propagation technique, plant tissue culture, in addition to cloning techniques already acquired, such as cutting and grafting. The Company is also working with the Forestry and Forest Products Research Institute (FFPRI, an incorporated administrative agency), the National Institute of Genetics (NIG, an inter-university research institute corporation) and the Association for Propagation of the Knowledge of Genetics (a public interest incorporated foundation) to build a DNA database for cherry trees and advancing a sophisticated program to identify individual varieties. A proper understanding of individual varieties, species diversity, history and other aspects can be used to preserve precious trees for future generations.

## *Omurozakura* Research Project—First Blooming of Cloned *Omurozakura* following Their Return to Ninna-ji Temple

The *Omurozakura* Research Project, commenced in January 2007, is a collaboration between Sumitomo Forestry, Chiba University and Ninna-ji temple, headquarters of the Omuro school of the Buddhist Shingon Sect and a UNESCO World Heritage Site, under the guidance from the Municipality of Kyoto Cultural Properties Protection Section. The biology of the *Omurozakura* variety of cherry only grows on the temple grounds. The variety hides many secrets. Compared with other varieties, they are late blooming, and shorter, growing to the height of an adult human. But to ensure their survival for future generations, it was necessary to develop management technology rooted in scientific knowledge.

The first *Omurozakura* cultivated from tissue culture and planted on the grounds of Ninna-ji temple

In February 2012, the Sumitomo Forestry Tsukuba Research Institute successfully used tissue culture to clone *Omurozakura*, returning the first trees to Ninna-ji temple, and in April 2014, the trees produced their characteristic multi-layered blossoms. The blooming of these tissue-culture seedlings not only significantly contributes to the preservation of the renowned *Omurozakura*, which are aged 360 years old or more, but also to maintaining the scenery of Kyoto and the transmission of culture. Sumitomo Forestry believes the project to hold social significance, and will continue in its investigations and research.

## Support for “Kyo-no-Mori Project—Cherry Trees Linking People Together.

Tree-planting ceremony

Sumitomo Forestry is acting in support of the “Kyo-no-Mori Project—cherry trees linking people together,” initiated by Daigoji temple, the head temple for the Daigo school of Shingon Buddhism. In March 2014, Taiko weeping cherry tree clone saplings reared for a year by students at Daigo Elementary School, Kyoto was donated to Sakiyama Elementary School in Miyako City, Iwate Prefecture, in an area devastated by the 2011 Great East Japan Earthquake, and a tree-planting ceremony was held. This project aims to make effective use of fallen leaves, which are in abundance at temples and shrines in Kyoto. The children of the Daigo Elementary School were in charge of gathering fallen leaves, producing fertilizer, and raising cherry trees. Once the trees have grown, the Daigoji temple sent them to an the elementary school in Miyako City, Iwate Prefecture, with which the temple shares ties. The project has been underway since November 2012.

Employees from Sumitomo Forestry participated in leaf collection and donated two pots of Taiko weeping tree seedlings. In addition, employees conducted environmental workshops and cooperated with project promotion by radio in order to support the Daigo Elementary School students in their efforts to raise the cherry trees. In March 2014, four student representatives from Daigo Elementary School accompanied monks from Daigoji temple, visiting Miyako City. They joined the students of Sakiyama Elementary School in disaster prevention education, a memorial service for victims of the 2011 disaster, and a tree-planting ceremony for the cherry tree. The Company intends to continue assisting with raising the donated tree and also working with Kyoto and Miyako cities in support of exchange between their elementary school students.

## Planning and Promotion of Use of Timber at “Mama Sacas” Event Held at Akasaka Sacas with Tokyo Broadcasting System

An event held by Tokyo Broadcasting System Television, Inc. (TBS) entitled “Mama Sacas” designed to rediscover the fun in child-rearing for the whole family, was held at their headquarters, Akasaka Sacas, from March 21 through April 6, 2014. Sumitomo Forestry supported the intention of the organizers to give urban children the opportunity to enjoy authentic trees and greenery. The Company therefore helped to create a story-telling corner inspired by forests in children’s picture books along with a grassed area to use for a photography class. The Company also planned and supplied the timber stage used throughout the event.



Story-telling corner

# Examples of Overseas Community Development and Regional Contribution Activities

## Contributing to Communities Where Sumitomo Forestry Operates

Sumitomo Forestry aims to contribute to sustainable local development through its operations. When starting new businesses or expanding its overseas business sites, the Company's policy is to consider the environment, revitalize local economies and promote employment and thereby operate in harmony with local communities.

## Activities Which Contribute to Local Communities in Indonesia

### Support for Children through the KTI Educational Foundation

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

In fiscal 2013, the Foundation provided 396,000 yen to 47 elementary, middle, and high school students.

Children at a kindergarten that received desks and other items donated by the KTI Educational Foundation

### Community Development through Project EARTH Initiatives

Sumitomo Forestry has implemented its Project EARTH carbon-offset initiative in Indonesia since 2009, involving reforestation work in collaboration with local residents. The project also encompasses activities leading to enhanced regional infrastructure, such as the preparation of roads necessary for the reforestation work, thereby contributing to improvement of the livelihoods of residents. The project also regularly donates study tools to local elementary schools and kindergartens.

Kindergarten at the town of Supit Ulan, which has commenced reforestation

- News Release “Sumitomo Forestry ’Project EARTH’ Environmental Initiative Three Year Extension”

VOICE

## Sumitomo Forestry is Striving for the Creation of Mechanisms for Development with Local Indonesian Communities.

Forests are an indispensable part of people's lives, and this is true to an ever greater extent in emerging countries, where people's livelihoods are very closely tied to forests. Project EARTH aims to maintain the existing environment and society while striving to create mechanisms for development with the community such as creating new employment opportunities for economic growth.

In 2014, a portion of the trees planted during the first year of the project will finally reach logging maturity. A portion of the income from the harvesting will be distributed to the community, while income received by the project will all be used for reforestation, for providing infrastructure in line with the wishes of the community and to provide educational support, such as for local elementary schools.

**Shuhei Nishi**
**PT. Sumitomo Forestry Indonesia**

## Contributing to the Community through Free Seedling Distribution and Support for Infrastructure Provision

PT. Rimba Partikel Indonesia, which conducts the manufacture and sales of particle board, distributes free seedlings to local residents and purchases the mature trees to use as raw material, which helps the community economically and in terms of greening. In addition, the company continues to support mosque repair work and in road surfacing, making use of donated roadbed materials.

Road surfaced by donated roadbed materials

## Provision of Infrastructure and Opening a Hospital at an Business Site

PT. Wana Subur Lestari, which conducts large-scale forest plantation, cooperates with local communities in the conduct of sustainable business. To this end, they provide assistance for construction of kindergartens, schools and roads in areas with insufficient infrastructure. In addition, they opened the hospital at their afforestation business site for local residents. In fiscal 2013, they gave support to the construction of a mosque and a community center.

Mosque built with Wana Subur Lestari support

## Exhibition as Part of a Green Forestry Expo in Indonesia

In April 2014, five Sumitomo Forestry Group companies[1] based in Indonesia collaborated to exhibit at the IndoGreen Forestry Expo. The Group's social contribution through planting, manufacturing business and zero emission efforts were introduced via photo and video. The display introduced many people to the Group's activities based upon the premise of "harvest, use and replant."

Visitors to the exhibition were given seedlings. In addition, Forestry Minister Zulkifli Hasan and other visitors were given the opportunity to feel the timber for themselves, in the form of blocks of balsa falcata merkusii pine. It was a valuable forum to deepen people's understanding of reforestation and timber and engage their interest. The Group plans to participate again in 2015 and utilize it as an opportunity for communicating with local people.

The Sumitomo Forestry Group booth

1. Five companies: PT. Kutai Timber Indonesia, PT. Rimba Partikel Indonesia, PT. Sumitomo Forestry Indonesia, PT. Wana Subur Lestari, and PT. Mayangkara Tanaman Industries

## Improving Social Infrastructure in Papua New Guinea

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

OBT also runs a medical center, a kindergarten and a supermarket for use by employees and local children to supplement government-provided social infrastructure.

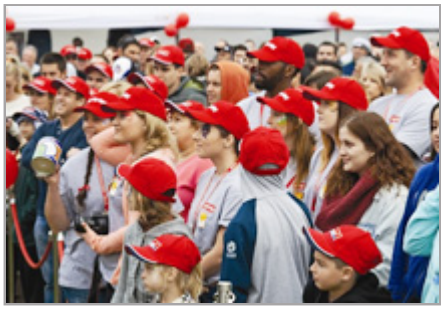
Additionally, in preparation for flooding during the rainy season, the company has worked on construction of cross-river wooden bridges and reinforced concrete low-water bridges. In 2013 the company built a further four reinforced concrete low-water bridges of various sizes and conducts regular repair word on roads and bridges, continuing in efforts which contribute to local infrastructure.

A concrete bridge completed on the Pale river in August 2013 (photo shows the bridge under construction)

## Support for Children's Hospitals in Australia and the United States

The Henley Properties Group builds and sells detached and multi-unit housing and spec homes in Australia and the United States. The Group's social contribution activities include the Good Friday Charity Auction, whereby the auctioning of a spec home, built with residential land developer, materials supplier and other business partner cooperation, raises money which is donated to children's hospitals and other facilities.

Combined with business partners, more than 200 people participate in this activity, for example through the provision of land, cost estimation, manufacturing and procurement of materials, work management and construction. The total value of donations made since the activity began in 1993 now amounts to 20 million Australian dollars. A proportion of the donations go toward coverage of medical costs for children suffering from intractable diseases. In 2014, the 21st year of the activity, a two-story house in Plumpton in northwest Melbourne, Victoria, Australia, was auctioned in March 2014, raising 717,000 Australian dollars.




Detached house auction

## Support for the Next Generation in the United States Through Joint Efforts with Local Residents

The Canyon Creek Cabinet Company, which manufactures and sells cabinets in the United States, is actively supporting students in its local area. It provides scrap timber to local boy scouts to help them practice and improve their carpentry skills, and also provides them with a meeting room for their monthly leadership meetings.

In addition, on facility tours, local students perform tasks together with factory employees, giving the students a better understanding of the work. Canyon Creek Cabinet Company also supports young people to learn business skills through the regional Business Week program, for which it offers bursaries. In addition, it also provides offcuts to a local toy manufacturer which uses them to make wooden toys and puzzles to donate to a local childcare facility and a children's hospital.

A facility tour for local students

# Environmental Philosophy and Environmental Policies

## Environmental Management of the Sumitomo Forestry Group

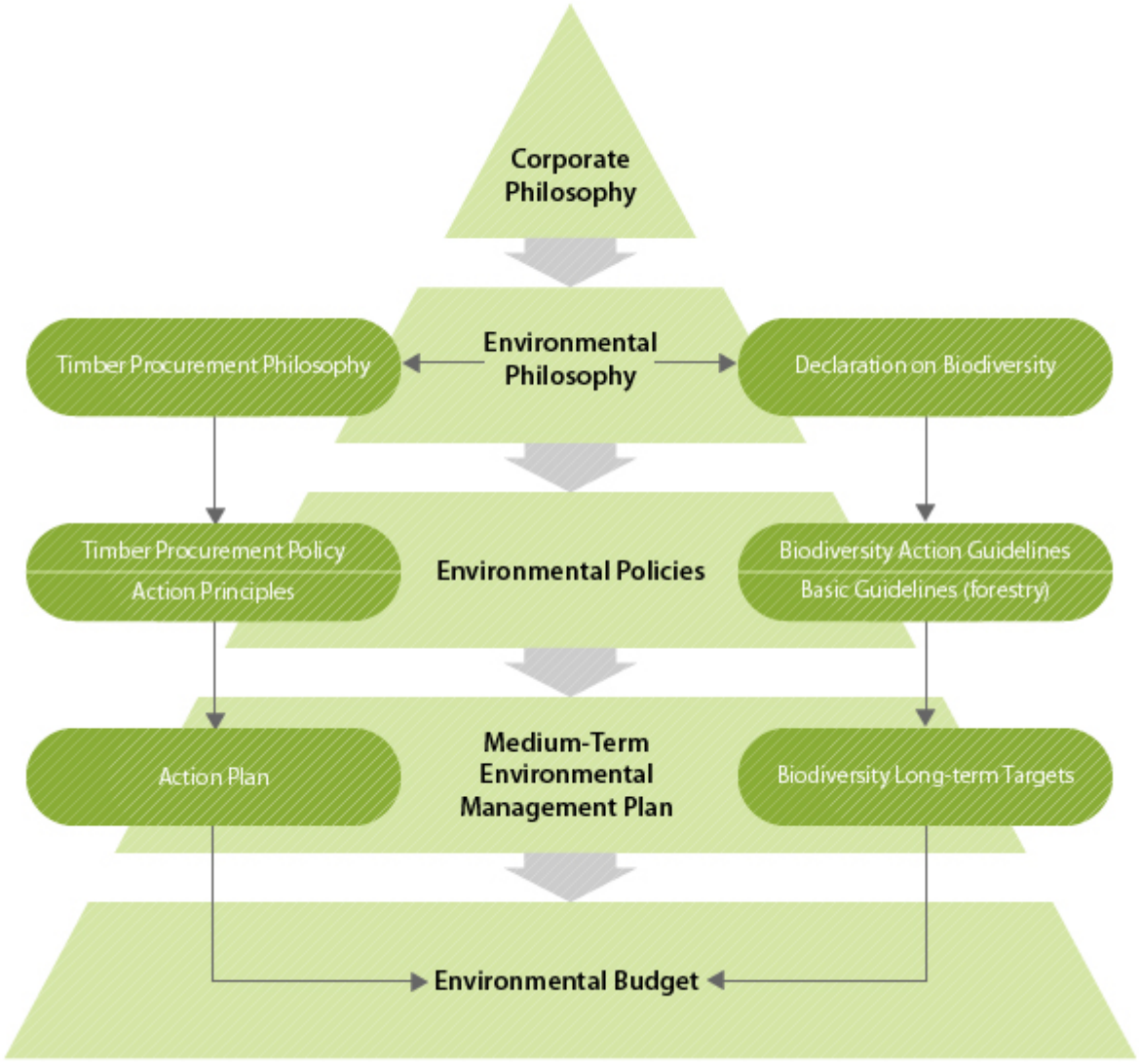
The Sumitomo Forestry Group lists “Environmental Responsibility” as one of the Action Guidelines of its Corporate Philosophy and states, “We are dedicated to effectively addressing environmental issues with the aim of achieving a sustainable society.” The Group established its Environmental Philosophy in December 1994 and Group-wide Environmental Policies in October 2000.

In fiscal 2009, the Group formulated a Medium-Term Environmental Management Plan setting out medium-term environmental targets. The plan is incorporated into environmental budgets as numerical targets for each fiscal year and environmental activities are steadily enhanced through Group-wide implementation of the PDCA (plan-do-check-act) cycle.

To share and raise awareness of the Environmental Philosophy and Environmental Policies among Group employees, they are printed in employee handbooks. Opportunities to read through and discuss them are also arranged, for example as part of new employee training, ISO 14001 internal environmental auditor training courses or departmental meetings.

Environmental Philosophy and Environmental Policies (link to Corporate Information)

## Sumitomo Forestry Group Environmental Philosophy Framework



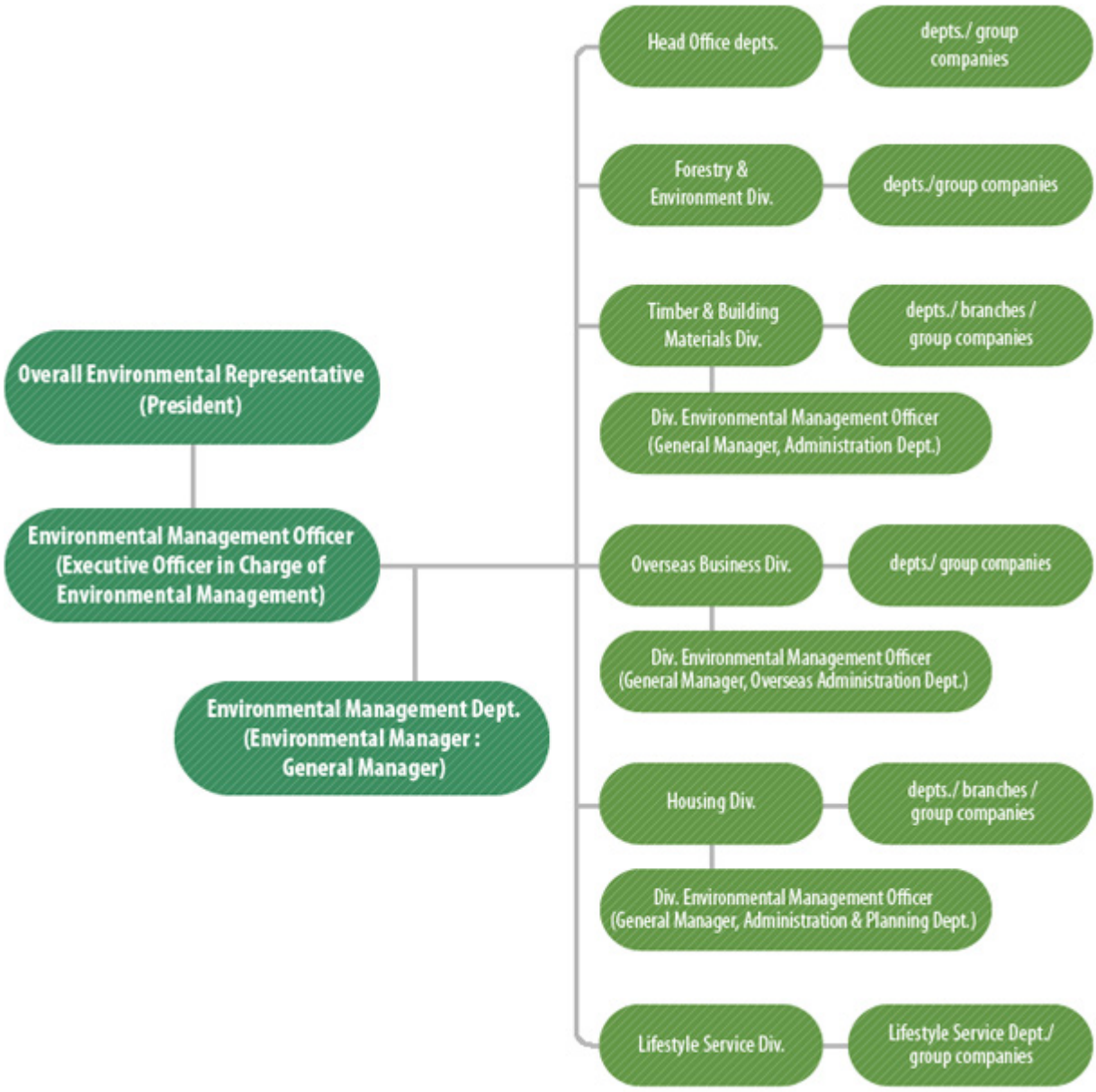
# Environmental Management Structure

## Environmental Management Structure

To ensure that management is practiced in accordance with the Environmental Policies, whose objective is to contribute to the creation of a sustainable society, the Sumitomo Forestry Group has established an environmental management structure with the President of Sumitomo Forestry assuming overall responsibility.

Beneath the President are the Executive Officer in Charge of Environmental Management and the General Manager of the Environmental Management Department. Regular checks are conducted against the Environmental Annual Objectives and the like on the progress of environmental activities advanced by divisions and departments within the Group and related issues, to raise the effectiveness those activities.

**Environmental Management Structure (as of April 2014)**




## Roles of Environmental Management Personnel

- Group Overall Environmental Representative: President
- Group Environmental Management Officer: Executive Officer in Charge of Environmental Management
- Group Environmental Manager: General Manager, Environmental Management Dept.
- Division Environmental Management Officers: General Manager, Administration Dept. (Timber & Building Materials Div.); General Manager, Administration & Planning Dept. (Housing Div.); General Manager, Overseas Administration Dept. (Overseas Business Div.)
- Department Environmental Managers: General managers, presidents of group company, etc.
- Environmental activity personnel: Environmental promotion personnel

## ISO 14001 Certification

Sumitomo Forestry introduced an environmental management system in fiscal 1995 and acquired ISO 14001 certification for its housing operations in fiscal 1997 ahead of other players in the housing industry. Certification was subsequently acquired for other operations with all departments and divisions in the Company achieving integrated ISO 14001 certification in fiscal 2002.

Integrated certification is also being extended to Group companies, focused on key businesses, with Sumitomo Forestry and four Group companies in Japan having gained certification. The Company intends to include Japan Bio Energy Co., Ltd. in the scope of certification in September 2014.

Progress is also being made on certification of overseas Group companies, focused on manufacturing companies. In March 2014, Vietnam-based Vina Eco Board Co., Ltd. obtained certification, so that now six companies have completed certification acquisition. Efforts are currently underway to obtain certification for PT. Sinar Rimba Pasifik in Indonesia.

As of March 2014, the certification rate for consolidated organizations was 77.6% (based on sales).

**Sumitomo Forestry Group ISO 14001 Certification**

| Company | Date acquired |
|---|---|
| Sumitomo Forestry Co., Ltd. (excl. overseas operations) | August 2002[1] |
| Sumitomo Forestry Landscaping Co., Ltd. | November 2002[2] |
| Sumitomo Forestry Home Service Co., Ltd. | November 2002[2] |
| Sumitomo Forestry Crest Co., Ltd. | September 2003[2] |
| Sumitomo Forestry Home Tech Co., Ltd. | March 2013[2] |
| PT. Kutai Timber Indonesia (KTI) | July 2001 |
| Nelson Pine Industries Ltd. (NPIL) | July 2003 |
| PT. Rimba Partikel Indonesia (RPI) | October 2005 |
| PT. AST Indonesia (ASTI) | January 2007 |
| Alpine MDF Industries Pty Ltd. (Alpine) | February 2007 |
| Vina Eco Board Co., Ltd. (VECO) | March 2014 |

1 Certification was acquired by individual departments and divisions from 1997 before integrated certification was acquired for the entire Company.

2 Acquired by inclusion in Sumitomo Forestry's integrated certification.

## Audits by External Certification Bodies

Companies covered by the integrated ISO 14001 certification in Japan undergo routine reviews conducted once a year by certification body JIC Quality Assurance Ltd. In fiscal 2013, 58 departments of five companies underwent renewal audits between May and June.

The audits found one minor irregularity and recommended 42 improvements. Corrective action was undertaken in response to the minor irregularity, while methods were examined and action was taken for each of the recommendations.

Efforts were also made to share information between Group companies on common issues and internal environmental audits implemented preventative measures to address those issues.

## Internal Environmental Audits

In addition to reviews conducted by external certification bodies, companies covered by the integrated ISO 14001 certification periodically carry out internal environmental audits. These audits are implemented by employees who have passed an exam upon completion of an in-house training course to become internal environmental auditors.

In fiscal 2013, internal environmental auditors evaluated initiatives, recommended improvements and checked compliance systems for 92 departments. No major irregularities were discovered. In regard to minor irregularities and improvement recommendations, audited departments took corrective action and submitted reports on those actions to the audit department. Audit results were reported to management by the General Manager of the Environmental Management Department and a review was conducted.

Also in fiscal 2013, internal environmental auditor training courses were held on three occasions, with 106 employees completing the program. A total 1,356 employees (including 496 Group company employees) had completed the course as of the end of fiscal 2013.

# Environmental Risk Management

## Environmental Risk Countermeasures

The Sumitomo Forestry Group is striving to reduce and to prevent the manifestation of the risks and impact which business activities have upon the global environment and society such as the disposal of industrial waste, soil and water pollution caused by toxic substances, noise and vibration.

### Processing of Industrial Waste

It is said that around 70% of illegally dumped industrial waste in Japan is construction waste. Viewing the environmental risks presented by the processing of industrial waste as the biggest in terms of the potential impact on society and business, the Sumitomo Forestry Group works to ensure that industrial waste is disposed of appropriately.

Specifically, the Group complies with the Waste Management and Public Cleansing Act and other related laws and regulations and has established a set of industrial waste management regulations covering appropriate disposal, reduction, recycling and reuse of industrial waste. In keeping with these regulations, voluntary audits of waste manifests and terms of outsourcing agreements with waste processors are carried out twice a year for each Group company office emitting industrial waste. If an audit concludes that corrective action is required, appropriate action is taken and it is subsequently confirmed through reports submitted in line with the industrial waste management system that waste is being properly treated.

In addition, industrial waste managers at each office conduct site inspections of contractors' waste treatment plants at least once a year. In fiscal 2013, personnel from the Housing Division carried out site inspections of around 410 waste treatment plants across Japan. Divisions other than the Housing Division and offices of Group companies are being instructed to continue using waste treatment plants which the Housing Division has already inspected.

To be able to determine whether industrial waste is being processed in an appropriate manner, the Group asks waste treatment contractors to employ electronic manifests. All contractors accepting industrial waste from Housing Division branches and new housing construction sites have already introduced electronic manifests. In fiscal 2013, 99.9% of all manifests, including those for housing demolition waste, were electronic.

▸ Reduction, Recycling and Appropriate Disposal of Waste

## Soil Contamination

Soil contamination is difficult to discover as contaminants build up and spread underground out of sight. The Sumitomo Forestry Group implements soil contamination countermeasures for land owned or administered by the Group and conducts voluntary soil contamination studies prior to new land purchases in the condominiums business

## Water Pollution

Water pollution creates the risks of human health being directly affected by contamination of drinking water and of contamination affecting the habitats of organisms living in rivers, lakes and seas. The No. 2 Kyushu Plant of Sumitomo Forestry Crest Co., Ltd., which is a specified office under the Water Pollution Control Act of Japan, performs its own water quality inspections twice a week on wastewater emitted by the plant's wastewater treatment facility and has a third-party organization conduct inspections twice a month. Inspection results are reported to local government authorities every six months. Water is also sampled and inspected by the prefecture once a year and by the city three times a year. In fiscal 2013, all inspections found the level of water pollution to be within the statutory limit for wastewater. Leak response drills are also carried out as part of annual emergency response training.

▸ Management of Hazardous Chemicals Substances

## Contamination by Hazardous Chemicals

Contamination caused by hazardous chemicals leads to risks of a major impact on human health or the environment and the risk of a disaster. The Sumitomo Forestry Group ascertains the amount of hazardous chemicals it uses and emits and makes an effort to manage such chemicals appropriately and reduce usage.

The Group also takes appropriate action in response to the Air Pollution Control Act. Nagoya, Niihama and Kyushu Plants of Sumitomo Forestry Crest Co., Ltd., which are all equipped with boilers, comply with the law by regularly measuring emission volumes and concentrations of NOx, SOx and soot and dust and ensuring that statutory limits are observed.

▸ Management of Hazardous Chemicals Substances

## Noise and Vibrations

Sumitomo Forestry makes an effort to prevent noise and vibrations during housing construction. When complaints about noise or vibrations are received, the circumstances are recorded and the information is shared with the rest of Group to prevent the occurrence of similar incidents.

Sumitomo Forestry Crest Co., Ltd. confirms that noise levels within the site boundaries of plants are below the statutory limit by taking regular measurements.

No complaints about noise or vibrations having a major impact on the environment were received from local residents during fiscal 2013.

# Understanding Environmental Risks

The Sumitomo Forestry Group is aware of the risk upon our business activities from environmental changes such as climate change or reduced biodiversity and works to gather related information. The Group analyzes the information as required for the purpose of assessing business risks.

## Risks Related to Climate Change

### Establishment of Emission Reduction Obligations

As the move towards reduction of greenhouse gases takes shape globally, there is the possibility that reduction obligations will be imposed upon businesses in countries where the Sumitomo Forestry Group has bases. If Group companies with bases in these countries are unable to meet reduction obligations, they will be required to purchase emission credits, creating the risk of increased business costs.

In addition, office buildings in Tokyo that use above a certain amount of power but are unable to meet obligations for reduction of $CO_2$ emissions will be expected to purchase emission credits, potentially passing costs through rent on to Group companies who are tenants.

### Introduction of Tax for Climate Change Mitigation

The Tax for Climate Change Mitigation (environmental tax) introduced in Japan in 2012 is levied on all fossil fuels at a rate corresponding to the amount of $CO_2$ emissions. All Sumitomo Forestry Group companies in Japan face the risk of an increase in operating costs as a result.

### Environmental Adaptation of Products and Services

With the revision of Japan's energy efficiency standards in fiscal 2013, it is expected that demand will grow for life cycle carbon minus (LCCM) housing. If the Sumitomo Forestry Group does not respond swiftly, we risk losing market share. There is also a risk that, if significant climate change occurs, we will be expected to change housing specifications or provide after service to adapt to these changes.

### Changes to Suppliers and the Impact upon Operation of Company-owned Forests

Because Sumitomo Forestry positions timber as its principal material, the risk exists of having to change suppliers in the event of limitations being imposed due to the depletion of timber resources or changes to habitats resulting from climate change. Climate changes, including average temperature or annual rainfall, damage due to storm or flood, and ecosystem changes also pose risks to company-owned forests by impacting upon forest preservation, tree growth and upon vegetation.

### Energy Supply Shortages

In countries like New Zealand, where hydroelectric power is used, there is a risk that a change in the amount of rainfall will cause dam levels to fall and lead to a disruption of supply from hydroelectric power stations, forcing Sumitomo Forestry Group sites in those countries to suspend plant operations.

## Risks Related to Biodiversity Change

### Changes in Timber Quality and Volume

The Sumitomo Forestry Group is among the top Japanese procurers of forest timber by volume. Trees represent the blessing of biodiversity which, if lost, poses a risk to the foundation of our business. Furthermore, should the quality or volume change, The required response may lead to significant cost increases.

### Strengthening of Related Laws and Regulations

The establishment and strengthening of laws and regulations for preventing loss of biodiversity continues. Anticipated risks include effects on operation of Company-owned forests, having to adapt timber procurement in terms of regions, tree species and volume, and having to adapt housing construction business in terms of regions, scale and greening. Should the Group fail to deal with the associated laws and regulations, compliance risks will emerge.

### Corporate Image Deterioration

Any mistake in addressing biodiversity may be detrimental to the corporate image, directly affecting sales and other performance indicators.

### Impact upon Fund Procurement

Financial institutions and similar organizations are making the implementation of environmental assessments and biodiversity initiatives a condition of lending. Corporate credit rating agencies and investors, too, are adopting increasingly detailed assessment criteria for credit rating and socially responsible investment (SRI), including biodiversity initiatives as an assessment category. These growing trends may potentially affect funds procurement.

## Risks Associated with Illegal Logging

### Strengthening of Related Laws and Regulations

Illegal logging of forests is recognized as a crucial issue globally, and progress is being made to strengthen related laws and regulations in a number of countries and regions. If the Sumitomo Forestry Group does not respond appropriately to such laws and regulations in its harvesting and procurement, there is the potential of compliance risk arising or indemnity being incurred.

### Corporate Image Deterioration

Should the Sumitomo Forestry Group deal in illegally logged timber due to a neglect to exercise the appropriate duty of care, there is the potential of damage to our corporate image which could have a direct impact upon sales and other business results.

# Environmental Impact of Business Activities

## Balance of Input and Output

### All business activities

#### INPUT

**Energy ····· 3,665,325 GJ★**

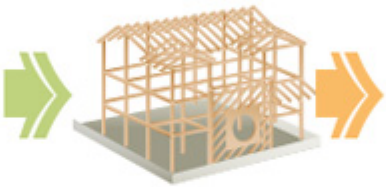
| | |
|---|---|
| Gasoline | 8,939,855 L |
| Light oil | 8,098,348 L |
| Kerosene | 156,975 L |
| Heavy oil A | 1,138,579 L |
| LPG | 272,268 kg |
| Processed natural gas | 414,762 ㎥ |
| Natural gas | 3,546,922 ㎥ |
| Electricity | 281,412,306 kWh |
| Heat | 5,908,027 MJ |

**Raw materials···2,492,439t**

| | |
|---|---|
| Wood | 1,764,735 t |
| Metal | 25,777 t |
| Plastic | 13,230 t |
| Paper/Fiber | 4,497 t |
| Concrete | 429,731 t |
| Glass/Ceramic/non-comnustible building materials | 128,361 t |
| Paint | 396 t |
| Adhesives | 99,994 t |
| Other | 25,717 t |

**Water ····· 1,568,222 ㎥ ★**

Manufacturing / Domestic / Overseas



Housing design,construction and sales

Offices / Other

#### OUTPUT

**$CO_2$····· 176,231 t-$CO_2$★**

**Scope 1····· 54,726 t-CO2**

**Scope 2·····121,505 t-CO2**

**Waste ····· 349,521 t★**

| | |
|---|---|
| Wood | 167,708 t |
| Metal | 7,141 t |
| Plastic | 6,219 t |
| Paper | 6,450 t |
| Fiber | 929 t |
| Concrete | 64,903 t |
| Asphalt concrete | 1,905 t |
| Glass/ceramic | 17,133 t |
| Oil | 124 t |
| Waste acid | 29 t |
| Rubble | 37,970 t |
| Asbestos-containing material | 431 t |
| Gypsum board | 12,893 t |
| Composite (Inert) | 4,656 t |
| Composite (controlled) | 14,332 t |
| Cinder | 3,838 t |
| Ash/soot and dust | 505 t |
| Sludge | 400 t |
| Other | 1,955 t |

**Waste water ···1,118,045 ㎥**

*Scope 1: Direct GHG emissions of a company, including emissions from fuel consumption
E.g. $CO_2$ emissions from the use of gasoline for company vehicles
Scope 2: Indirect GHG emissions from the generation of purchased electricity and heating
E.g. $CO_2$ emissions from the use of electricity by offices.

## According to the active conduct of business

### Manufacturing in Japan

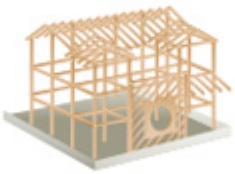
| INPUT | | OUTPUT | |
|---|---|---|---|
| Energy | 198,543 GJ | $CO_2$ | 9,677 t-$CO_2$ |
| Raw materials | 90,656 t | Waste | 10,799 t |
| Water | 219,658 ㎥ | Waste water | 202,524 ㎥ |

### Manufacturing overseas

| INPUT | | OUTPUT | |
|---|---|---|---|
| Energy | 2,724,226 GJ | $CO_2$ | 123,395 t-$CO_2$ |
| Raw materials | 1,674,404 t | Waste | 108,143 t |
| Water | 1,155,365 ㎥ | Waste water | 915,521 ㎥ |

### Housing design,construction and sales

| INPUT | | OUTPUT | |
|---|---|---|---|
| Energy | 473,236 GJ | $CO_2$ | 27,253 t-$CO_2$ |
| Raw materials | 727,379 t | Waste | 220,396 t |
| Water | 11,779 ㎥ | | |



*The Sumitomo Forestry Group offsets its $CO_2$ emissions from housing display centers, which were 2,835 tons in FY2013, using forest sink credits issued under the Offset Credit (J-VER) Scheme.

### Offices / Other

| INPUT | | OUTPUT | |
|---|---|---|---|
| Energy | 269,320 GJ | $CO_2$ | 15,906 t-$CO_2$ |
| Water | 181,420 ㎥ | Waste | 10,183 t |

# Environmental Impact from the Construction of a New House

## INPUT

**Energy ..... 25,195 MJ**

Electricity ..... 282.1kWh
Gasoline ..... 415.6L
Light oil ..... 213.7L

**Raw materials ..... 75.40 t**

Timber ..... 12.76 t
Metal ..... 2.49 t
Plastic ..... 1.08 t
Paper/fiber ..... 0.15 t
Concrete ..... 44.75 t
Glass/Ceramic/non-combustible building material ..... 13.18 t

## OUTPUT

**$CO_2$ ..... 1,653kg-$CO_2$**

**Waste from new housing construction ..... 4.65 t**

Plastic ..... 0.38 t
Paper ..... 0.56 t
Wood ..... 1.06 t
Metal ..... 0.08 t
Rubble ..... 0.72 t
Gypsum board ..... 0.84 t
Composite(inert) ..... 0.16 t
Composite(controlled) ..... 0.32 t
Glass/Ceramic ..... 0.49 t

## Implementation of Life Cycle Assessments

In fiscal 2006, the Sumitomo Forestry Group carried out life cycle assessments (LCA)[1] with the help of the Tokyo University of Agriculture and Technology (TUAT) to ascertain the environmental impact of its products. Since then, the Group has introduced carbon footprint (CFP)[2] labels for individual products and carried out life cycle assessments of detached housing among other initiatives. For example, Group company PT. Rimba Partikel Indonesia (RPI) conducts LCAs of particle board (PB) that it manufactures and sells, covering the production and transportation of the raw materials through to manufacturing of the products. The company also voluntarily displays CFP labels on PB products based on LCA results.

During fiscal 2013, with an aim of developing detached houses with a lower environmental impact, the Group completed construction of a “Life Cycle Carbon Minus” (LCCM) experimental house at its Tsukuba Research Institute. An LCA (simulation) was then conducted on the model LCCM house[3] designed to achieve negative $CO_2$ emissions over its life cycle.

In fiscal 2014, the Group plans to modify the LCA to include the effects of recycling any waste generated during construction and dismantling, and to conduct an evaluation of a model renovation project.


RPI has started labeling CFP on PB products since 2009. (as the first Indonesian company in the timber products market)

Saving of Energy and Reduction of Greenhouse Gas Emissions During Residence Period

1. A method of evaluating the overall environmental impact of a product throughout its life cycle (all stages, including raw material procurement, manufacturing, transportation, sale, use, reuse and disposal).
2. A measure indicating of the amount of greenhouse gases emitted over the entire life cycle of a product or service converted into $CO_2$.
3. The model plan is the CASBEE (Comprehensive Assessment System for Built Environmental Efficiency) standard model house (125 $m^2$).

# Medium-Term Environmental Management Plan

## Positioning of the Medium-Term Environmental Management Plan

In December 2009, the Sumitomo Forestry Group set out its environmental management targets in the Medium-Term Environmental Management Plan, replacing the Medium-Term Environmental Management Policy established in December 2005. Having determined where the Group should be in five years' time, the plan, unlike the earlier “policy,” specified targets that the Group as a whole, Sumitomo Forestry individual divisions and the main Group companies needed to achieve.

The Group will realize true environmental management by advancing measures developed from a variety of perspectives, including products (customers), business process reforms (in-house/business partners), human resource development (employees/business partners) and communication (industry/general public).

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

| Sumitomo Forestry Group (shared targets) | | | | | |
|---|---|---|---|---|---|
| Responsibility | Area of Environmental Impact | Basic Strategy (Objectives) | Evaluation Metrics / Targeted Values | FY2013 Results | FY2014 Targeted Values |
| Environmental Management Department | Global warming | Reduction of $CO_2$ emissions (Offices; excluding manufacturing companies) | Percentage of reduction of total $CO_2$ emissions compared with FY2006 (%) | -13% | -12% (2010 target value continues) |
| | | Reduction of $CO_2$ emissions (manufacturing companies in Japan) | Percentage of reduction of total $CO_2$ emissions compared with FY2006 (%): All manufacturing companies in Japan, including offices | -6.6% | -12% |
| | | Reduction of $CO_2$ emissions (manufacturing companies outside Japan) | Set for each company in consideration of national policy on $CO_2$ reduction targets, etc., in each country | - | - |
| Environmental Management Department | Resource consumption, resource recycling, and industrial waste | Attainment of zero emissions | Attainment of zero emissions[1.2] | 92.7%★ | Archieve of zero emissions |

1. Definition: No incineration or landfill of industrial waste generated by domestic manufacturing facilities and new construction sites.
2. Target units: Housing Division, Sumitomo Forestry Landscaping Co., Ltd. (residential greening), Sumirin Sash Co., Ltd., Sumikyo Co., Ltd., Sumikyo Wintec Co., Ltd., Sumitomo Forestry Crest Co., Ltd., Sumirin Agro-Products Co., Ltd., Sumitomo Forestry Home Engineering Co., Ltd.

| Forestry & Environment Division | | | | | |
|---|---|---|---|---|---|
| Responsible | Area of Environmental Impact | Basic Strategy (Objectives) | Evaluation Metrics / Targeted Values | FY2013 Results★ | FY2014 Targeted Values |
| Forestry Department | Resource consumption, resource recycling, biodiversity, and others | Promotion and expansion of sustainable forests | Percentage of certified forests in newly acquired forests managed by the Group | 100% | 100% |
| | Biodiversity, and others | Establishment of forestry management that enables both preservation and conservation of biodiversity and forestry businesses | Implement monitoring surveys in Company-owned forests (Collect and review fundamental materials: 2008–2011) From 2012, set specific numeric targets by region based on comparative analysis of data collected | Monitoring was carried out in company-owned forests in Hyuga | 4 out of 4 locations Set specific numeric targets from 2012 |

| Timber & Building Materials Division and Major Affiliated Companies | | | | | |
|---|---|---|---|---|---|
| Responsible | Area of Environmental Impact | Basic Strategy (Objectives) | Evaluation Metrics / Targeted Values | FY2013 Results★ | FY2014 Targeted Values |
| International Marketing Department | Resource consumption, and biodiversity | Increase sustainable timber handled[1] | Percentage of certified timber handled and percentage of plantation timber handled | All directly imported timber: 62% | All directly imported timber:68% (FY2015) |
| | | | | Logs:69% | Logs:80% (FY2015) |
| | | | | Products:68% | Products:70% (FY2015) |
| | | | | Imported plywood:33% MDF (plantation timber):99% | Imported plywood:50% MDF:97% (FY2015) |
| | Resource consumption | Make effective use of wood resources[1] | Volume of wood chips handled as fuel, including for biomass power generation (compared to FY2011) | -10% | 10% increase (FY2015) |
| Timber & Building Materials Department | Global warming, resource consumption, and resource recycling | Increase environmentally sound building materials handled | Volume of environmentally sound building materials handled | 2,606 EcoCute units | 6,000 EcoCute units |
| Sumitomo Forestry Wood Products Co., Ltd. | Resource consumption, and global warming | Promote use of Japanese timber[1] | Volume of Japanese timber handled | -2% | 71% increase (FY2015) |

| Timber & Building Materials Division and Major Affiliated Companies | | | | | |
|---|---|---|---|---|---|
| Sumitomo Forestry Crest Co., Ltd. | Global warming, resource consumption | Promote use of sustainable timber[1] | Percentage of plantation timber, certified timber and Japanese timber used | 59% | 64% (FY2015) |

1. The year for achieving targets for these strategies is fiscal 2015 as they are the same as under the 3rd Action Plan for Timber Procurement.

| Overseas Business Division and Major Affiliated Companies | | | | | |
|---|---|---|---|---|---|
| Responsible | Area of Environmental Impact | Basic Strategy (Objectives) | Evaluation Metrics / Targeted Values | FY2013 Results★ | FY2014 Targeted Values |
| Overseas Resources & Manufacturing Department | Resource consumption, resource recycling, and biodiversity | Expand use of sustainable raw materials<br>1. Sustainable raw materials: plantation timber, certified timber, and waste wood | Percentage of sustainable timber used for wooden raw materials (total for NPIL, Alpine, KTI, RPI) | 90% | 100% |
| Overseas Housing & Real Estate Department | Resource consumption, resource recycling, and living environments (others) | Promote environmentally friendly housing | Percentage of houses sold that meet certain environmental standards (total for SFC Homes, Paragon, Henley)<br>1. Certain environmental standards: North America, Australia: Standards in each country China: Company's own standards | 99% | 90% |

| Housing Division and Major Affiliated Companies | | | | | |
|---|---|---|---|---|---|
| Responsible | Area of Environmental Impact | Basic Strategy (Objectives) | Evaluation Metrics / Targeted Values | FY2013 Results★ | FY2014 Targeted Values |
| Building Materials Procurement & Logistics Department<br><br>Marketing Strategy Department<br><br>Product Development Department | Global warming, resource consumption, resource recycling, and others | Promote and expand the use of Japanese timber[1] | Percentage of Japanese timber used in all products (based on the total volume of timber used)<br>Scope: Timber used for custom-built detached housing (structural members+posts) | 60% | 60% (FY2015) |
| Residential Property Development Department | Resource consumption, resource recycling, and global warming | Promotion of environmentally symbiotic residential property development | Percentage of housing units using next-generation energy-conservation standards (Base: construction starts) | 100% (200 out of 200 houses) | 100% |
| Sumitomo Forestry Landscaping Co., Ltd. | Biodiversity, and living environments (residential greening) | Promotion of residential greening conscious of biodiversity | Number of garden vegetation trees of native species in the region | 29,640trees | 35,000trees |

| Housing Division and Major Affiliated Companies | | | | | |
|---|---|---|---|---|---|
| Sumitomo Forestry Home Service Co., Ltd. | Resource consumption, resource recycling, and industrial waste | Promotion of re-use of housing | Number of SumStock house transactions | 24transactions | 12transactions |

1. The year for achieving targets for these strategies is fiscal 2015 as they are the same as under the 3rd Action Plan for Timber Procurement.

# Saving of Energy and Reduction of Greenhouse Gas Emissions from Business Activities

## Major Initiatives and FY2013 Results

### Promoting Initiatives in 3 Management Segments: Offices; Manufacturing Companies in Japan; and Manufacturing Companies Overseas

At offices, although the Sumitomo Forestry Group makes efforts all year round to use less electricity, given that the $CO_2$ emissions attributable to gasoline used in business vehicles and so on account for about 57% of total emissions, the Group actively promotes the use of fuel-efficient vehicles and runs campaigns to promote “eco-driving.” At manufacturing companies in Japan, the Group is working hard to reduce $CO_2$ emissions, such as by upgrading production facilities with highly energy-efficient equipment, switching to environmentally friendly lighting fixtures and improving production efficiency. At manufacturing companies outside Japan, which is the segment with the greatest $CO_2$ emissions, the Group is striving to achieve plants with low environmental impact by getting each company to set targets and to promote business activities while monitoring their progress against those targets.

**Offices**

Target

Until FY2014, maintain a 12% reduction in overall $CO_2$ emissions compared with FY2006

FY2013 Results

13.0% reduction

**Manufacturing companies in Japan**

Target

By FY2014, achieve a 12% reduction in overall $CO_2$ emissions compared with FY2006

FY2013 Results

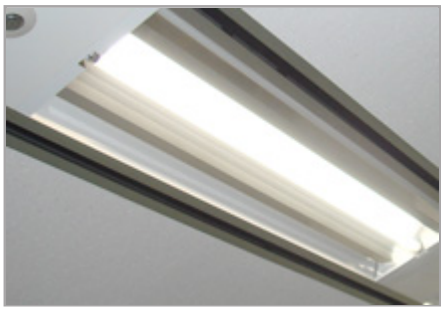
6.6% reduction

**Manufacturing companies outside Japan**

Target

Set targets for each company according to the circumstances in each country, such as the country’s $CO_2$ reduction target

## Reducing $CO_2$ Emissions from Offices



Environmentally friendly lighting

At offices (non-manufacturing Group companies inside and outside Japan), the Sumitomo Forestry Group has made efforts to reduce $CO_2$ emissions by introducing fuel-efficient vehicles and reducing power consumption. $CO_2$ emissions in fiscal 2013 were 32,076 t-$CO_2$, a 13.0% reduction compared to the base year.

In this segment, Sumitomo Forestry has promoted the use of fuel-efficient vehicles. For instance, since April 2013, the Company has increased the allowance paid to employees who use their own fuel-efficient vehicles for housing sales activities. In fiscal 2013, fuel-efficient vehicles accounted for 15% of the fleet, resulting in a 0.7% reduction in $CO_2$ emissions attributable to using gasoline compared to the previous fiscal year. The Group has also conducted campaigns to promote awareness, such as playing videos about eco-driving to employees who drive on the job at the offices and business sites of Group companies in Japan. In addition, some companies, including Sumitomo Forestry Home Tech Co., Ltd., have introduced a car-sharing service.
As for reducing power consumption, the Group has proceeded to upgrade equipment and install solar power generation systems. For example, Sumitomo Forestry used the opportunity of relocating the Housing Division's Ikebukuro Branch in October 2013 to install environmentally friendly lighting. The Company has also proceeded to install solar power generation systems at the Housing Division's model homes, and in fiscal 2013, it achieved a reduction in $CO_2$ emissions of 92 t-$CO_2$ compared to if it had purchased the electricity from a power company.

The Group will continue to reduce $CO_2$ emissions, such as by implementing eco-drive programs to raise awareness among employees.

**$CO_2$ emissions at offices (t-$CO_2$)**

| FY2006 (base year) | FY2007 | FY2008 | FY2009 | FY2010 | FY2011 | FY2012 | FY2013 |
|---|---|---|---|---|---|---|---|
| 36,855 | 37,302 (+1.2%) | 35,266 (-4.3%) | 33,793 (-8.3%) | 34,458 (-6.5%) | 32,890 (-10.8%) | 32,534 (-11.7%) | 32,076 (-13.0%) |

Figures in parentheses indicate the percentage change compared with FY2006.
Figures are aligned with organizations in the base year (FY2006).

## Reducing $CO_2$ Emissions from Manufacturing Companies in Japan

In fiscal 2013, $CO_2$ emissions from manufacturing companies in Japan (Sumitomo Forestry Crest Co., Ltd. and Sumirin Agro-Products Co., Ltd.) increased by 0.1% relative to the base year.

Sumitomo Forestry Crest actively promoted various energy-saving measures. For instance, in addition to changing some of the lighting fixtures at its Niihama Plant to LED lighting, the company also introduced a high-efficiency compressor at its Kyushu Plant. However, its reduction in total $CO_2$ emissions relative to the base year was kept to 6.6%. This was due to an increase in output at its Kashima Plant and to a decrease in production efficiency at its plants as a result of new and old products being produced in parallel following changes to its product lineup.

Sumirin Agro-Products achieved a 10.6% reduction in $CO_2$ emissions relative to the base year as it revised the way it manufactures products.

**$CO_2$ emissions at manufacturing companies in Japan (t-$CO_2$)**

| FY2006 (base year) | FY2007 | FY2008 | FY2009 | FY2010 | FY2011 | FY2012 | FY2013 |
|---|---|---|---|---|---|---|---|
| 9,701 | 9,419 (-2.9%) | 8,867 (-8.6%) | 8,097 (-16.5%) | 8,412 (-13.3%) | 8,344 (-14.0%) | 8,385 (-13.6%) | 9,064 (-6.6%) |

Figures in parentheses indicate the percentage change compared with FY2006.

## Reducing $CO_2$ Emissions from Manufacturing Companies outside Japan

In fiscal 2013, Indonesian company, PT. Rimba Partikel Indonesia, experienced a 25.5% increase in its $CO_2$ emissions compared to the previous fiscal year. This was as a result of an increase in its consumption of diesel oil and beginning to purchase power externally following a mechanical problem with its biomass power generation facility.

Nelson Pine Industries Ltd. of New Zealand achieved a 2.8% reduction in its $CO_2$ emissions compared to the previous fiscal year following an improvement in energy efficiency attributable to the more efficient use of fan motors in the process of drying MDF(medium density fiberboard).

## Reducing $CO_2$ Emissions from Transportation

Under the revised Act on the Rational Use of Energy in Japan, consigners are required to reduce per-unit energy consumption by an annual average of 1% or more in the medium to long term in relation to the transportation of goods. Sumitomo Forestry and Sumitomo Forestry Crest Co., Ltd. fall under the category of “specified consigner” (annual freight transportation volume is 30 million ton-kilometers[1] or more), obligating them to submit reports to the Japanese Government. Sumitomo Forestry therefore sets a target each fiscal year to reduce per-unit energy consumption[2] in transportation by 1% or more compared to the previous year. Sumitomo Forestry Crest also sets targets to reduce per-unit energy consumption compared to the previous year.

In fiscal 2013, Sumitomo Forestry's per-unit energy consumption was 101.8% compared to the previous year and Sumitomo Forestry Crest's was 103.4%.

Ongoing efforts will be made to reduce $CO_2$ emissions through cooperation with transportation partners on such measures as improving loading efficiency, improving transportation route efficiency and shifting from land to sea transportation. Progress will also be made on examination of methods for ascertaining $CO_2$ emissions across the entire supply chain, which includes both domestic and international transportation.

1 Freight transportation volume (ton-kilometers) = freight weight (tons) × distance travelled (km)
2 Sumitomo Forestry measures energy consumption per unit of volume handled. Sumitomo Forestry Crest measures energy consumption per unit of net sales.

**Energy consumption from transportation, $CO_2$ emissions and per-unit energy consumption (FY2013 Results)**

| | Energy consumption (crude oil equivalent) | $CO_2$ emissions | Per-unit energy consumption |
|---|---|---|---|
| Sumitomo Forestry | 2,712kL | 7,234t-$CO_2$ | 0.00212kL/$m^3$ |
| Sumitomo Forestry Crest | 2,576kL | 6,845t-$CO_2$ | 0.0000645kL/1,000 yen |

## Establishment of an Efficient Delivery System

In 2007, Sumitomo Forestry made improvements to the system it uses to deliver materials for Sumitomo Forestry Home houses respectively from the manufacturer to individual construction sites. Seeking to reduce the amount of $CO_2$ emitted during transportation, the Company established a system whereby materials from multiple manufacturers would first be gathered at relay centers, of which there are 28 nationwide, and then delivered together in mixed loads.

In April 2010, the Company established Home Eco Logistics Co., Ltd., leveraging the distribution efficiency know-how it had acquired over the years. Home Eco Logistics takes on logistics operations for the Sumitomo Forestry Group's housing business and also actively puts forward proposals for efficient logistics operations to material manufacturers, housing manufacturers,

housing construction companies and building material distributors.

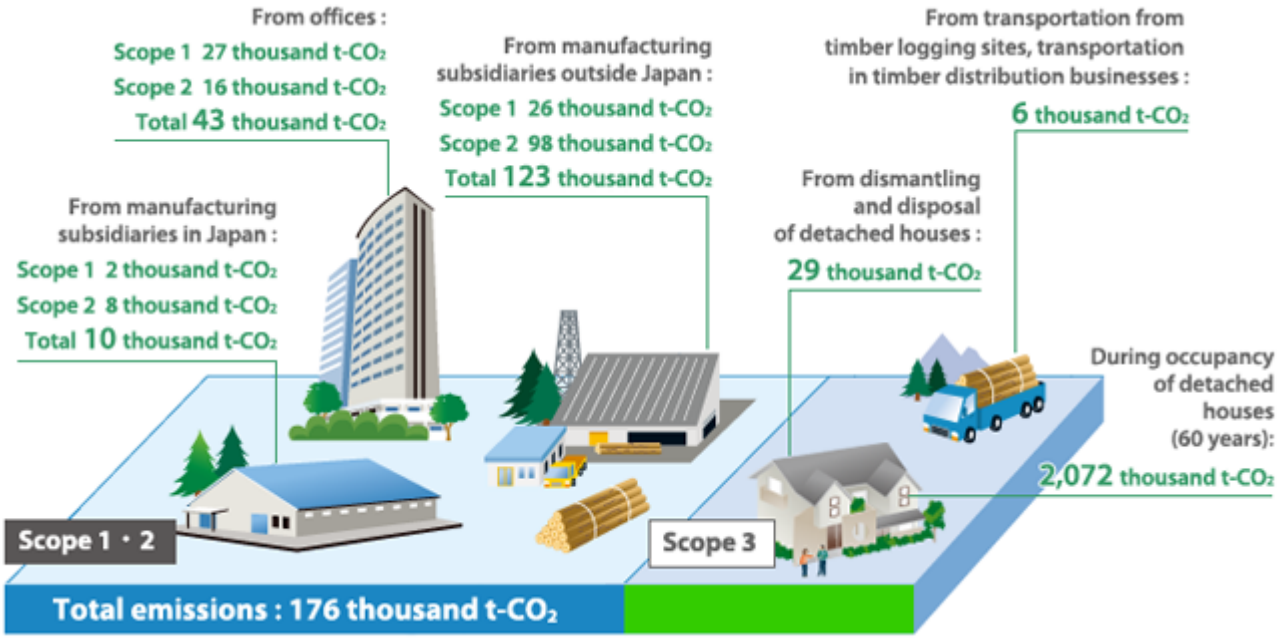
As of March 2014, Home Eco Logistics provided logistics operations to more than 20 companies. The company will continue to actively put forward proposals aiming for standardization of logistics functions in the industry, while at the same time contributing to further reductions in $CO_2$ emissions through improved efficiencies in transportation.

## Greenhouse Gas Emissions Per Scope Based on the GHG Protocol

Since fiscal 2012, the Sumitomo Forestry Group has ascertained the volume of its $CO_2$ emissions according to different scopes[1] based on the GHG Protocol, a set of widely used international accounting tools for quantifying GHG emissions. The Group plans to gradually expand what is included in the calculation for Scope 3, that is, $CO_2$ emissions occurring in the supply chain.

1 The GHG Protocol requires businesses to disclose their greenhouse gas emissions according to the following categories.
Scope 1: Direct GHG emissions of a company, including emissions from fuel consumption. E.g. $CO_2$ emissions from the use of gasoline for company vehicles.
Scope 2: Indirect GHG emissions from the generation of purchased electricity and heating. E.g. $CO_2$ emissions from the use of electricity by offices.
Scope 3: GHG emissions occurring in the supply chain. E.g. $CO_2$ emissions generated during the use of products sold.

### Sumitomo Forestry Group $CO_2$ Emissions (Fiscal 2013)



## Scope 1 and Scope 2 $CO_2$ Emission Trends


1 The Sumitomo Forestry Group offsets its $CO_2$ emissions from model homes, which were 1,590 tons in FY2010, 2,542 tons in FY2011 and, 3,056 tons in FY2012 and 2,835 tons in FY2013, using forest sink credits issued under the Offset Credit (J-VER) Scheme.

## Scope 3 Emissions by Category (Fiscal 2013)

| Category | Boundary of Scope 3 Emissions Calculation for the Company | Emissions |
|---|---|---|
| **Category 4 (Upstream transportation and distribution)** | Transportation from timber logging sites, transportation in timber distribution businesses | 5,751t-$CO_2$ |
| **Category 11 (Use of sold products)** | During occupancy of detached houses (60 years) | 2,072,489t-$CO_2$ |
| **Category 12 (End-of-life treatment of sold products)** | Dismantling and disposal of detached houses | 29,641t-$CO_2$ |

1 Of the 15 categories of Scope 3 emissions, the Sumitomo Forestry Group has commenced calculation of categories with the greatest relevance to the Group's business.

▸ Boundaries and Methods of $CO_2$ Emissions Calculation

# Boundaries and Methods of $CO_2$ Emissions Calculation

## 1. Boundaries relating to $CO_2$ emissions (range of organizations included in aggregate)

Except where special explanatory notes are added, all Group companies both in Japan and overseas are included in the aggregates for $CO_2$ emissions stated in this report.
The range of applicable organizations and the bounds of the calculation for each scope are as described below.

- Scopes 1 and 2
  All Group companies, including affiliates in Japan and overseas
- Scope 3
  Category 4: Transportation of harvested timber from company-owned forests to purchasers, etc., and transportation of imported timber from storage to purchasers, etc.
  Categories 11 and 12: During residence period and during the demolition and disposal of detached wooden houses sold by Sumitomo Forestry's Housing Division (see 4. for further details)

## 2. Scope 1 $CO_2$ Emissions

$CO_2$ emissions inside and outside Japan are calculated using the calorie conversion factors and the carbon emission factors prescribed in the Act on Promotion of Global Warming Countermeasures.

## 3. Scope 2 $CO_2$ Emissions

$CO_2$ emissions from using purchased electricity in Japan are calculated using the emission factor for each power company in each fiscal year as prescribed in the Act on Promotion of Global Warming Countermeasures (using the actual emission factor for fiscal 2008 and earlier, and using the adjusted emission factor for fiscal 2009 and later).

$CO_2$ emissions from using purchased heat are calculated using the $CO_2$ emission factor prescribed in the Act on Promotion of Global Warming Countermeasures.
$CO_2$ emissions from using purchased electricity overseas are calculated using the following $CO_2$ emission factors for each country.

Australia: 0.772kg$CO_2$/kWh, United States: 0.469kg$CO_2$/kWh, China: 0.732kg$CO_2$/kWh, Indonesia: 0.714kg$CO_2$/kWh, Vietnam: 0.397kg$CO_2$/kWh, New Zealand: 0.118kg$CO_2$/kWh, Singapore: 0.435kg$CO_2$/kWh

## 4. Calculation of Scope 3 “$CO_2$ emissions during residence period and during demolition and disposal for houses sold in FY2013”

### $CO_2$ emissions during residence period

Σ(Annual energy usage per house × $CO_2$ emission factor for each type of energy) × Years of residence period × Number of houses completed in FY2013

1. Regarding the amount of emissions during occupancy, emissions related to “renovation” have been excluded since some of the Scope 1 and 2 emissions of the affiliates engaged in the business of renovations (Sumitomo Forestry Home Tech Co., Ltd.) could be double-counted.

#### 【Conditions and details】

- Energy (electricity and city gas) usage per house:
  Calculated using the Building Research Institute’s Program for Calculating Primary Energy Consumption (Residential) according to the following conditions.
  Plan: Sumitomo Forestry standard plan(total floor area147$m^2$)
  1. Slightly larger than Sumitomo Forestry’s average total floor area(134$m^2$)

  Specifications:MyForest Standard specifications for 2010
  1. Sumitomo Forestry’s main product

  Structure:Multi-Balance Construction Method, Big-Frame Construction Method and Two-by-Four Construction Method

  Building site:Tokyo
  1. According to a survey conducted by the Architectural Institute of Japan on actual energy

consumption, the figures for Tokyo are almost the same as the national average.

Heat loss coefficient (Q-value): 1.93W/$m^2$K for the Multi-Balance Construction Method, 2.01 W/$m^2$K for the Big-Frame Construction Method, and 1.80 W/$m^2$K for the Two-by-Four Construction Method

1. Calculated separately using the Heat Loss Coefficient Calculation Chart.
2. For the basic unit of emissions, reference was made to the LCA database "IDEA" published by the Japan Environmental Management Association for Industry and to data published by the Ministry of the Environment.

- $CO_2$ emission factor

  Electricity: Calculated using the weighted average of the electricity sales of nine power companies, excluding the Okinawa Electric Power Company which does not service the areas where any Sumitomo Forestry Group business sites are located, based on the FY2012 Emission Factors for Electricity Power Companies (Adjusted Emission Factors) published by the Ministry of the Environment.

  City gas: 2.23kg$CO_2$/$m^3$

  1. Source: *Manual for Calculating and Reporting Greenhouse Gas Emissions (Ver. 3.3)*, Ministry of the Environment and Ministry of Economy, Trade and Industry

- Years of residence period: 60 years

  2. Sumitomo Forestry uses its 60-Year Support Program as standard, and assumes houses will be occupied for 60 years.

- Number of houses completed in FY2013: 9,230 (number of houses completed, excluding 13 non-wooden properties)

## $CO_2$ emissions during demolition

Σ(Fuel usage during demolition per house × $CO_2$ emission factor for each type of fuel) × Number of houses completed in FY2013

### 【Details】

- Fuel usage during demolition per house (diesel oil, gasoline):

  Fuel usage for demolition of Sumitomo Forestry model home (Estimates calculated from standard plan and floor area and based on 2006 survey of use of heavy equipment in demolition (diesel) and vehicles for transport of workers (gasoline).

- $CO_2$ emission factor:

  Diesel oil 2.58kg$CO_2$/L

  Gasoline 2.32kg$CO_2$/L

  1. Source: *Manual for Calculating and Reporting Greenhouse Gas Emissions (Ver. 3.3)*, Ministry of the Environment and Ministry of Economy, Trade and Industry

- Number of houses completed in fiscal 2013: 9,230 (number of houses completed, excluding 13

non-wooden properties)

## $CO_2$ emissions during disposal (including transportation)

Σ(Amount of waste generated during demolition per house × Final disposal ratio for each type of waste × Basic unit of emissions for each type of waste and for each method of disposal) × Number of houses completed in FY2013

### 【Details】

- Amount of waste generated during demolition per house:
  Calculated by estimating an average value per unit of area based on the annual amount of waste generated during demolition by Sumitomo Forestry in fiscal 2006, and converting it to a building weight equivalent for the Sumitomo Forestry standard plan (floor area: 147$m^2$) in fiscal 2010.

- Final disposal ratio for each type of waste:
  Glass/ceramic 23%
  Concrete rubble[1] 3%
  Scrap metal 2%
  Wastepaper 4%
  Wood waste 5%
  Waste fiber 16%
  Composite waste[2] 100%
  Waste gypsum[3] 23%
  Waste plastic 20%
  Sludge 2%

  Source: *Emission and Processing of Industrial Waste, etc. (Actual Results for FY2011)*, Ministry of the Environment

  1. Assumed to be 3%, the same as “rubble.”
  2. Composite waste, such as swept up refuse, comprises a mixture of items that cannot be individually separated. Assumed to be 100% because it eventually ends up in landfill.
  3. Assumed to be 23%, the same as “glass, concrete and ceramic waste.”

- Basic unit of emissions for each type of waste and for each method of disposal:

  Glass/ceramic 85.1kg$CO_2$/t

  Concrete rubble 85.1kg$CO_2$/t

  Metal 85.1kg$CO_2$/t

  Wastepaper 2,510kg$CO_2$/t

  Wood waste 1,830kg$CO_2$/t

  Fiber 2,760kg$CO_2$/t

  Other composite waste[1] 85.1kg$CO_2$/t

  Waste gypsum[1] 85.1kg$CO_2$/t

  Waste plastic 85.1kg$CO_2$/t

  Sludge 728kg$CO_2$/t

  Source: *Database of Basic Units of Emissions for Calculating an Organization's Greenhouse Gas Emissions through the Supply Chain, Ver. 2.0 (basic unit of emissions at landfill)*, Ministry of the Environment

  1. Applied the same factors such as "glass, concrete and ceramic waste" and "rubble" which have similar properties.

- Number of houses completed in FY2013: 9,230 (number of houses completed, excluding 13 non-wooden properties)

# Saving of Energy and Reduction of Greenhouse Gas Emissions During Residence Period

## Major Initiatives and FY2013 Results

### "Green Smart" Concept, Reducing Energy Consumption during residence period.
### Promoting R&D into Housing that Achieves Negative $CO_2$ Emissions across the Entire Life Cycle of a House, and Initiatives that Use Afforestation to Offset $CO_2$ Emitted during the Building of Houses.

With $CO_2$ emissions in Japan's household sector increasing year by year, the Japanese Government revised[1] the energy efficiency standards for housing and other buildings in October 2013, and a decision has been handed down by the Council for the Promotion of Housing and Living Styles toward a Low-Carbon Society (which was jointly established by the Ministry of Land, Infrastructure, Transport and Tourism, the Ministry of Economy, Trade and Industry, and the Ministry of the Environment) making compliance with the new standards compulsory for all new houses by fiscal 2020.

Providing about 9,000 custom-built detached houses a year to the Japanese market, Sumitomo Forestry has initiated a new housing concept for wooden houses known as "Green Smart." As well as improving thermal insulation for the "reduction of energy consumption," the concept fuses equipment for generating and storing energy for the "smart use of energy" with state-of-the-art technology for the "visualization of energy use." Responding swiftly to these new standards, the Company is endeavoring to achieve more energy savings and fewer $CO_2$ emissions during the occupancy stage.


The Company is also proceeding with the development of "Life Cycle Carbon Minus" (LCCM) housing to achieve negative $CO_2$ emissions across the entire life cycle of a house, from construction through to disposal, as well as with initiatives that

use afforestation to offset $CO_2$ emitted during the building of houses.

1. As a consequence of the revisions, the evaluation now covers comprehensive energy efficiency, including thermal insulation, the use of natural energy and installation of energy-efficient devices.


## Green Smart Proposals

"Green Smart" is a concept used by Sumitomo Forestry in housing construction for reducing $CO_2$ emissions during residence period.

At the same time as being a renewable natural resource, wood also absorbs and stores $CO_2$ during its growth process. Utilizing its Ryouonbou design, which takes advantage of natural blessings, such as the sun and the wind, the Company offers housing proposals where residents can live comfortably all year round.

The Green Smart concept marries the know-how acquired from building homes that utilize these "unique characteristics of trees and blessings of nature" together with thermal insulation for the "reduction of energy consumption," equipment for generating and storing energy for the "smart use of energy," plus technology for the "visualization of energy use." By boosting energy efficiency in the house, the Company seeks to reduce $CO_2$ emissions during residence period.

## Features of Green Smart

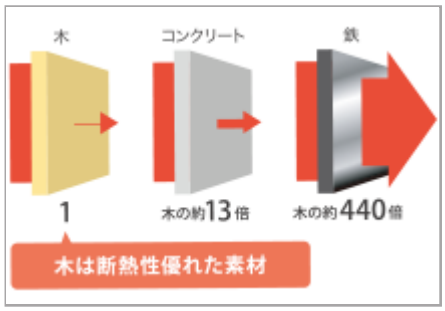
### Reduction of Energy Consumption

- Improves the thermal insulation performance of ceilings, external walls, floors, windows, etc.
- Uses low-emissivity (low-E) double glazing filled with argon gas for large windows where the greatest heat is lost


Thermal insulation using low-E glass

### Wooden House

- Uses wood, which has lower $CO_2$ emissions during the processing stage, and which has better thermal insulation compared to iron and concrete




Thermal conductivity of different materials

### Smart Use of Energy

- Installs solar power generation systems and residential fuel cell units (Ene-Farm)
- Also installs household storage batteries and HEMS, which allows residents to visually gauge their energy usage


The HEMS screen

- Link to the Ryouonbou design concept
- Link to the Green Smart website
- Activity Highlight 1-The "Green Smart" Concept

**Solar Power Generation System and Ene-Farm Installation Rate Trends (for New Orders)**

| | FY2009 | FY2010 | FY2011 | FY2012 | FY2013 |
|---|---|---|---|---|---|
| Solar power generation systems | 22% | 28% | 36% | 45% | 51% |
| Ene-Farm units | 3% | 11% | 30% | 41% | 53% |
| Environmentally friendly equipment installation rate | 23% | 34% | 51% | 62% | 72% |

## Overseas Development of Energy-Efficient Housing

In April 2010, Henley Properties (QLD) Pty Ltd. of Australia became the first company in Australia to make available a zero-emissions demonstration house that is expected to achieve energy-saving benefits of more than 70% compared to existing homes of a similar size. In March 2012, the company constructed a community place, under a zero-emissions model, in a residential lot in Southeast Melbourne in cooperation with local government. The building features a solar power generation system, a solar hot water heater, a 6,000-liter rainwater tank, and a home energy management system (HEMS). Combined with double-glazed windows and a concrete slab and walls providing excellent thermal insulation, the building has earned an eight-star energy rating[1]. In December 2012, the company completed a house for a general customer with a nine-star energy rating.

With environmental awareness increasing, the need for energy efficiency in Australia is mounting. Henley Properties is working to promote the widespread adoption of these homes.

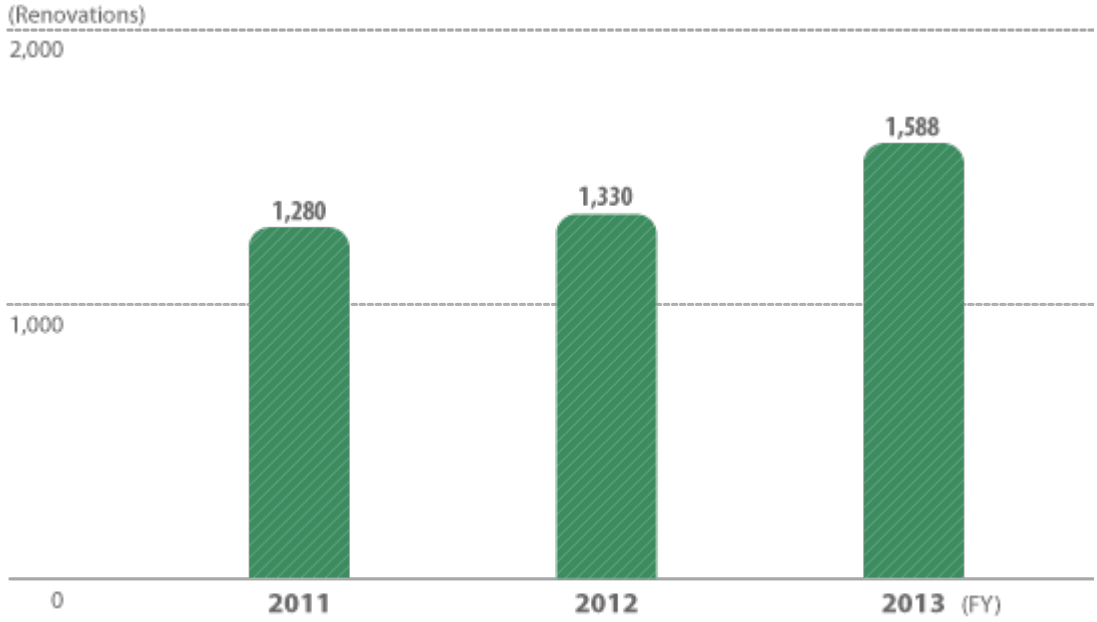
Community place based on the zero-emissions model

1. An evaluation of the energy burden for heating and cooling the inside of a building. Insulation, windows, the type, size and orientation of the building, and the climatic zone are all factors. The highest rating of 10 stars indicates that no heating or cooling whatsoever is needed to maintain a comfortable indoor living environment. Five stars indicates that the building has high insulation performance, but that a minimum of energy is required for heating and cooling.

## Proposals for Energy-Saving/Environmental Renovations

Sumitomo Forestry Home Tech Co., Ltd. promotes renovations from an energy-saving and environmental point of view. It provides customers with renovation proposals for reducing their environmental impact during occupancy by drawing up a “performance evaluation chart” at the planning stage which allows customers to easily and visually gauge performance improvements relating to earthquake resistance, energy efficiency, barrier-free design and other parameters.

### Number of energy-saving/environmental renovations[1]




1 Number of renovated properties with a contract price of at least 8 million yen

## Research and Development of Life Cycle Carbon Minus (LCCM) Housing

Sumitomo Forestry is engaged in the development of Life Cycle Carbon Minus (LCCM) housing to achieve negative $CO_2$ emissions across the entire life cycle of a home, from construction, operation and renovation through to dismantling and disposal.

In October 2013, the Company completed an experimental house at its Tsukuba Research Institute which it had built for the purpose of evaluating its past research results against an actual building. With an aim of developing detached houses with a lower environmental impact, a life cycle assessment (LCA) was conducted on a model LCCM house[1] designed to achieve negative $CO_2$ emissions over its life cycle. The results of the LCA showed that, compared to MyForest (the Company's standard model house), the model LCCM house can reduce $CO_2$ emissions by approximately 37%, and by 50% during occupancy. The evaluation results also showed that by installing a 7 kW solar power generation system, $CO_2$ emissions will be negative. In fiscal 2014, the Company plans to modify the LCA to include the effects of recycling any waste generated during construction and dismantling, and to conduct an evaluation of a model renovation project.

1. "LCCM" is an acronym for "Life Cycle Carbon Minus." The model plan is the CASBEE standard model home (125$m^2$)

▸ Environmental Impact of Business Activities

## Offsetting $CO_2$ through Project EARTH

The volume of $CO_2$ emitted during the process of harvesting timber used for principal structural members through to the processing, transportation and construction of Sumitomo Forestry Home houses is around six tons per home. Sumitomo Forestry is implementing an initiative called "Project EARTH" in which this $CO_2$ is offset through reforestation activities. The initiative will offset $CO_2$ emissions for all custom-built and spec homes sold over the five-year period beginning fiscal 2009 and involves planting around 1.5 million trees on a total 1,500 hectares of land and managing cultivation of those trees for 10 years after planting. Reforestation will take two forms—environmental reforestation aiming to revive ecosystems on degraded land, and industrial reforestation to be advanced together with the community to both realize sustainable forest management and contribute to the region.

The Company will continue this initiative for three years until fiscal 2016.

▸ News release: Sumitomo Forestry "Project EARTH" Environmental Initiative Three Year Extension

## Environmental Reforestation in an Indonesian National Park

Since fiscal 2009, Sumitomo Forestry has been carrying out an environmental reforestation project on degraded land in Bromo Tengger Semeru National Park, located in East Java, Indonesia. In 2010, volcanic ash and gases emitted during the eruption of Mt. Bromo, which is located inside the national park, caused damage to the plantation area. All the trees that died as a result were replaced, and it has been confirmed that the new trees are growing well. By 2013, a total 336 hectares of forest had been planted.

Site of the environmental reforestation project in Bromo Tengger Semeru National Park

## Industrial Reforestation in East Java, Indonesia

Since fiscal 2010, Sumitomo Forestry has been carrying out an industrial reforestation project in collaboration with the community, centered on Supiturang village at the foot of Mt. Semeru in Lumajang Regency, East Java, Indonesia. This is a sustainable forestry project whereby part of the profits from harvesting matured trees will be distributed to improve the livelihoods of community residents, while the remainder is used to cover the costs of replanting and cultivation and other expenses. By fiscal 2013, a total 1,128 hectares of forest had been planted.

Site of the industrial reforestation project in Lumajang Regency

▸ Activity Highlight 4-Commercial Forest Plantation Bringing Precious Forest Resources for the Future

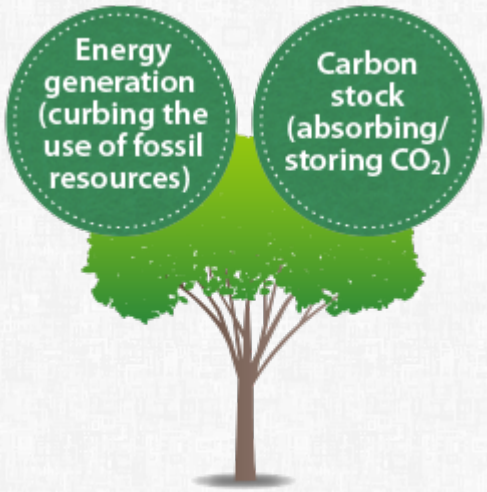
# Contributing to the Reduction of Greenhouse Gases through Our Business

## Major Initiatives and FY2013 Results

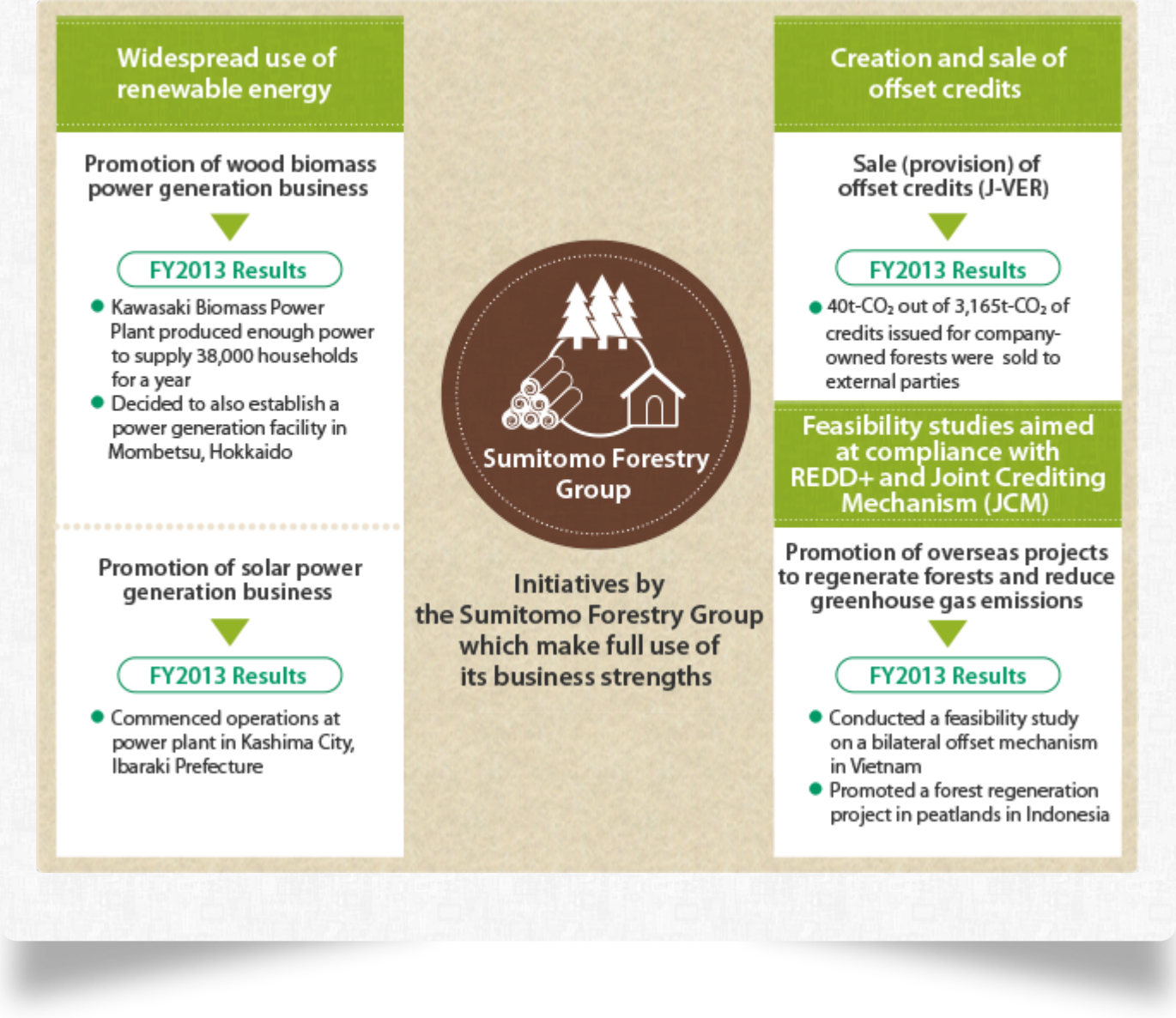
### Focused on our wood biomass power generation business and on accumulating knowledge and conducting new projects that contribute to a reduction in $CO_2$ emissions, by leveraging our distinctive quality of pursuing business operations centered around wood

The Sumitomo Forestry Group is engaged in business centered around wood, managing and administering forests in Japan and overseas. By leveraging the Group's experience and networks built up through its business, it is actively promoting wood biomass power generation, helping to reduce society's $CO_2$ emissions. Since fiscal 2013, the Group has also been involved in the solar power generation business.

In addition, the Group has also been active in the sale of offset credits (J-VER) that are created based on an evaluation of $CO_2$ absorbed into company-owned forests. Another of its endeavors has been to accumulate knowledge for the purpose of accommodating a new emissions trading system expected in the future.




Function and value of trees/forests in mitigating global warming




## Wood Biomass Power Generation Business

The Sumitomo Forestry Group operates wood biomass power generation facilities which are fueled by recycled chips made by using scrap timber primarily left over from construction and woodchips made by using previously unutilized wood left over from logging.

The $CO_2$ released as a consequence of burning the woodchips had previously been absorbed from the atmosphere via photosynthesis as the trees grew. Therefore, when viewed over the entire life cycle of the trees, combusting the woodchips does not result in an increase in $CO_2$ in the atmosphere. For this reason, the Group has been engaged in wood biomass power generation as a new type of business that connects the effective use of wood with reductions in $CO_2$ emissions.

## Kawasaki Biomass Power Generation Business

Kawasaki Biomass Electric Power Co., Ltd. (which handles power generation) and Japan Bio Energy Co., Ltd. (which supplies woodchips) were established in Kawasaki City, Kanagawa Prefecture in 2008 as joint ventures between Sumitomo Forestry, Sumitomo Joint Electric Power Co., Ltd. and Fuluhashi EPO Corporation. In terms of power generation facilities fueled entirely by biomass, the facility they operate is one of the largest in Japan, capable of generating 33MW of power, which is equivalent to the electricity consumption of about 38,000 households, or about 100,000 people.

Biomass power generation facility

This biomass power generation business utilizes recycled chips produced by using construction debris and waste pallets from Tokyo and surrounding suburbs, as well as thinnings and pruned branches. As an “urban-oriented biomass power generation facility,” it is equipped with environmental mechanisms, such as flue gas desulfurization equipment, an exhaust gas denitrizer and a bag filter, and clears the strict environmental standards established by Kawasaki City.

## Mombetsu Biomass Power Generation Business

In fiscal 2013, Sumitomo Forestry decided to establish a 50MW wood biomass power generation plant in Mombetsu City, Hokkaido, as a joint venture with Sumitomo Joint Electric Power Co. Ltd.

As part of the biomass power generation business, unused wood materials, such as thinnings and wood left over from logging, will be procured from within a 75km radius of the power plant and turned into chips at an adjacent plant before being used as fuel. The plant will also use imported coconut shells, plus some coal as an auxiliary fuel. Making further effective use of local wood resources is expected to result in the maintenance of forests and revitalization of regional forestry.


- Activity Highlight 5-Providing Renewable Energy through the Effective Use of Wood
- News release: "Joint investment to establish biomass power generation and wood fuel chip production companies" Launch of Biomass Power Generation Business in Mombetsu, Hokkaido

## Solar Power Generation Business

In November 2013, Sumitomo Forestry launched operations at an 876kW solar power generation facility that it had constructed in Kashima City, Ibaraki Prefecture. With an expected annual capacity of approximately 900MkWh, in fiscal 2013, the facility generated 357MkWh.

Consideration has been given to reducing the environmental impact of the power generation facility, with some of the frames that hold the solar panels being wooden frames using mainly domestically produced Japanese cedar.

Solar panels and environmentally friendly wooden frames

- News release: "Completion of Sumitomo Forestry Kashima Solar Power Plant in Ibaraki —Employing proprietarily designed wood frames—"

VOICE

### Wooden Frames were Used for the Solar Power Generation Facility Developed by Sumitomo Forestry to Achieve Both Strength and Cost Effectiveness

The Kashima Solar Power Plant is the Sumitomo Forestry Group's first solar power generation facility to receive certification under the Feed-in Tariff Scheme for Renewable Energy. In an effort to develop new applications for wood, wooden frames planned, designed and constructed by Sumitomo Forestry have been used for some of the solar power generation systems used at the plant. As a result of a cross-sectional examination, we were able to construct wooden frames that were less expensive than conventional steel frames, while still guaranteeing their strength.

The finished power plant with its 3,576 solar panels lined up in neat rows was a magnificent view. There are plans to extend the power plant in the future, and any new facilities will be constructed using our wooden frames.

**Katsuyasu Yoh**
**Environment and Energy Department**
**Forestry & Environment Division**

## Sale of Offset Credit (J-VER)

The Japan Verified Emission Reduction (J-VER) system[1], an offset credit promoted by the Ministry of the Environment as a measure to combat global warming, certifies carbon offset credits for domestic projects that reduce emissions of or absorb greenhouse gases, in an amount equivalent to the amount of emissions reduced or gases absorbed. It is a business model through that will improve profitability of forestry management, and Sumitomo Forestry expects that it will also contribute to the revitalization of Japan's forests.

In fiscal 2013, Sumitomo Forestry sold 3,165t-$CO_2$[2] of the J-VER[1] forest sink offset credits issued for forestry undertaken in the Company-owned forests.

**Purchasers and Application of Offset Credits (J-VER)[1] (FY2013)**

| Purchaser | Amount sold | Application |
|---|---|---|
| Ochisangyo Co., Ltd. | 30t-$CO_2$ | $CO_2$ emissions associated with trade fairs held at various locations in Western Japan (offsetting 1kg of $CO_2$ per visitor) |
| Asama Shokai Co., Ltd. | 10t-$CO_2$ | $CO_2$ emissions associated with the processing of precut materials (offsetting 8kg of $CO_2$ per house) |

1. The J-VER Scheme was integrated with Japan's Domestic Clean Development Mechanism as the J-Credit Scheme in April 2013.
2. 3,125t-$CO_2$ of the 3,165t-$CO_2$ were used to offset $CO_2$ generated during fiscal 2012 at Sumitomo Forestry model houses around Japan and at events such as the Sumai Haku housing fair.

## Contributing to Reductions in Greenhouse Gas Emissions by Utilizing Forest Management and Reforestation Know-How

The Sumitomo Forestry Group applies its expertise in areas such as sustainable forest management and reforestation to projects that contribute to the reduction or absorption of greenhouse gas (GHG) emissions. The Group will make positive efforts to advancing projects that comply with new systems, such as REDD+,[1] which is currently under consideration by the United Nations, and the Joint Crediting Mechanism (JCM), which is being proposed for introduction by the Japanese Government, as well as to gathering knowledge required for those projects.

1. The developed version of REDD, Reduced Emissions from Deforestation and forest Degradation. The concept "REDD+" includes, besides that of REDD, the positive emission reduction of GHGs through sustainable management and conservation of forest and enhancement of forest carbon stocks.

## Feasibility Studies for Overseas Projects to Regenerate Forests and Reduce Greenhouse Gas Emissions

Sumitomo Forestry is conducting feasibility studies of projects designed to reduce GHG emissions through the preservation and regeneration of forests that are facing devastation and annihilation in Vietnam and Indonesia. These are highly promising projects that should contribute to ongoing deliberation of REDD+ and the Joint Crediting Mechanism (JCM).

### Investigating New Mechanisms for Regeneration of Forests and Biomass Power Generation in Vietnam

Japan's Ministry of the Environment has contracted the Global Environment Centre Foundation (GEC) to implement a Joint Crediting Mechanism (JCM) feasibility study program. In fiscal 2013, Sumitomo Forestry conducted a feasibility study for a project in Dien Bien Province, northwestern Vietnam that would preserve and regenerate forests that had been degraded due to slash-and-burn cultivation, improve the livelihoods of local residents, and reduce GHG emissions through biomass power generation using timber supplied from those sustainable forests.

Study being conducted in Vietnam

The region is vital as a water source with the area being home to a number of dams used for power generation. It is also one of Vietnam's poorest regions. The project will contribute to environmental conservation and sustainable community development and also to the establishment of a mechanism for Japan to acquire emissions credits. The Company will continue to conduct studies while coordinating and cooperating with Japanese Government officials, government authorities in Vietnam, Vietnam Forestry University, the Japan International Cooperation Agency (JICA), ASKUL Corporation, and Yanmar Co., Ltd.

- News release: "Sumitomo Forestry and JICA Enter Agreement on Measures against Climate Change in Vietnam(REDD+ Demonstration Activities)"
- News release: "Askul and Yanmar to Participate in Measures to Tackle Climate Change in Vietnam (REDD+ Demonstration Activities)"

## Measures to Regenerate Forests in Indonesian Peatlands

Indonesia has much peatland, where large volumes of carbon have accumulated. However, as the land dries due to drainage of water to develop the land for agriculture, decomposition by micro-organisms progresses and releases the stored carbon into the atmosphere as $CO_2$. The risk of dried peatland catching fire is high, and if a fire did break out, it would result in a large volume of $CO_2$ emissions.

Revegetation study in Indonesia

Since fiscal 2012, Sumitomo Forestry has undertaking development of rapid revegetation methods, using indigenous species suited to peatland, together with Hokkaido University and has commenced a study looking into the development of revegetation methods that incorporate considerations for local residents and the local economy. The Company is proceeding to establish new mechanisms that contribute to global warming mitigation through the preservation and appropriate use of peatland.

# Reduction, Recycling and Appropriate Disposal of Waste

## Major Initiatives and FY2013 Results

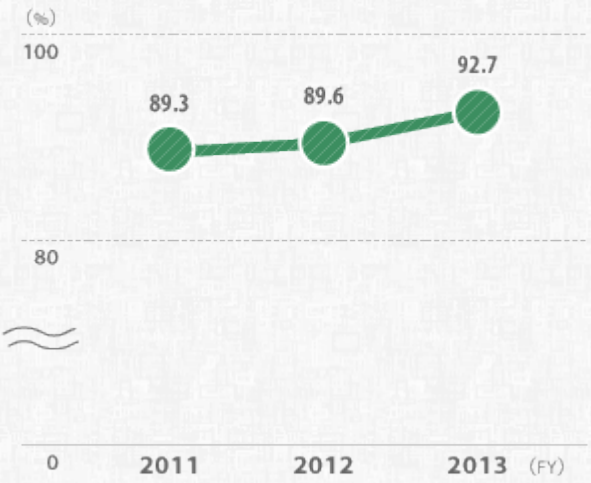
### Promoting zero emissions at domestic manufacturing facilities and at new housing construction sites. Also focused on recycling initiatives turning offcuts and wood waste into wood chips.

Much of the waste generated by the Sumitomo Forestry Group in its business activities is produced in the manufacture of wood building materials and in the housing business.

Accordingly, the Group listed the promotion of zero emissions[1] as a shared target in its Medium-Term Environmental Management Plan, and it is endeavoring to reduce and recycle the waste generated at its manufacturing facilities and new housing construction sites in Japan. The Group is also striving for zero emissions at its overseas companies that manufacture wood building materials.

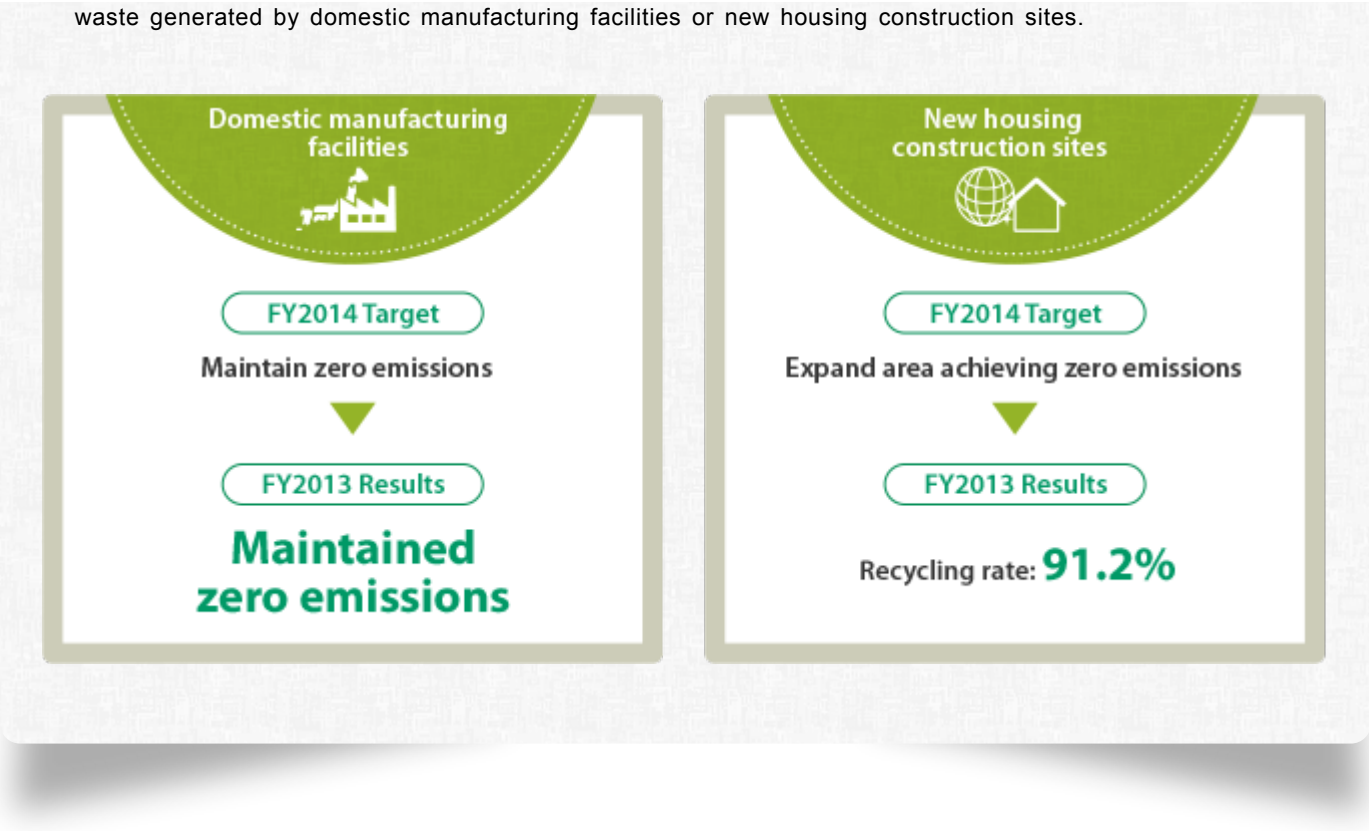
Although falling outside the scope of the above plan, the Group is also promoting the recycling of waste generated during the dismantling process when houses are rebuilt. Furthermore, the Group is also actively involved in the recycling of waste, such as offcuts and wood waste generated during the timber milling process or from new housing construction and demolition sites, turning it into wood chips to be used as a raw material for paper and particle board or as a fuel for power-generating boilers.

Recycling Rate Trends Under the Sumitomo Forestry Group's Definition of Zero Emissions ★




1. The Sumitomo Forestry Group defines "zero emissions" as no incineration or landfill disposal of any industrial

waste generated by domestic manufacturing facilities or new housing construction sites.




## Zero Emissions at Domestic Manufacturing Facilities and at New Housing Construction Sites

Aiming to reduce its environmental impact and to use resources effectively, the Sumitomo Forestry Group promotes zero emissions initiatives based on the reduction, recycling and reuse of industrial waste. The Group's Medium-Term Environmental Management Plan defines "zero emissions" as no incineration or landfill disposal of any industrial waste generated by domestic manufacturing facilities or new housing construction sites.

Based on this definition, the Group achieved zero emissions at domestic manufacturing facilities in fiscal 2009. As for new housing construction sites,[1] the Group achieved zero emissions in the Tokyo metropolitan area in fiscal 2012.

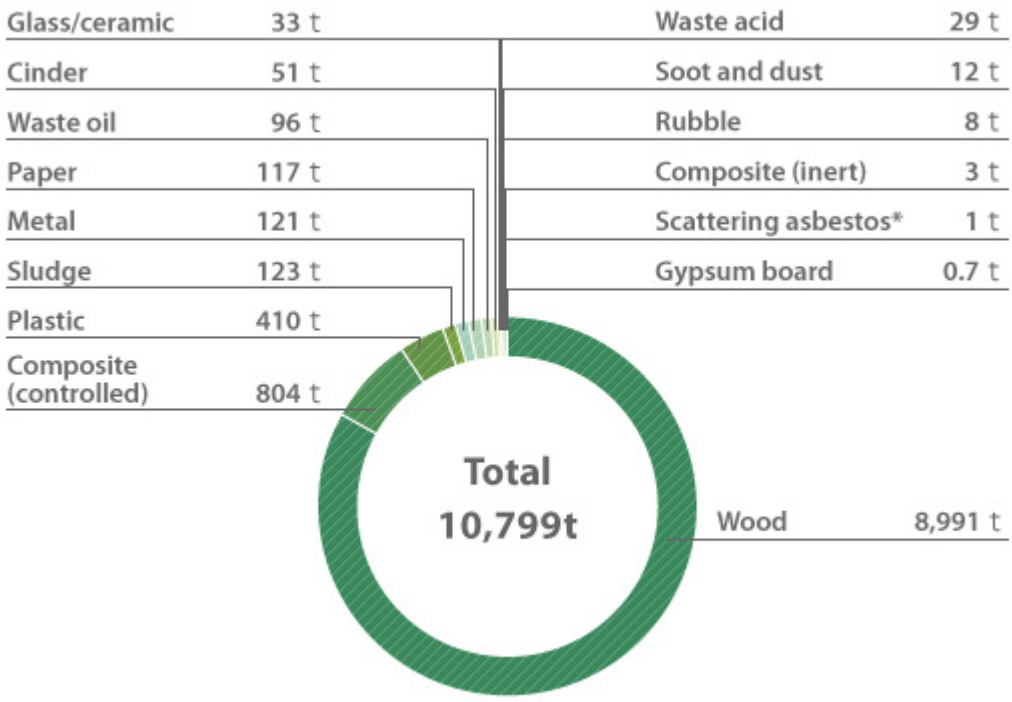
Going forward, the Group will aim for zero emissions nationwide by taking measures suited to each region. For domestic manufacturing facilities, the Group will work at maintaining zero emissions; for new housing construction sites, the Group will seek to also achieve zero emissions in regions outside the Tokyo metropolitan area; and for waste which is difficult to recycle, the Group will cultivate new waste disposal contractors.

1. Includes exterior greening

## Initiatives at Domestic Manufacturing Facilities

Sumitomo Forestry Crest Co., Ltd. and Sumirin Agro-Products Co., Ltd. managed to achieve zero emissions again at all plants in fiscal 2013 as a result of each plant continuing with efforts to reduce waste emissions, for example by tightening the sorting of industrial waste and selling it for a profit.

### Volume of Industrial Waste from Plants (FY2013)★

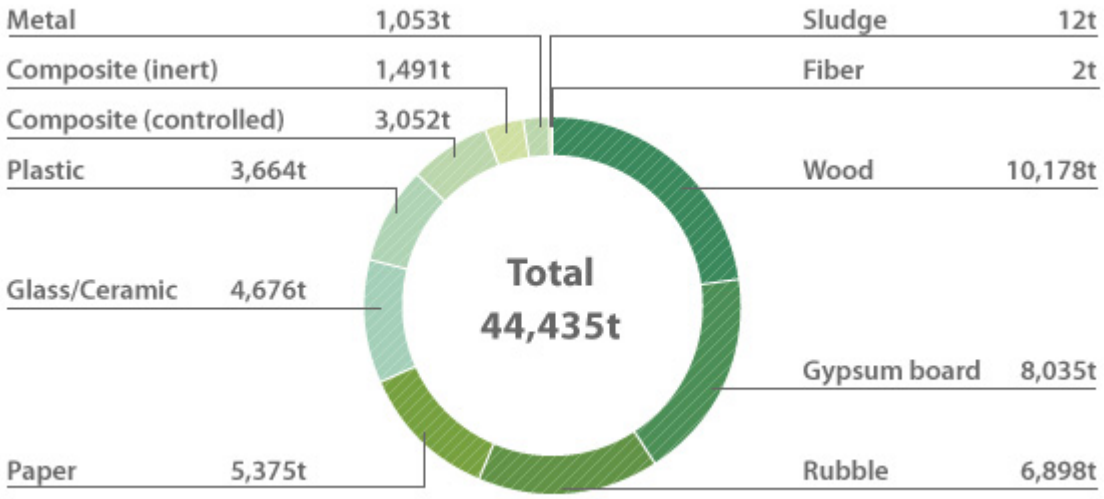



*Properly disposed of as industrial waste requiring special treatment

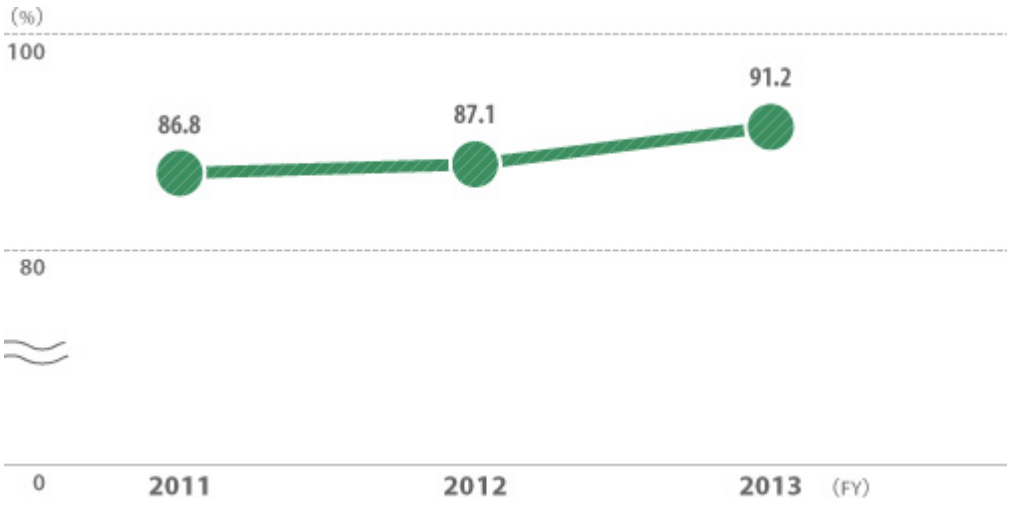
## Initiatives at New Housing Construction Sites

Although emissions of industrial waste generated at new housing construction sites have been increasing as a consequence of the rising number of completed houses, the recycling rate has been improving year by year.

### Volume of Industrial Waste from New Detached Housing (FY2013)★




### Recycling Rate for New Housing Construction Sites★



## Start of Full Operations at the Metropolitan Area Recycling Center

In December 2010, Sumitomo Forestry obtained the National Permit System for waste processing[1] from the Ministry of the Environment. This made it possible to use the return journey of trucks transporting materials to new housing construction sites to recover waste and collect it at relay centers registered as collection points under the National Permit System.

Metropolitan Area Recycling Center

The Company took advantage of the system to establish the Metropolitan Area Recycling Center with capability for advanced sorting of waste in Kazo, Saitama Prefecture. The center started operating in fiscal 2012 and covers all areas of the seven prefectures of Tokyo, Kanagawa, Chiba, Saitama, Ibaraki, Tochigi and Gunma. The recycling center's establishment makes it possible to collect and analyze waste-related data. Analyzed data, including information on the amount of waste generated according to the product, specifications or contractor, are communicated to departments of product development, materials, design, production, logistics to promote the reduction of waste emissions.

In fiscal 2013, a similar initiative was also launched at 12 branches in 10 prefectures outside the Tokyo metropolitan area, utilizing the return journey of trucks transporting housing materials to gather waste and collect it at relay centers.

1. A special system allowing manufacturers to outsource collection, transportation, intermediate treatment and final disposal of recovered waste from across multiple prefectures without having to obtain a waste processor license from each municipality, by obtaining certification from the Minister of the Environment with respect to compliance with certain strict criteria such as processing capacity.

**Flow of materials distribution and collection of industrial waste**


## VOICE

### We Will Maintain Zero Emissions in the Metropolitan Area by Carefully Sorting Waste at Construction Sites and by Using a New Sorting and Collection System

In order to reduce waste emissions from Sumitomo Forestry's custom-built detached houses, the cooperation of upstream departments is essential, such as those involved in product development, materials and design. With this in mind, all waste collected from new housing construction sites is barcoded. Data is then collected and analyzed, and these results are provided as feedback to the relevant departments along with requests for improvement. In order to continue achieving zero emissions in the Tokyo metropolitan area, we will work on reducing the overall amount of waste generated in building houses while also striving to raise awareness among each and every employee.

**Hirokazu Kaneko**
**Manager**
**Metropolitan Area Recycling Center**
**Environment & Safety Division**
**Housing Division**

- News release: "Towards Zero Emissions in the Tokyo Metropolitan Area Sumitomo Forestry Commences Full-scale Operation of the Capital Area Recycling Center for Industrial Waste Treatment"

## Initiatives for Zero Emissions at Overseas Manufacturing Facilities

The five main manufacturing companies outside Japan,[1] besides complying with local laws, are advancing initiatives based on the Sumitomo Forestry Group's definition of zero emissions. For example, in Indonesia, PT. Kutai Timber Indonesia collects wood waste generated during the particle board manufacturing process and reuses it as a raw material or as boiler fuel.

In fiscal 2013, three of the five companies—Kutai Timber Indonesia, PT. Rimba Partikel Indonesia and Alpine MDF Industries Pty Ltd.—achieved zero emissions. The other two companies, PT. AST Indonesia and Nelson Pine Industries Ltd., will make additional efforts to reduce waste emissions, reuse materials and ensure thorough sorting and collection.

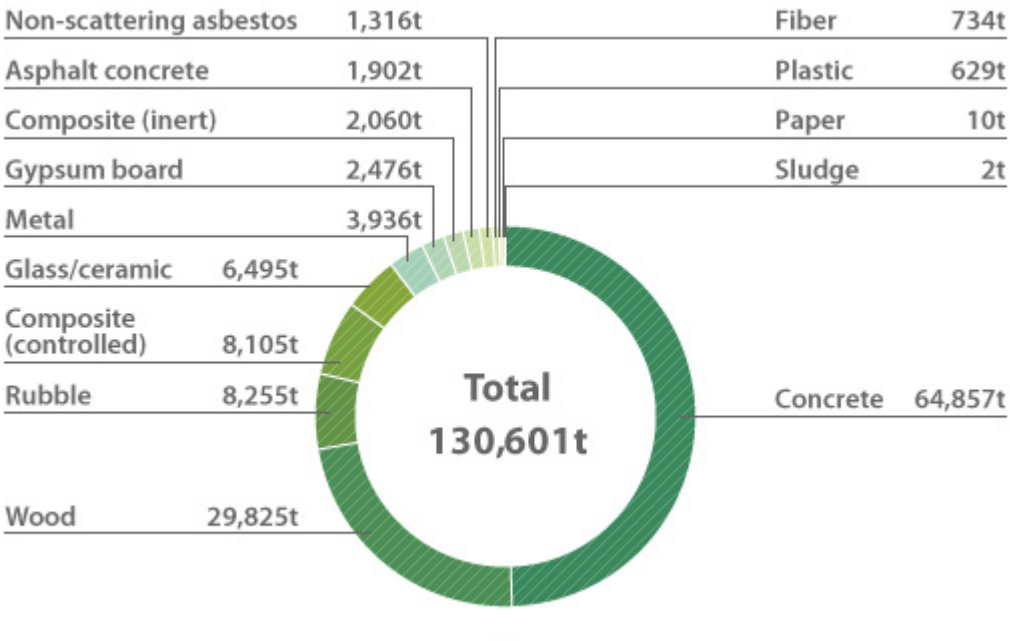
1. Indonesia: Kutai Timber Indonesia, Rimba Partikel Indonesia, AST Indonesia
   Australia: Alpine MDF Industries Pty Ltd.
   New Zealand: Nelson Pine Industries

## Proper Disposal of Demolition Waste

Sumitomo Forestry was promoting resource recycling even before the enactment of the Construction Material Recycling Act implemented in 2002 by ensuring that materials were properly sorted during Demolition prior to the construction of a new house and that waste remained sorted for processing afterwards. Since the enactment in 2002, the Company has recycled the items required under the Act (wood waste, concrete, etc.), sorting them at the sites where the waste is generated.

The recycling rate for concrete and metal waste was almost 100% in fiscal 2013, as it was the previous year. A 100% recycling rate was achieved for wood waste through measures including the thorough removal of extraneous matter. Efforts will now be made to develop recycling routes for roofing tiles, glass, ceramics, gypsum board and other composite waste for further improvement of recycling rates.

**Volume and Breakdown of Demolition Waste (FY2013)**★




## Strengthening Waste Management through Construction Process Management Systems

In fiscal 2011, Sumitomo Forestry added to its construction process management systems a new system whereby the emission of waste on sites and the delivery status of waste to waste treatment plants could be confirmed using mobile phones. By checking the images collected in the system against the categories and volumes of demolition waste lodged by waste processors based on electronic manifests, the Company has strengthened its system for managing demolition waste.

By the end of fiscal 2013, introduction of this system had been completed for almost all demolition contractors, allowing the Company to check that waste emitted from the Company's sites is being taken properly to waste treatment plants.

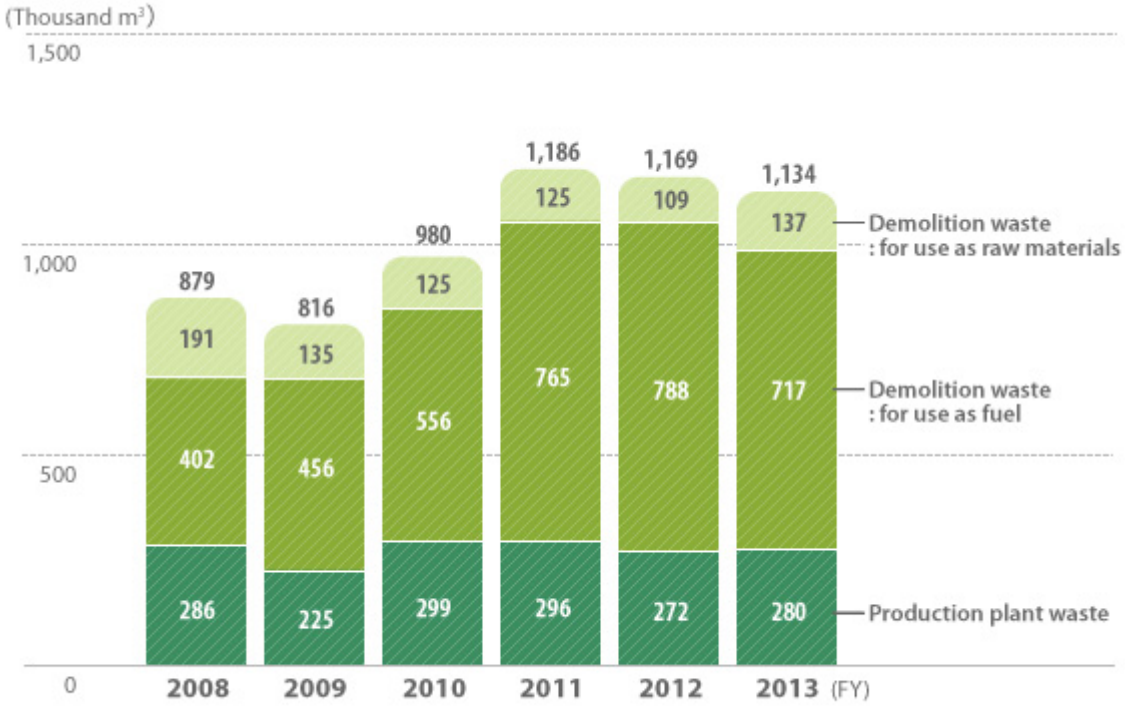
## Recycling of Wood Resources into Chips

The Sumitomo Forestry Group contributes to resource recycling through its wood chip operations, whereby offcuts generated during the timber milling process and wood waste from new housing construction and demolition sites are turned into wood chips to be used as a raw material for products such as paper and particle board, and also as a fuel for power-generating boilers or other equipment.

Looking at the volume of wood chips handled in fiscal 2013, wood chips from demolition waste (for use as raw materials) and from sawmill waste increased, but wood chips from demolition waste (for use as fuel) decreased due to biomass boilers malfunctioning at certain firms that make regular purchases.

In fiscal 2014 and beyond, the Group expects to handle the same volume of wood chips from demolition waste (for use as raw materials) and from sawmill waste as the previous fiscal year. On the other hand, it aims to handle a greater volume of wood chips from demolition waste (for use as fuel), such as by securing alternative customers while the above boilers remain out of order and by establishing new sales routes.

### Volume of Wood Chips Handled



## Effective Utilization of Used Activated Carbon from Water Purification Plants

The Tokyo Metropolitan Government (TMG) Bureau of Waterworks uses an advanced water treatment system combining ozonation and the use of biological activated carbon. The system used as much as around 8,900m$^3$ of activated carbon in fiscal 2013 for reduction of organic matter and deodorization.

Group company Sumirin Agro-Products Co., Ltd. is making effective use of this used activated carbon to develop and market potting media for agriculture and horticulture and a soil improvement agent for greening. Joint research conducted with the TMG found that these items were effective in promoting plant growth, and the two parties applied for a joint patent based on the research results.

In fiscal 2013, the company focused on the past issue of securing supplies of used activated carbon. Supply routes were expanded to Tokyo, Chiba, Osaka, Gifu and other prefectures, and as a result of increasing sales especially of potting mix products, some 2,219 m$^3$ of used activated carbon was put to good use, a 35% increase compared to the previous fiscal year.

In fiscal 2014, the company expects to make use of 2,300 m$^3$ of used activated carbon, a 3.5% increase compared to fiscal 2013.


(Top) Used activated carbon
(Bottom) Products made from it

# Sustainable Forest Management

## Appropriate Management of Forests

Forests perform a variety of functions for the public good, such as storing and purifying water, preventing floods and landslides, absorbing and retaining $CO_2$ which is linked to global warming, and preserving biodiversity.

On a basis of appropriate management, the Sumitomo Forestry Group advances sustainable forest management both in Japan and overseas to ensure that timber resources will be available in perpetuity while preserving the public functions of forests.

### Forest Management and Timber Usage

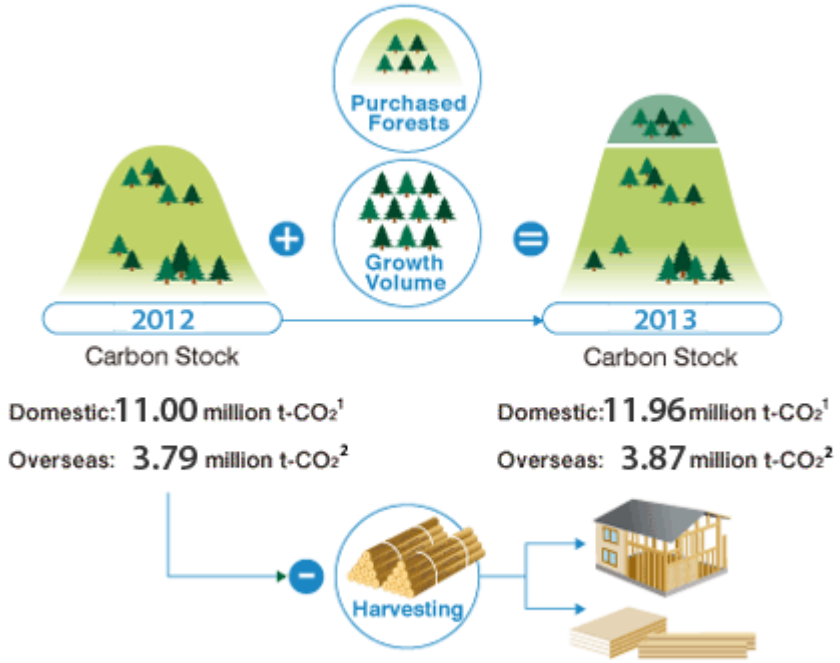
## Cultivation–Preserving the Public Functions of Forests Through Appropriate Management

The Sumitomo Forestry Group manages a total 45,808 hectares of its own forests in Japan and a total of around 200,000 hectares of forests overseas. The Group works to maintain and enhance the public functions of these forests by carrying out underbrush clearing, pruning, thinning and other appropriate management required for them to grow.

Carbon stocks[1] of the Group's forests in Japan were 11.96 million t-$CO_2$ in fiscal 2013, and that of overseas plantations were 3.87 million t-$CO_2$.

1. The amount of $CO_2$ absorbed by forests and stored as carbon

### Carbon Stock of Forests in Japan and Overseas



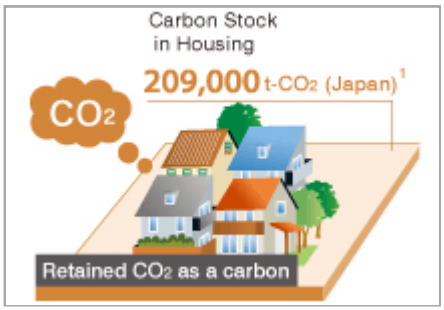

1 Domestic: carbon stock as of the beginning of each fiscal year
2 Overseas: carbon stock as of the beginning of each year

## Harvesting–Supplying Timber Products Through Systematic Harvesting

In fiscal 2013, the Sumitomo Forestry Group harvested 44,333 $m^3$ of trees in Japan and 1,163,320 $m^3$ of trees overseas based on medium- to long-term harvesting plans. Harvested trees are milled and processed before finally reaching the market as products such as housing and furniture. In the case of timber turned into structural members for housing, the products are used for several decades.

Trees retain $CO_2$ as carbon even after they are turned into products. Using timber products and constructing wooden houses can therefore be likened to building forests in the city.

The Sumitomo Forestry Group helps to increase carbon stocks even in cities by advancing MOCCA (wood use integration)[1] activities, thereby contributing to global warming prevention efforts.




Carbon stock of the timber used in the construction of houses in fiscal 2013

1. A collective term for Sumitomo Forestry Group activities that aim to expand the use of timber resources through the promotion of wood construction and wood materials in residential and non-residential buildings and structures.

## Utilization–Timbers Can Be Reused and Does Not Increase $CO_2$

Even after being dismantled or at the end of their product life, wooden houses and timber products can be reused as fiberboard or other wood materials in construction or as raw material for making paper, and all that time it will continue to retain $CO_2$. The $CO_2$ released when timber is ultimately burned as a wood fuel is what has been absorbed from the atmosphere as trees grow, and therefore it does not represent an increase in $CO_2$ in the atmosphere over the life cycle of the wood.

## Planting–Preparing for the Next Cycle

Harvesting and using timber alone will lead to a diminishing of forest resources. The Sumitomo Forestry Group therefore promotes sustainable forest management by always planting new trees after harvesting.

In fiscal 2013, the Group planted approximately 107 hectares of forests in Japan and around 12,542 hectares overseas. The newly planted trees will absorb $CO_2$ during their growth and retain it as carbon.

# Forest Management in Japan

## Major Initiatives and FY2013 Results

### Promoting sustainable forest management. Also conducting consulting business helping to resolve Japan's rate of self-sufficiency in timber and the devastation of Japan's plantations.

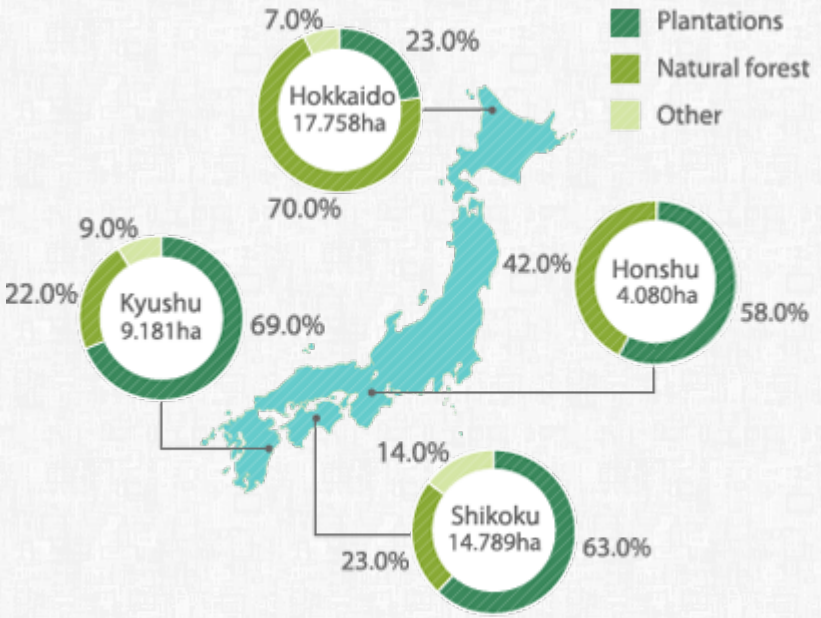
The Sumitomo Forestry Group owns a total of 45,808 hectares of forests in Japan. In addition to acquiring forest certification and exercising appropriate controls for sustainable forest management, the Group has worked to make its forest management more efficient, such as by introducing high-performance machinery, consolidating forestry operations and employing low-density reforestation. The Group has also been conducting a forestry management consulting business in various parts of Japan, applying know-how acquired through management of its own forests.

Despite that about 70% of Japan's total land area is covered by forest, the country's rate of self-sufficiency in timber is less than 30%.[1] Furthermore, given the widespread use of inexpensive imported timber and the aging and decreasing forestry workforce, Japan's plantations are not being adequately managed, and consequently there are growing concerns about a decline in the public functions of forests, such as the preservation of ecosystems, the cultivation of water sources and the prevention of soil run-off and landslides.

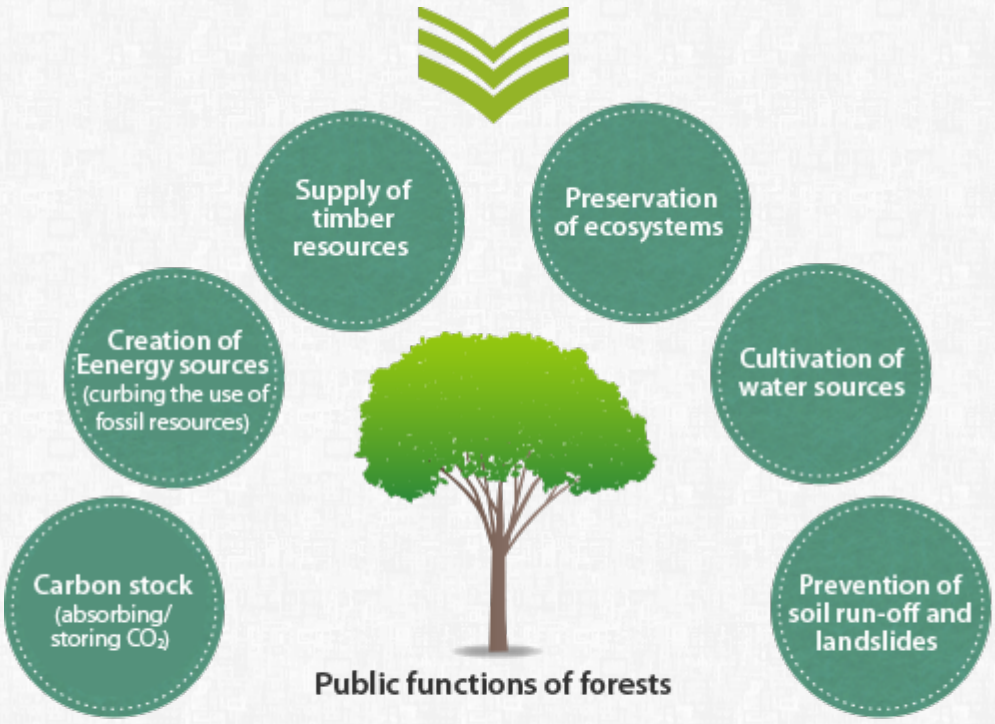
The initiatives undertaken by the Group are also linked to resolving such problems, and so the Group will continue to take an active approach to sustainable forest management and consulting.

1. Source: *Wood Demand and Supply Chart*, Forestry Agency

## Distribution and Area of Company-Owned Forests (as of March 31, 2014)




Total area of Company-owned forests: 45.808 hectares
(about 1/900 of Japan's land area)




### Issues faced by plantations in Japan

- Decline in profitability due to widespread use of imported timber
- An aging and decreasing forestry workforce
- Increase in neglected plantations
- Decline in the public functions


## Preserving and Increasing Forest Resources through Management of Company-Owned Forests

Sumitomo Forestry owns a total 45,808 hectares of forest in Japan (around 1/900 of the country's land area). Company-owned forests are categorized as either "plantation forests," where the production of timber is the priority, or "environmental forests," where conservation of the environment is the focus.

Sumitomo Forestry acquired forestry certification from Japan's Sustainable Green Ecosystem Council (SGEC)[1] for all Company-owned forests[2] in 2006 and third-party evaluations have confirmed that the forests are being properly managed, including with regard to measures to preserve biodiversity.

Forest operations include appropriate thinning, which helps to preserve and increase forest resources, while taking into consideration the surrounding environment including the ecosystem. Sumitomo Forestry also aims for highly productive management of its forests based on operations plans that follow the principle of performing the right job for the right tree on the right site. In addition, the Company runs a forest management consulting business applying know-how acquired through management of its own forests in Japan.

1. Japan's own forestry certification system through which forest management is verified as sustainable by third parties. Certification is based on seven criteria that include the preservation of biodiversity and the conservation and maintenance of soil and water resources.
2. The forests owned by Sumitomo Forestry exclude the lands leased to Kawanokita Development Co., Ltd., which is a Group company responsible for operating a golf course.

## Low-Density Reforestation Using Tree Shelters

Sumitomo Forestry is developing a new approach to forestry called “low-density reforestation” which involves the use of tree shelters whereby seedlings are covered by plastic tubes. Damage caused to seedlings by deer feeding on them has become a problem in recent years, but this new type of afforestation using tree shelters will prevent such damage without having to remove the deer from their habitat. As a result, even assuming the same production of timber, it will be possible to reduce the number of trees planted per unit area of land compared to conventional methods, and given this, there is potential for a reduction in forestry labor, such as for cutting and thinning.

A privately-owned forest in Sukumo City, Kochi Prefecture

In fiscal 2013, Sumitomo Forestry Wood Products Co., Ltd., which is responsible for managing forests owned by the Company, commenced full-scale external sales of Height Shelter S, a tree shelter developed in cooperation with the Company. During its first year, sales of the product reached 95,000. For instance, in Tokushima and Kochi prefectures, the product was adopted for planting 25,000 trees on 12.3 hectares of privately-owned forests which are collectively managed with forests owned by the Company.[1] In fiscal 2014, Sumitomo Forestry Wood Products aims to increase sales to over 200,000, thereby helping to make forestry labor more efficient.

1. The Company has been contracted to manage approximately 33 hectares of privately-owned forests in Tokushima and Kochi prefectures, and manages them based on its forest management plan.

## Forest Management Consulting Business in Japan

Sumitomo Forestry helps promote Japan’s domestic forestry industry by developing its consulting business for forestry management in Japan, applying know-how acquired through management of its own forests.

## Consulting in Shimokawa, Hokkaido

Sumitomo Forestry was contracted by Shimokawa Town, Hokkaido, to build a quantitative analysis system for forestry resources and to consult on the operation of the system. The system began operating in July 2013. The aim of the system is to combine aerial photographs with laser surveying in order to obtain highly accurate forest resources data from an aircraft, such as tree species, height, population and timber volume, and to analyze and utilize this data, leading to the proper management of forests. In addition, the introduction of this system will allow privately-owned forests and national forests within the target region to share forest resources data, something which had previously been problematic. The system is expected to contribute to the planning and implementation of highly effective plans for logging and for constructing forest roads.

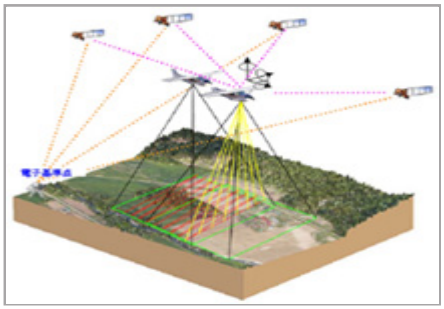


Illustration of the aerial laser survey method

- News release: "Sumitomo Forestry Uses IT to Revitalize Forestry in Shimokawa, Hokkaido—Support Sustainable Forest Management by Obtaining High-precision Forest Resource Image Data via Aerial Surveys and by Using a Computer System—"

## Consulting in Totsukawa, Nara

Since fiscal 2011, Sumitomo Forestry has provided consultation to Totsukawa Village, Nara Prefecture, on using forest resources to revitalize the local economy. Typifying low uplands in Japan, the mountainous region is remote and beset with steep terrain. Consequently, developing road networks had been difficult and the production of timber sluggish. In this project, the Company has provided a wide range of support to the village administration and forest owners' cooperatives so as to enable them to utilize their isolated forest resources effectively. Particularly with respect to the production of timber, the Company provided support for developing the road network infrastructure in order to make good use of a truck fitted with a "tower yarder" for collecting harvested wood. This machine is the outcome of the Company taking a harvester made by Austrian company, Konrad, and modifying it to suit Japan's steep, hard-to-access forests. It demonstrates that the Company is also utilizing the technologies gained from its Company-owned forests in Kyushu in promoting the forestry industry in other regions too.

- Activity Highlight 6-Assisting the Revitalization of Forestry, Generating New Vigor for Communities

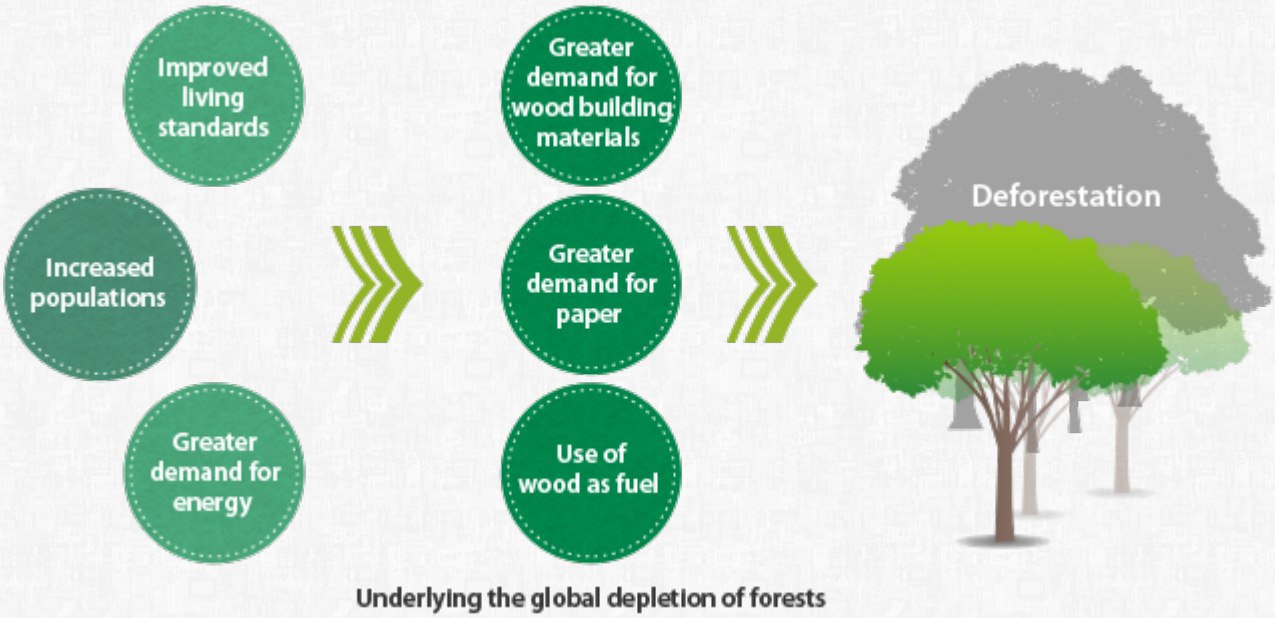
# Forest Management Overseas

## Major Initiatives and FY2013 Results

### Promoting sustainable plantation forest operations, in such countries as Indonesia and Papua New Guinea.
### Also focused on consulting business for companies and organizations engaged in forest management.

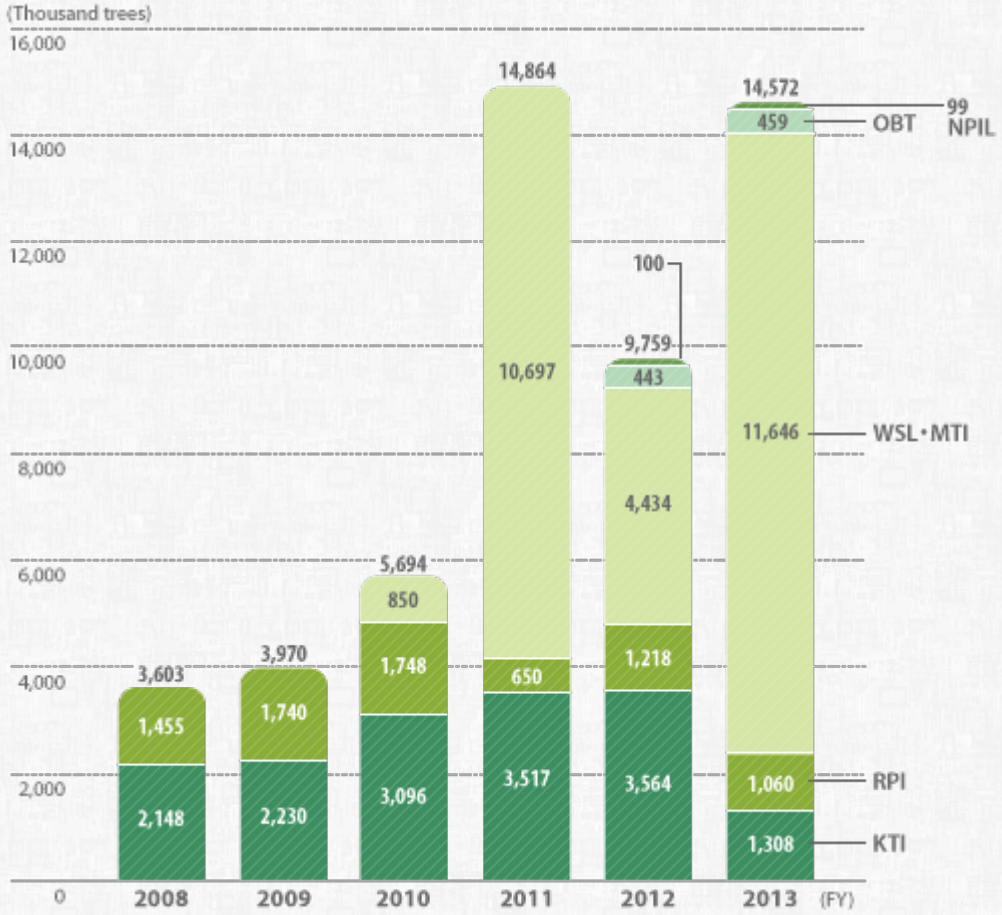
As populations increase and the standards of living improve in Southeast Asian and emerging countries such as Indonesia, China and India, demand for wood as a raw material for building materials and paper and as a biomass fuel is set to increase. To increase sources of supply to cope with this ever-increasing demand for wood is a global challenge. In many cases, land suited for forest plantation is in competition with food production, and therefore not enough plantation forests have been developed to satisfy global demand.

In order to ensure a stable supply of raw materials for wood products, such as timber, wood panels and pulp, while still taking the environment into consideration, the Sumitomo Forestry Group has been increasing its use of plantation timber to reduce its procurement of raw materials from natural forests. In addition, the Group has been expanding forest plantation operations in overseas countries, especially in such countries as Indonesia and Papua New Guinea, in order to promote the active utilization of timber harvested from sustainable forests plantation.
The Group has also been focusing efforts into its consulting business for companies and organizations engaged in planting seedlings overseas.




Underlying the global depletion of forests

## Reforestation Results



## Reforested Area

| Company Name | Country | Total Management Area | Reforested Area | |
|---|---|---|---|---|
| | | | FY2012 | FY2013 |
| Kutai Timber Indonesia (KTI) | Indonesia | 16,298ha | 3,465ha | 1,863ha |
| Rimba Partikel Indonesia (RPI) | Indonesia | 1,995ha | 811ha | 711ha |
| Nelson Pine Industries (NPIL) | New Zealand | 5,134ha | 101ha | 92ha |
| Open Bay Timber (OBT) | Papua New Guinea | 31,260ha | 709ha | 734ha |
| PT. Wana Subur Lestari (WSL) | Indonesia | 40,040ha | 515ha | 4,254ha |
| PT. Mayangkara Tanaman Industri (MTI) | Indonesia | 74,870ha | 2,811ha | 4,482ha |

### Sustainable Plantation Forest Operations

**FY2013 Results**

- Planted 12,136 hectares of forests
- Conducted surveys of forest value based on the HCVF* approach at plantation forests in Indonesia, and held a public consultation meeting for local stakeholders

* Acronym for "high conservation value forests"

### Forest Management Consulting Business

**FY2013 Results**

- Provided support for a project by Mitsui Sumitomo Insurance Co., Ltd. for the rehabilitation and regeneration of a wildlife sanctuary in Indonesia
- Provided support for a project by Mitsui Sumitomo Insurance and PT. TS Tech Indonesia for the restoration of ecosystems at a national park

## Sustainable Plantation Forest Operations Overseas

The purpose of "industrial plantation" is to increase the supply of plantation timber (raw material). By zoning its managed land appropriately, the Sumitomo Forestry Group aims to achieve both the conservation of valuable ecosystems and the development of local communities through plantation forest operations.

In addition, the Group has also taken the "environmental reforestation" approach, aimed at planting trees for the purpose of environmental conservation. It aims to contribute to environmental conservation through the expansion of forested areas and the fulfillment of the ecosystem services function of forests, by actively planting trees on land where natural regeneration would otherwise be difficult. The Group has also been engaged in "social forestry" which shares the economic benefits of forest plantation with local communities while enlisting the cooperation of local residents. During fiscal 2013, overseas Group companies planted a total area of 12,136 hectares.

Activity Highlight 4-Commercial Forest Plantation Bringing Precious Forest Resources for the Future

## Acquisition of Forestry Certification in Collaboration with Local Residents

Kutai Timber Indonesia (KTI) formed a reforestation cooperative together with local residents in fiscal 2007, and acquired FSC™-FM certification for 152 hectares of plantation forest in December 2008. Certification was obtained for an additional 179 hectares of plantation forest in 2011 and 673 hectares in 2012, taking the total area of certified plantation forest to 1,004 hectares.

## Large-Scale Commercial Forest Plantation Business in Collaboration with ALAS KusumaGroup

Since 2010, under the license from Indonesia's Ministry of Forestry permitting utilization of timber from commercial forests,[1] Sumitomo Forestry has been committed to a large-scale forest plantation business conducted in cooperation with the ALAS Kusuma Group, a company involved in forestry management and plywood manufacturing in Indonesia. Even though illegal logging and slash-and-burn farming practices have persisted, effective countermeasures have not been implemented in the lands earmarked for this business. As a consequence, this area is at risk of losing natural forest and many invaluable plant and animal species that should be protected and conserved. In order to stop any further loss of natural forests to illegal logging or excessive slash-and-burn farming, it is crucial to provide local residents with an economic basis so as to prevent such behavior.

The aim of the Company's industrial plantation is to provide local residents with employment opportunities by getting them to participate in sustainable forestry management, and to reduce the burden of human activity on precious natural forests. This project classifies and manages degraded forests (some of which contain degraded peat-swamp forests[2]) devastated by illegal logging, slash-and-burn farming and the ensuing forest fires into three areas: (1) forest conservation zones, (2) buffer zones, and (3) plantation zones. With respect to the (1) forest conservation zones, in addition to setting (2) buffer zones to prevent any direct impact of plantations, the project also preserves corridors so that the conservation zones do not become isolated. As for the (3) plantation zones, based on the long-held philosophy that there is a “right tree for the right site,” the project aims to plant numerous species of trees that are suited to each location by considering the differences in environmental factors, such as soil composition and moisture content. At the same time, the project also actively contributes to preventing deforestation caused by illegal logging and disorderly slash-and-burn farming practices and to controlling the emission of greenhouse gases. The planted seedlings are produced, planted, nurtured, felled and replanted using the Company's technologies, allowing for sustainable forest management to be conducted.

During fiscal 2013, the project developed land and planted trees in an area of approximately 8,736 hectares. It also acquired PHPL (Sertifikat Pengelolaan Hutan Produksi Lestari), a certification from Indonesia's Ministry of Forestry for sustainable forest management.

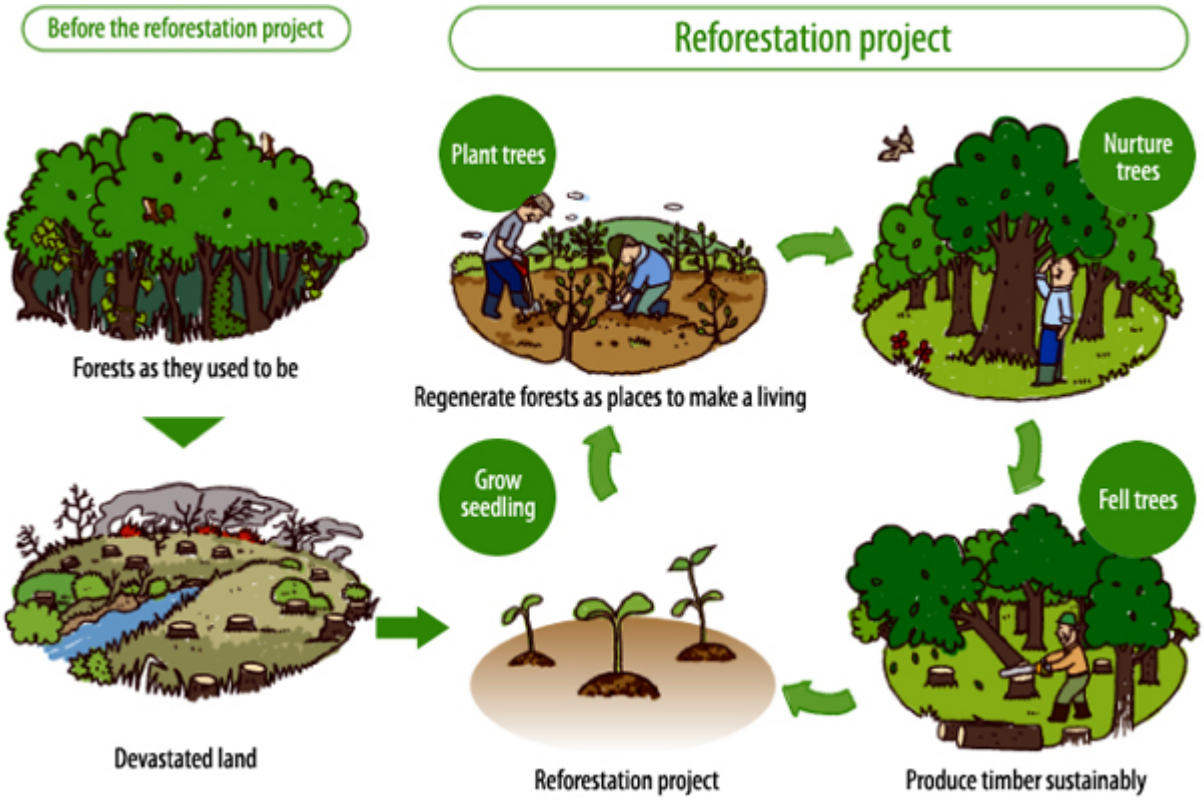
In fiscal 2012, the project concluded an advisory agreement with the International Finance Corporation (IFC), which is part of the World Bank Group. With a view to realizing plantation

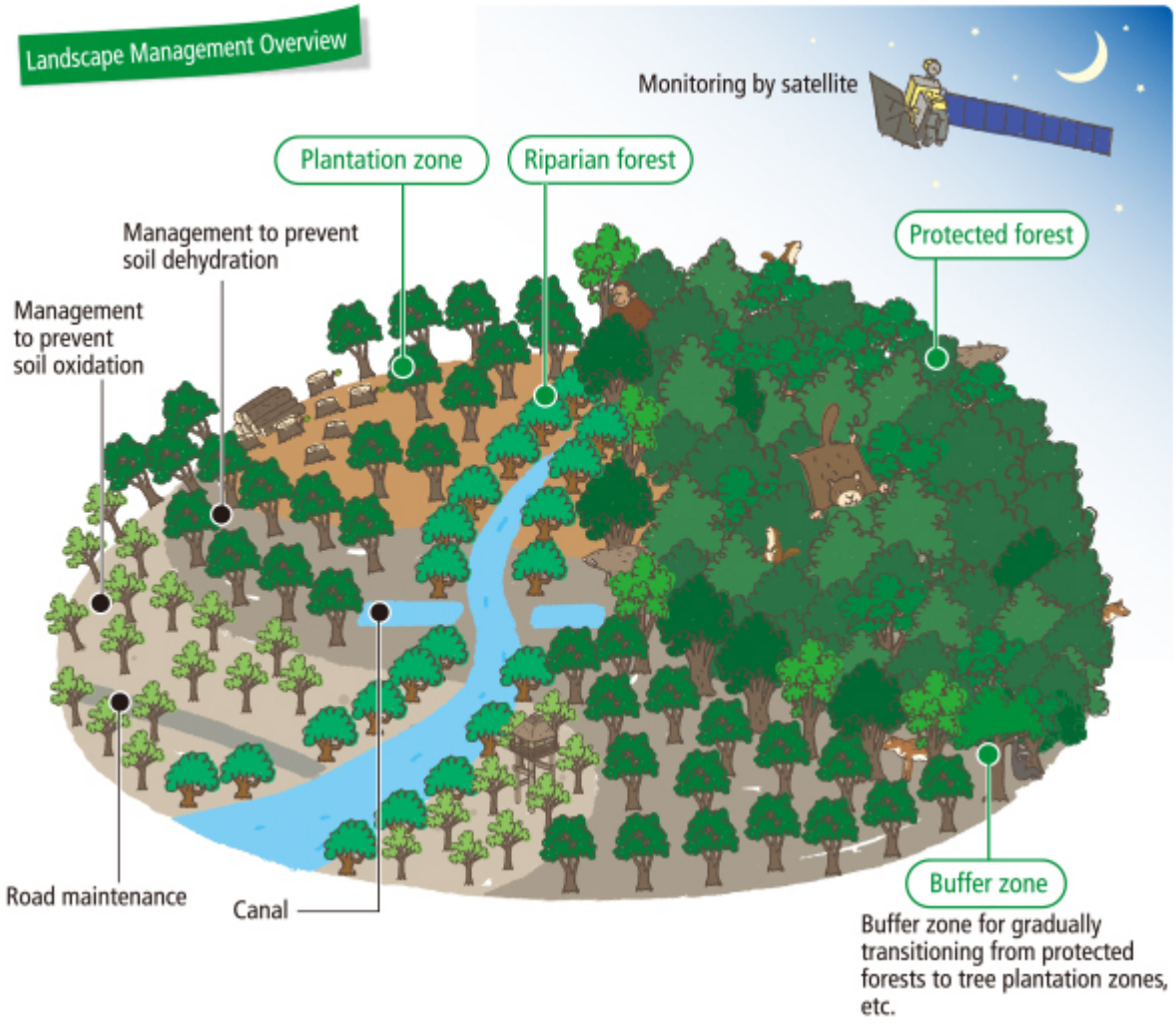
forest operations that are further conscious of the natural and social environment, the Company conducted a joint survey of the project site together with the IFC in accordance with the “high conservation value forest” (HCVF) approach,[3] on which there has been an emergent emphasis in recent years. The survey investigated whether the project site's land-use plan is being implemented appropriately and whether sufficient considerations have been given to biodiversity conservation and to the livelihoods of community residents. In September 2013, a local public consultation meeting was convened inviting various stakeholders (local residents, nearby businesses, academic experts, NGOs and government officials) to share the survey outline and results. The survey report has also been reviewed by a third-party organization, and future plans will be updated to reflect this review plus the valuable comments provided by the stakeholders.

In collaboration with relevant stakeholders, the project will continue to conduct monitoring and surveys on the project based on the most up-to-date knowledge and information, and armed with this, will make improvements to its plantation management plans as required.

1 Issued by the Indonesian government, this is a business license to engage in industrial timber plantation operations in Indonesia. The license is valid for 100 years.
2 Peat soil is one of the defining attributes of peat swamps. It is known for releasing large quantities of greenhouse gases (carbon dioxide, methane, etc.) into the atmosphere if such areas are improperly developed or exploited. Through joint research with academic institutions in Japan and Indonesia, the project gives careful attention to minimizing the decomposition of peat due to development and the resultant release of greenhouse gases.
3 An approach used when considering the value of forests which goes beyond merely their value as a carbon sink for greenhouse gases. It takes into account the multifaceted value of forests, such as containing habitats for rare, endangered species, providing basic services of nature including watershed protection and erosion control, and being important for the traditional cultural identity of local communities.

**Reforestation project in collaboration with the ALAS Kusuma Group**






Past method of tree planting on peat swamps have started with establishing many water drainage canals, and drying-out the land. However, land drying-out results in the decomposition of underground organic matters that leads to releasing greenhouse gases and to global warming. Dried peat, once ignited, is very difficult to extinguish, creating the risk of large-scale forest fires.

In order to sustain the water level even to keep the soil wet, it is important to conduct appropriate control and monitoring of groundwater level.

Therefore, when drawing up forestation plans, the project uses the advanced satellite information technology acquired through joint research under the Space Open Lab program provided by the Japan Aerospace Exploration Agency (JAXA) to establish appropriate reserves, including (1) forest conservation zones and (2) buffer zones, before identifying (3) lands suited to plantation. In the plantation area within peat swamps, water routes have functions of timber transportation, water level regulation, and firebreaking. The water routes are kept disconnected with rivers in order to prevent water drainage which causes emission of greenhouse gases.

## Contribution to Local Communities through Social Forestry

In Indonesia, Sumitomo Forestry has been conducting social forestry since 2000, whereby seedlings are distributed free of charge to local residents to plant, and then PT. Kutai Timber Indonesia (KTI) and PT. Rimba Partikel Indonesia (RPI) promise to buy back the grown trees in six to seven years, when the trees are ready for harvesting. As well as being a venture to support the self-reliance of local residents, social forestry also fosters communication to build strong relationships with local communities.

# Forest Management Consulting Business Overseas

Corporate needs for forest management are diverse. In recent years, there has been a considerable number of companies conducting forest conservation activities and planting activities in developing countries, for the purpose of mitigating the impact on forests in overseas countries and regions where they are doing business, or for the purpose of fulfilling their corporate social responsibility.

Drawing on its knowledge of forest management in Japan and overseas, Sumitomo Forestry implements its consulting business for restoration of degraded forests in tropical regions, the rehabilitation of biodiversity, and for the protection and cultivation of forests that takes into account local communities.

The Company plans to enhance the value of existing projects in cooperation with local governments and relevant organizations, and to promote the proposal of new mechanisms such as REDD+ as well as ongoing projects that contribute to local economies through forest management and agricultural production.

## Mitsui Sumitomo Insurance Co., Ltd.'s Project for the Rehabilitation and Regeneration ofthe Paliyan Wildlife Sanctuary

Mitsui Sumitomo Insurance Co., Ltd. has been involved in efforts for restoring the devastated forests in the Paliyan Wildlife Sanctuary (Special Region of Yogyakarta) in Indonesia since 2005. Sumitomo Forestry has provided associated consulting services.

Local residents participating in an agricultural guidance program

During the first phase of activities to March 2011, around 300,000 trees were planted on 350 hectares of land. Since April 2011, with a goal of creating a framework for local people to voluntarily protect their abundant forest areas, Sumitomo Forestry has provided support for an agricultural guidance program aimed at improving the livelihoods of local residents, the establishment of an inclusive organization to examine ways of managing protected forests, and an environmental education program in cooperation with local schools. In fiscal 2012, the Company had provided guidance on techniques for cultivating peppers, which are one of the more profitable vegetables, and during fiscal 2013, further guidance was provided on ways for producing and selling these peppers in the dry season when they are difficult to grow. The Company also began giving guidance for the registration of agricultural cooperatives.

As part of this project, the Company has also opened the doors to its plantation forests, seminar house and other related facilities in a positive effort to make information on its experiences and know-how on forest restoration available to the public. These have been well attended by local elementary and middle school students, by Indonesian and foreign university students and experts in such fields as forestry, the environment and education, as well as by many government officials.

## Revegetation Project in Gunung Merapi National Park in Cooperation with JICA

Mitsui Sumitomo Insurance Co., Ltd. and PT. TS Tech Indonesia have been running a project for the restoration of ecosystems in Indonesia's Gunung Merapi National Park (Central Java) since fiscal 2012. Sumitomo Forestry has teamed up with the Japan International Cooperation Agency (JICA) to provide support for implementation of the project.

Plantation forest in the Gunung Merapi National Park

Two of the aims of the project are to regenerate the national park forests that were devastated by illegal digging for gravel, and to contribute to the capacity building of national park personnel through practical revegetation activities. The knowledge gained through Mitsui Sumitomo Insurance's project for the rehabilitation and regeneration of the Paliyan Wildlife Sanctuary has also been applied to forest regeneration in this project.

During fiscal 2013, trees were planted on 25 hectares of land managed in trust for Mitsui Sumitomo Insurance. The Company also undertook watering, supplemental planting, clearing away of underbrush, fire prevention and patrols on five hectares of plantation forests where trees had been planted in fiscal 2012 under contract from TS Tech Indonesia. The Company plans to continue the proper management of these plantation forests together with national park staff.

## Industrial and Environmental Reforestation with Roland Corporation

Contracted to undertake plantation forest operations for Roland Corporation since 2007, Sumitomo Forestry has promoted a reforestation project on lands in Central Java managed by Perum Perhutani, an Indonesian state-owned forestry enterprise, which combines industrial reforestation and environmental reforestation; the first is aimed at timber production and the latter aims to enhance the watershed protection function and to contribute to the local economy through the planting of fruit trees. 30.6 hectares of environmental reforestation lands, which are not subject to logging, were transferred to Perum Perhutani by the end of fiscal 2012. As for 71.8 hectares of industrial reforestation lands, in fiscal 2013, plantation timber was harvested and processed into wooden boards to be used in the production of electric pianos by Roland Corporation. This concludes the project.

## Procuring Timber from Sustainable Forests in Accordance with the Action Plan for Timber Procurement

These initiatives are reported under Sustainable procurement of timber.

- Sustainable procurement of timber
- Activity Highlight 3-Promoting Sustainable Timber Procurement

# Policies and Targets for Biodiversity Conservation

## Declaration of Biodiversity and Biodiversity Action Guidelines

Sumitomo Forestry established its Policy on Biodiversity Conservation in Company-owned Forests in Japan in fiscal 2006, and its Timber Procurement Philosophy and Policy in fiscal 2007. The Company also revised its Environmental Policies in fiscal 2007 to incorporate biodiversity considerations. Then in March 2012, the Company established its Declaration of Biodiversity, setting out the Sumitomo Forestry Group's understanding of and stance on biodiversity; Biodiversity Action Guidelines, specifying an internal set of guidelines; and Biodiversity Long-Term Targets as specific goals of activity.

In line with these policies and targets, the Group is promoting various initiatives for the conservation of biodiversity.

### The Sumitomo Forestry Group Declaration of Biodiversity

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

### The Sumitomo Forestry Group's Declaration of Biodiversity Action Guidelines

1. Position biodiversity as a key issue with the goal of coexisting with the environment and, together with its stakeholders, pursue initiatives to protect and promote biodiversity.
2. Ensure that each and every employee in the Group understands the importance of biodiversity and acts while considering both the direct and indirect consequences of their actions on biodiversity.
3. Minimize the impact of all Group activities on biodiversity.
4. Through its timber and forest-related businesses, provide to society the gifts acquired from forest ecosystems and contribute to the improvement of people's lives.

▸ News release: "Sumitomo Forestry Group Announces Declaration of Biodiversity"

## Biodiversity Long-Term Targets

As well as advancing biodiversity conservation initiatives, the Group established the Biodiversity Long-Term Targets in March 2012 as a way of contributing to the international community in respect to attainment of the Aichi Biodiversity Targets adopted at the 10th Conference of Parties to the Convention on Biological Diversity (COP10) in 2010. Rough schedules for achieving each of the long-term targets were put in place covering the period up until 2020 and serve as a guideline for advancing initiatives.

## The Sumitomo Forestry Group's Biodiversity Long-term Targets: Summary

### Group-wide targets

**1 (Aim to achieve sustainable forests)**

In all timber-related businesses, from upstream to downstream, work to prevent any reduction in forest areas and aim to achieve sustainable forests.

- Regenerate forests through reforestation and the recharging of natural resources and maintain logging to less than grown volume of the forest.
- Increase the procurement and use of sustainable timber, including forest certified timber, plantation forest timber, and Japanese timber.
- Promote the efficient use of timber and recycle and reuse timber.

**2 (Increase the amount of $CO_2$ absorbed by and sequestered in forests and timber)**

In order to increase the amount of $CO_2$ absorbed by and sequestered in forests and timber, promote the use of timber by cultivating healthy forests and encouraging the use of timber construction materials and the construction of wooden buildings. In this way, contribute to the protection of biodiversity and help mitigate climate change.

### Individual targets

**3 (Forests)**

Promote forest management that regenerates, maintains, and increases biodiversity

- Carry out zoning that protects ecosystems and the habitats of living creatures.
- Maintain to 20% or above the percentage of the environment protection priority forests area of Company-owned forests in Japan.
- Maintain to 100% the percentage of Company-owned forests in Japan that are forest certified.
- Establish targets for protecting endangered species based on the results of the biodiversity monitoring conducted within Company-owned forests in Japan starting 2012.
- Conduct operations at plantation forests overseas while considering how best to contribute to local communities, economies and education.

**4 (Products)**

Provide products and services that are considerate to biodiversity, such as forest-certified timber and products and services that have received an environmental assessment.

**5 (Construction)**

Work to develop homes and communities that are in harmony with the natural environment and their surrounding urban landscapes.

**6 (Design)**

Manage and minimize the generation of waste through promoting a zero-emissions policy in construction operations.

**7 (Greening)**

Be considerate to the surrounding ecosystems and tree species and actively cultivate native species.

**8 (Plants)**

Manage and minimize the generation of pollutants, waste, and noise pollution, and reduce their impact on biodiversity.

**9 (Public relations)**

Actively communicate the importance of biodiversity to all stakeholders, including customers, business partners, and local communities.

**10 (Research)**

Collect the latest information and develop conservation technologies in order to implement measures to protect biodiversity.

**11 (Social contribution)**

Protect those trees that are historically and culturally important and also preserve their genetic material.

# Biodiversity Conservation in Company-Owned Forests in Japan and Plantation Forests Overseas

## Major Initiatives and FY2013 Results

**Promoting appropriate measures for the conservation of biodiversity by understanding the relationship and impact between business activities and ecosystems both at Company-owned forests in Japan and at plantation forests overseas.**

Animals that inhabit Company-owned forests in Japan

While many companies are often indirectly involved with biodiversity through their supply chains, at the Sumitomo Forestry Group, forests that nurture biodiversity are directly and inextricably its business field.

For this reason, the Group has positioned conserving biodiversity as one of the most important themes in its environmental activities. It has clearly indicated policies and targets in relation to biodiversity conservation, and has promoted initiatives at both Company-owned forests in Japan and at plantation forests overseas.

### Sustainable Plantation forest Operations

**FY2013 Results**

- Conducted surveys to monitor wildlife in Hyuga (Kyushu)

### Biodiversity preservation in plantation forests overseas

**FY2013 Results**

- Conducted a survey at plantation forests in Indonesia, and identified certain areas as high conservation value forests (HCVF); acquired PHPL, a certification for forest management from Indonesia's Ministry of Forestry

# Biodiversity Conservation in Company-Owned Forests in Japan

The Policy on Biodiversity Conservation for Company-owned forests in Japan calls for efforts to promote diversity of ecosystems, through proper management of protected areas and consideration toward the continuity of forests; diversity of species, through protection of rare flora and fauna; and genetic diversity, through the maintenance of populations.

In keeping with these policies, forests are subject to appropriate zoning and management according to certain criteria, such as the increment of trees. Sumitomo Forestry is also making efforts to create endangered species lists and manuals, conduct surveys to monitor wildlife, and develop materials for protecting saplings.

## Policy on Biodiversity Conservation in Company-Owned Forests in Japan (Excerpt) (Formulated June 2006)

### 1. Diversity of ecosystems

We will properly manage strictly protected areas designated under the Natural Parks Law and other legislation in a manner stipulated by the law. In other areas, we will ensure continuity of forests by limiting the area of forest harvested, particularly when clear cutting is conducted.

### 2. Diversity of species

We will work to prevent a decline in the number of species existing in natural forests by refraining from expansive planting projects and other extreme activities involving the replacement of species that would have a major impact on existing ecosystems. We will also give the utmost consideration to the protection of rare flora and fauna in all operations, making reference to the Sumitomo Forestry Red Data Book.

### 3. Genetic diversity

Genetic variation and the maintenance of populations to support them will become issues in the future. However, analysis is complicated and therefore we will closely watch monitoring activities carried out by government and public institutions and their findings.

## Red Data Book and Riparian Forest Management Manual

Sumitomo Forestry creates a Red Data Book listing flora and fauna at threat of extinction which may exist in Company-owned forests and distributes it to employees and contractors involved in forest management. By carrying the book with them during operations, personnel can refer to the opinions of specialists when they come across flora and fauna included in the book and take action.

The Company has also created the Riparian Forest Management Manual to ensure the appropriate management and preservation of areas around bodies of water that are rich in biodiversity. The Red Data Book and Riparian Forest Management Manual are reviewed and updated as required.

Sumitomo Forestry's Red Data Book

## Wildlife Monitoring Surveys

Sumitomo Forestry monitors wildlife inhabiting Company-owned forests. Every year, surveys are conducted in one of four areas— Mombetsu (Hokkaido), Niihama (Shikoku), Hyuga (Kyushu) and Wakayama. Data for each area is therefore accumulated in four-year cycles. This is used to create basic reference materials relating to biodiversity and to ascertain the impact of forestry on the surrounding environment over the long-term.

In fiscal 2013, monitoring surveys were conducted in Company-owned forests in Hyuga. They included surveys of mammals and birds and fixed-point photography.

**Species of mammals and birds confirmed by past surveys**

| Surveyed forest | Mammals | Birds | Year |
|---|---|---|---|
| Niihama Forest | 14 | 31 | 2008 |
| Hyuga Forest | 11 | 33 | 2009 |
| Mombetsu Forest | 10 | 38 | 2010 |
| Wakayama Forest | 12 | 25 | 2011 |
| Niihama Forest (2nd survey) | 11 | 34 | 2012 |
| Hyuga Forest (2nd survey) | 12 | 29 | 2013 |

## Topics: Biodiversity Conservation at Plants: Success in Germinating the Endangered “Beach Silvertop”

Sumitomo Forestry Crest Co., Ltd. implements biodiversity conservation activities suited to the regional environment at each of its plants under a common objective of providing habitats and rest areas for local species through the conservation of plant life indigenous to the region. For example, at its Kashima Plant, for the purpose of regenerating the coastal environment, a plan is being advanced for the permanent planting of beach silvertop (Glehnia littoralis), a native plant species at threat of extinction.

Permanent planting of beach silvertop

The Kashima Plant received beach silvertop seeds from Kamisu City, Ibaraki Prefecture, in fiscal 2009 and started cultivating them in planters. After repeated trial and error, the cultivated seedlings were transferred to a flower bed in fiscal 2011. There they steadily took root and the population increased. In the following year, in fiscal 2012, the first batch of more than a dozen beach silvertop plants were permanently planted on Kamisu’s Nikkawahama coast.

During fiscal 2013, two plants were confirmed to have sprouted in July, and a second batch was permanently planted in November. Kashima Plant plans to keep planting this species in the hope of further increasing their population around beach areas.

## Biodiversity Conservation in Plantation Forests Overseas

Indonesia has the third largest area of rainforest in the world, however, it is said that around 700,000 hectares of forest are lost each year due to such factors as forest fires, illegal logging and slash-and-burn farming. The Sumitomo Forestry Group runs a large-scale plantation in West Kalimantan, Indonesia. The forests are planted and managed using methods suited to each area based on appropriate zoning that takes into account biodiversity considerations.

In fiscal 2013, for the purpose of objectively reviewing the methods used for selecting and managing protected areas set up within the boundary of the plantation site, the Group entered into an advisory agreement with the International Finance Cooperation (IFC), an independent organization and member of the World Bank Group, and identified high conservation value forests (HCVF) areas within the site. The results of this review will be reflected in future business plans. The Group also acquired PHPL (Sertifikat Pengelolaan Hutan Produksi Lestari), a certification from Indonesia's Ministry of Forestry for sustainable forest management.

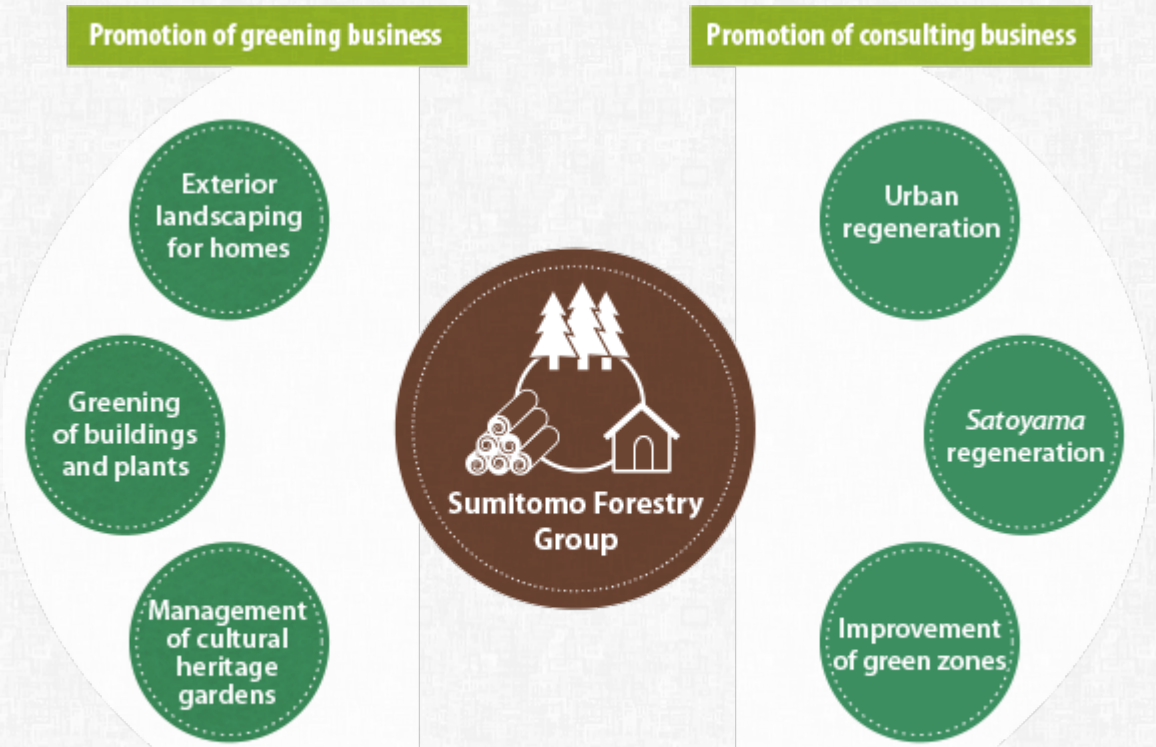
▸ Forest Management Overseas

# Conservation of Biodiversity through Business and Services

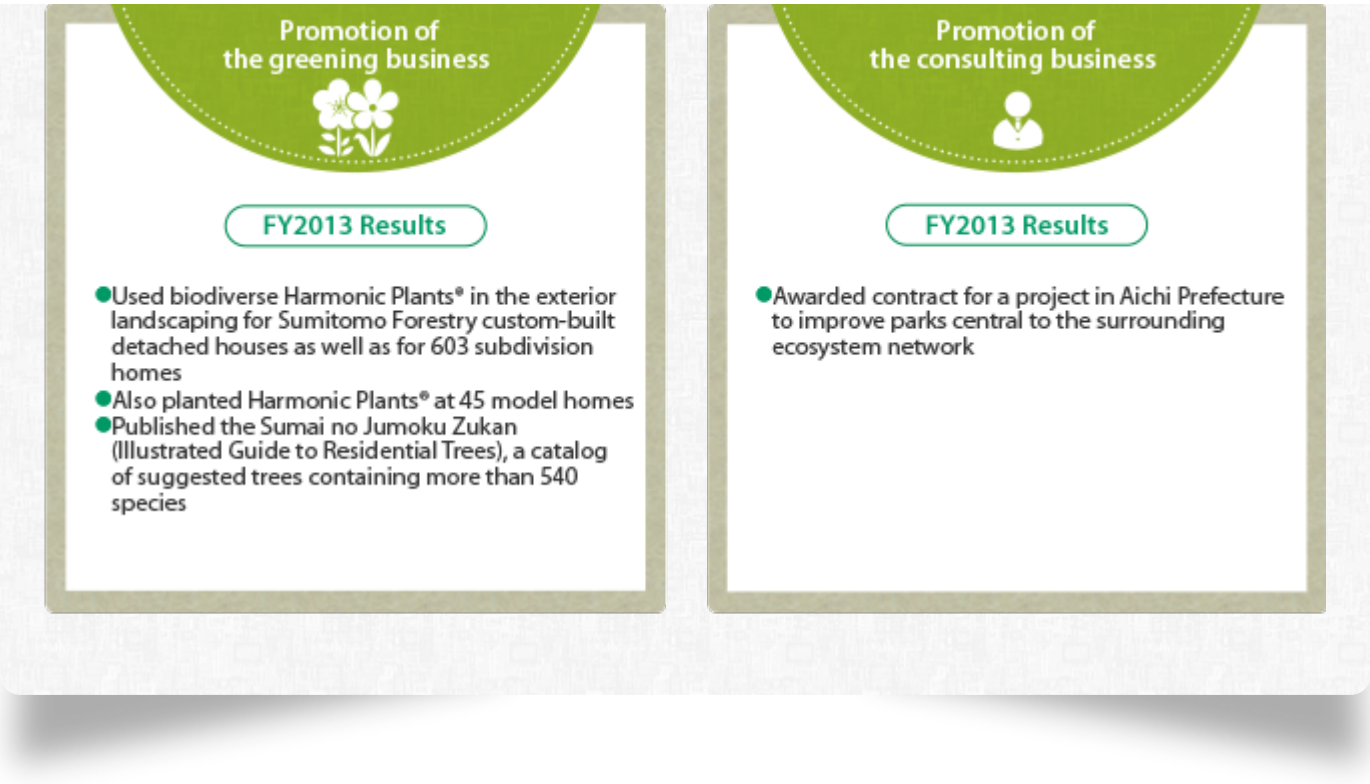
## Major Initiatives and FY2013 Results

### Developing the greening business and ecosystem conservation consulting business, utilizing the Group's know-how in biodiversity conservation.

Drawing on its expertise in biodiversity conservation built up through managing Company-owned forests in Japan and plantation forests overseas, and leveraging the research and development capacity of its research institutes, the Sumitomo Forestry Group is expanding its greening business (proposing ecologically sound greening plans such as for housing exteriors, parks and urban spaces) as well as its consulting business (such as for the improvement of green zones and regeneration of satoyama (countryside close to rural communities)).




Sumitomo Forestry Group initiatives utilizing the Group's know-how in biodiversity preservation

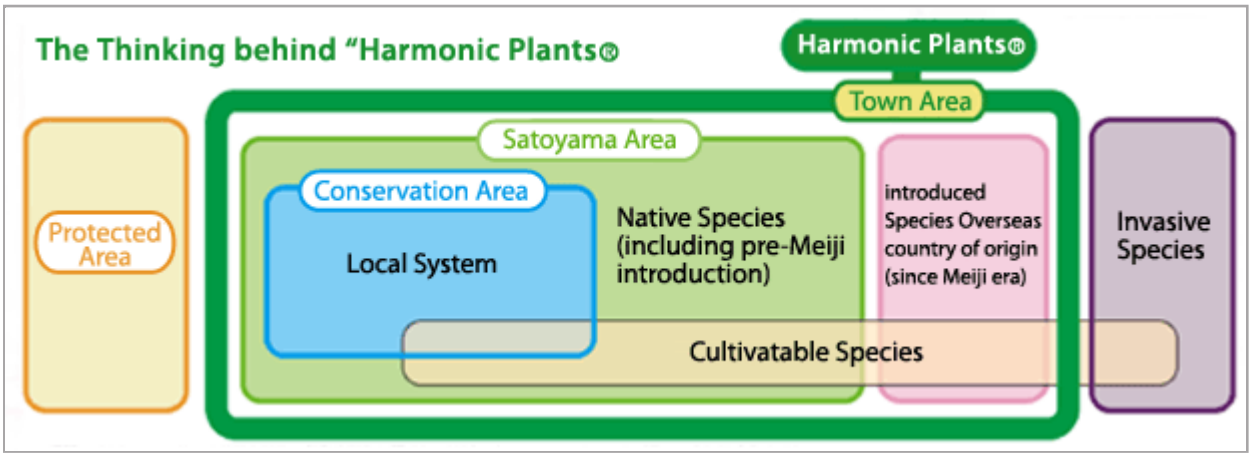



## Conservation of Biodiversity through the Greening Business

Sumitomo Forestry Landscaping Co., Ltd. makes comprehensive proposals for the landscaping and greening of many different environments, from houses, parks and residential property development through to regeneration of the natural environment. Areas designated for planting are categorized into four areas according to their conservation level—protected areas, conservation areas, satoyama areas (countryside close to rural communities) and town areas and local seeds, seedlings and saplings, native plants, and cultivars are planted after considering their effect on ecosystems. In a conservation area such as a nature park, for example, only local seeds, seedlings or saplings are used. In the landscaping of residential gardens in town areas, consideration is also given to color in the space by planting not only native species, but also cultivars and certain introduced species (introduced since the Meiji era) which have no effect on the local ecosystem. The company actively promotes use of these plants for landscaping and greening as Harmonic Plants® that are chosen based on biodiversity considerations. The company also has in place a policy of not using species that clearly have an adverse impact on local ecosystems[1] and its standards committee checks that such species are not used.

1. Specified alien species and alien species requiring caution as stipulated by the Invasive Alien Species Act

### The Thinking behind "Harmonic Plants®




### Approach to Planting Areas

| | |
|---|---|
| ① Protected Area (area in which the genetic constitution is protected): Area in which the artificial transplanting or introduction of plants is not permitted for scientific reasons, such as an area of primordial nature. | |
| ② Conservation Area (area of systems conservation): An area in which nature is protected, such as islands, high-mountain, or wetlands. Local seedlings are used for greenification. | Local Seedlings |
| ③ *Satoyama Area* (area of species conservation): A region of secondary nature that is impacted by human activity, such as a mid-mountainous area or *Satoyama Area*. Native species, including cultivatable species, are used for greenification. | Native Species |
| ④ City Area (area in which introduced species are managed): An area removed from a natural ecosystem that can be managed. Non-invasive cultivatable species can also be used. | Cultivatable Species |

## Efforts for the Entrenched Widespread Use of Harmonic Plants®

Sumitomo Forestry Landscaping Co., Ltd. has adopted a biodiverse approach to tree-planting for Sumitomo Forestry custom-built detached houses and subdivision homes. For instance, it used Harmonic Plants® in the exterior landscaping for all 603 subdivision homes completed during fiscal 2013. It also used Harmonic Plants® in landscaping at all 45 Sumitomo Forestry model homes that opened during fiscal 2013, in an effort not only for Harmonic Plants® to be incorporated into planting proposals for customers, but also to raise awareness among employees.

In March 2014, Sumitomo Forestry Landscaping also published the *Sumai no Jumoku Zukan* (An Illustrated Guide to Residential Trees), a catalog of suggested trees containing more than 540 species. Providing easy-to-understand explanations of native plants and introduced plants according to species and regions where they can be planted, the book can also be used as a tool when making exterior landscaping proposals for general housing.

A subdivision home incorporating Harmonic Plants®(Forest Garden Kodaira)

## Biodiversity Consulting Business

Sumitomo Forestry Landscaping Co., Ltd. provides a biodiversity consulting service through the Eco-Asset™ Consortium together with partners InterRisk Research Institute & Consulting, Inc. and Regional Environmental Planning Inc. Sumitomo Forestry joined the consortium in 2011 and engages in consulting services regarding the incorporation of biodiversity considerations into urban regeneration projects, upgrading of existing green zones, satoyama regeneration and other projects.

Demand for an approach to tree-planting which takes biodiversity conservation into account is expected to climb, and so the Sumitomo Forestry Group plans to utilize expertise from achieving coexistence of forests with the environment in providing a particular kind of consulting service that is unique to the Group, thereby contributing to the coexistence of communities and corporations with the natural environment.

### Park Renovation Project at Kyukamura Irako, Aichi Prefecture

Sumitomo Forestry Landscaping Co., Ltd. was awarded a contract from the Aichi Prefectural Government in September 2013 for a renovation project at Kyukamura Irako in collaboration with the other Eco-Asset™ partner companies.

The Kyukamura Irako hotel is located in the city of Tahara, Aichi Prefecture. As a lodging facility operated by the prefectural government, it contributed to the expansion of tourism and recreation for the public, but in recent years, it was faced various challenges, including a fall in tourist numbers. At the same time, the neighboring beach plays an important role in the ecosystem network, including serving as a spawning ground for green sea turtles and as a migratory point for hawks.

In addition to removing the pool and other outdated facilities, the project involves developing seaside facilities based on a theme of biodiversity where users can interact with nature. The park is scheduled for completion in fiscal 2017.

Illustration of the renovated park at Kyukamura Irako

# Management of Hazardous Chemical Substances

## Management of Chemical Substances at Research Institute and Plants

Although chemical substances are used in laboratory work and production at the Sumitomo Forestry Tsukuba Research Institute and at Sumitomo Forestry Crest Co., Ltd. plants, the Group complies with legislative changes and endeavors to identify and properly manage any hazardous chemical substances.

### Management of chemical substances at the Sumitomo Forestry Tsukuba Research Institute

At the Sumitomo Forestry Tsukuba Research Institute, the *Chemical Substances Handling Manual* prescribes procedures from the receipt to disposal of chemical substances, and the *Manual for Responding to Disasters Involving Chemical Substances* prescribes procedures for preventing and dealing with accidents in the event of a disaster. Based on these two manuals, the institute is committed to the safe handling of chemical substances, and twice a year, it conducts stocktaking for the purpose of identifying the chemical substances in its possession and disposing of any unnecessary stock. Particularly with regard to hazardous chemical substances, the institute has implemented various measures in preparation for disaster, such as installing dedicated storage cabinets and keeping the substances under lock and key, as well as installing partitions where liquid substances are stored to prevent them from tipping over.

### Management of chemical substances at Sumitomo Forestry Crest Co., Ltd.

At Sumitomo Forestry Crest Co., Ltd. plants, environment-related work manuals and regulations have been established to prevent chemical leaks and other environmental accidents. In accordance with these provisions, the plants regularly measure the concentrations of air pollutants, water pollutants and organic solvents in exhaust gas to check that there are no problems.

At the No. 2 Kyushu Plant, where a large amount of chemical substances are handled, leak response equipment is always on hand and emergency training is practiced as measures for preventing spills.

**PRTR Substances (Data covers Sumitomo Forestry's Tsukuba Research Institute and Sumitomo Forestry Crest Co., Ltd.)**

Unit: kg (excluding dioxins, which is shown in mg-TEQ)

| Substance No. (PRTR Law) | Chemical substance | Total volume handled | Total releases | | | | | Total transfers | | | Consumed[1] |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | Releases to air | Releases to public water area | Releases to soil | On-site landfill | | Transfer as waste | Transfers to sewage | |
| 4 | Acrylic acid and its water-soluble salts | 4,943.0 | 17.0 | 0.0 | 17.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 4,944.0 |
| 7 | n-Butyl acrylate | 12,697.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 35.0 | 35.0 | 0.0 | 12,631.0 |
| 13 | Acetonitrile | 1.6 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 1.6 | 1.6 | 0.0 | 0.0 |
| 84 | Glyoxal | 2,510.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 5.0 | 5.0 | 0.0 | 2,510.0 |
| 134 | Vinyl acetate | 2,176,934.0 | 3,491.0 | 3,400.0 | 91.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 2,180,264.0 |
| 186 | Dichloromethane | 84,257.7 | 78,898.6 | 78,898.6 | 0.0 | 0.0 | 0.0 | 5,356.4 | 5,356.4 | 0.0 | 3.7 |
| 243 | Dioxins | 53.9 | 51.8 | 51.8 | 0.0 | 0.0 | 0.0 | 2.1 | 2.1 | 0.0 | 0.0 |
| 349 | Phenol | 36,360.0 | 1.9 | 0.0 | 1.9 | 0.0 | 0.0 | 1,000.0 | 1,000.0 | 0.0 | 36,360.0 |
| 395 | The water-soluble salts of peroxydisulfuric acid | 2,544.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 6.4 | 6.4 | 0.0 | 2,558.0 |

| | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| 407 | POAE (C=12～15)[2] | 1,785.0 | 13.0 | 0.0 | 13.0 | 0.0 | 0.0 | 5.0 | 5.0 | 0.0 | 1,789.0 |
| 411 | Formaldehyde | 184,236.9 | 56.0 | 56.0 | 0.0 | 0.0 | 0.0 | 709.9 | 709.9 | 0.0 | 184,651.0 |
| 415 | Methacrylic acid | 1,603.0 | 5.2 | 0.0 | 5.2 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 1,604.0 |
| 448 | Methylenebis (4,1-phenylene) diisocyanate | 21,680.4 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 89.0 | 89.0 | 0.0 | 21,680.4 |

1. “Consumed” is the amount of substances stipulated under the PRTR Law transformed through chemical reaction, included in or accompanying manufactured products, and transported off site.
2. Polyoxyethylene alkyl ether (limited to where the carbon number of the alkyl group is between 12 and 15, and compounds thereof).

### Emissions of NOx and Sox (Sumitomo Forestry Crest Co., Ltd.)

| Substance | Emissions (Unit: kg) |
|---|---|
| SOx (Sulfur oxide) ★ | 3,354 |
| NOx (Nitrogen oxide) ★ | 4,807 |
| Soot and dust | 2,637 |

### Effluent Water Quality Survey Results (No. 2 Kyushu Plant)

| Item[1] | Unit | Measured | Effluent Standards [2] |
|---|---|---|---|
| pH | - | 7.6 | 5.0～9.0 |
| COD | mg/L | 28.9 | 40 |
| SS | mg/L | 3.8 | 50 |
| TN | mg/L | 1.8 | 60 |
| TP | mg/L | 0.03 | 8 |

### Effluent Water Quality Survey Results (Tsukuba Research Institute)

| Item | Unit | Measured | Effluent Standards [3] |
|---|---|---|---|
| pH | - | 7.9 | 5.8～8.6 |
| BOD[4] | mg/L | 29.0 | 160 |
| SS | mg/L | 5.0 | 200 |
| Total n-hexane extract substances (total mineral oils) | mg/L | Less than 1 | 5 |
| Total n-hexane extract substances (total plant and animal fats/oils) | mg/L | Less than 1 | 30 |
| Total Phenols | mg/L | Less than 0.025 | 0.5 or less |

1. pH = concentration of hydronium ions, COD = Chemical Oxygen Demand, SS = Suspended Solids, T-N = Total Nitrogen, T-P = Total Phosphorous
2. Effluent Standards uses values stipulated by prefectural ordinance.
3. Effluent Standards uses values stipulated by the Water Pollution Control Act. Total Phenols uses standards required by the Tsukuba City Pollution Prevention Agreement.
4. BOD = Biological Oxygen Control

## Proper Treatment of Building Materials Containing Asbestos

The Sumitomo Forestry Group has secured appropriate disposal routes for asbestos. At Sumitomo Forestry, a *Guide for Appropriate Measures during Demolition Work* has been formulated, and it endeavors to prevent asbestos being released into the air during home demolition work.

At each of Sumitomo Forestry's office buildings as well, any asbestos is disposed of properly in accordance with the law. In fiscal 2013, demolition work was carried out at Sumitomo Forestry Crest Co., Ltd.'s Saijo Warehouse in Ehime Prefecture and other places, and the slate (building material containing non-friable asbestos) from the warehouse roof and exterior was disposed of properly.

## Storage and Proper Treatment of Polychlorinated Biphenyls (PCBs)

At Sumitomo Forestry Crest Co., Ltd., polychlorinated biphenyl (PCB) waste, such as that contained in used high-voltage capacitors, is properly managed and disposed of in accordance with the PCB Special Measures Law.

**Disposal of PCB Waste**

| FY2012 | FY2013 | Change |
|---|---|---|
| 272 Units | 235 Units | Decrease of 37 units (2,665 kg) |

## Project for Soil Purification Technology and Environmental Remediation Aided by Plants

An issue in re-using the site of an old factory is the environmental impact associated with soil contamination and the cost burden of any remedial measures. For example, under the revised Fire Service Act of Japan, gasoline stations are now obliged to repair any underground tanks that have laid under the ground for more than 40 years, and as a consequence of this, it is expected that between 1,000 and 2,000 stations will close down each year.

Grass laid on the site where a gasoline station once stood

In order to meet the demand for environmental remediation and measures dealing with soil contamination, the Sumitomo Forestry Group has been working on cleansing contaminated soil by using the functions of plants (phytoremediation). As part of this, during fiscal 2012, in collaboration with JX Nippon Oil & Energy Corporation, the Group developed a method for purifying soil contaminated with oil using Burning Field, a variety of Japanese lawn-grass independently registered by the Group.

One of the functions possessed by the variety of Japanese lawn-grass used in this method is that the nutrients transpiring from its roots enhance the activity of microorganisms that reduce oil content. This enables contaminated soil to be purified inexpensively, reducing the environmental impact. Given this, it is expected to be employed in work to counteract soil contamination.

In recognition for this technique of cleansing contaminated soil, Sumitomo Forestry received the FY2012 Environment Minister Award for the Model Initiatives on Environment Measures. In April 2014, the technology was also adopted for the second consecutive year as a sponsored technology under the Ministry of the Environment's study on low-cost, low-impact technologies for surveying and for counteracting contaminated soil.

- News release: Development of technique to cleanse contaminated soil using phytoremediation Received the FY2012 Environment Minister Award for the Model Initiatives on Environment Measures

# Efficient Use of Water Resources

## Reduction of Water Consumption in Business Activities

Around the world, there is a growing sense of crisis over water shortages. It is expected that this problem will become more and more urgent as the demand for water rises with population increase and economic growth in developing countries.

Previously, the Sumitomo Forestry Group had gauged water consumption at its manufacturing companies inside and outside Japan, but since fiscal 2012, the Group has kept track of water consumption and the associated water sources at bases where actual water usage is measurable, such as at buildings owned by the Sumitomo Forestry Group.

Manufacturing companies in Japan primarily manufacture processed wood products, such as interior materials for housing, and thus do not use large amounts of water. Nevertheless, in order to use water resources as effectively as possible, the Group employs water-saving initiatives at each plant.

### Water Consumed by Group Companies in Japan[1](FY2013)★

| | Offices in Japan | Manufacturing companies in Japan | Total<br>Figures in parentheses indicate actual consumption in FY2012 |
|---|---|---|---|
| Clean water | 62,323$m^3$ | 32,358$m^3$ | 94,681$m^3$<br>(79,775$m^3$) |
| Groundwater | 2,547$m^3$ | 323$m^3$ | 2,870$m^3$<br>(12,033$m^3$) |
| Industrial water | 128,329$m^3$※2 | 186,977$m^3$ | 315,306$m^3$<br>(284,284$m^3$) |
| Total | 193,199$m^3$ | 219,658$m^3$ | 412,857$m^3$<br>(376,092$m^3$) |

1. Covers bases where actual water usage is measurable, such as at buildings owned by the Sumitomo Forestry Group.
2. Used by Kawanokita Development Co., Ltd. at a golf course it manages for watering the turf and otherwise maintaining the course.

## Efforts at Sumitomo Forestry Crest Co., Ltd.

Sumitomo Forestry Crest Co., Ltd.'s No. 2 Kyushu Plant manufactures synthetic resin adhesives and other products. It primarily promotes three measures for reducing water usage. One of these is using industrial water to cool manufacturing equipment and then reusing the water to dilute plant effluent.

In fiscal 2013, even though the amount of industrial water consumption increased by 13% year-on-year as a consequence of an increase in production output, efforts are being made to use only the minimum amount of water necessary and to use it effectively.

Measuring the COD of effluent

### Measures Used at the Sumitomo Forestry Crest Co., Ltd.'s No. 2 Kyushu Plant for Saving Water

1. Collect some of the water used for washing equipment, and reuse it as a raw material.
2. Improve the proportion of rainwater used, such as by upgrading the pumps used for collecting rainwater.
3. Maintain water-quality control by measuring COD,[1] and treat wastewater using only the minimum amount of water necessary.

1 Chemical Oxygen Demand (COD): An indication of the amount of oxygen required to oxidize an organic compound in water; one of the most important indicators of water quality.

# Environmental Accounting

## Tabulated Results for Fiscal 2013

Sumitomo Forestry calculates and publicizes the costs and benefits of its environmental conservation activities to promote environmentally sound management.

Note: The basis of calculation includes Sumitomo Forestry on a non-consolidated basis and certain group companies.

## Environmental Preservation Costs

| Cost Category | | Main Activities | Cost (Million Yen) |
|---|---|---|---|
| Costs within operational area | Global environmental protection costs[1] | Sustainable forestry cultivation | 627 |
| | | Environment-related business (emission credits, plantation forests overseas, etc.) | 252 |
| | | Carbon offset | 74 |
| | Resource recycling costs[2] | Promotion of appropriate treatment, reduction, and recycling of industrial waste | 4,383 |
| | | Waste wood chip distribution operations | 211 |
| | | Potting mix business | 567 |
| Upstream/Downstream costs[3] | | Green purchasing | 89 |
| Management activity costs[4] | | Operation and promotion of environmental management (ISO 14001 certification, environmental education, LCA surveys, etc.) | 109 |
| | | Observation of environmental burdens | 2 |
| | | Disclosure and administration of environmental information (CSR Report, environment-related advertising, environment-related exhibitions, etc.) | 326 |
| R&D costs[5] | | R&D activities related to environmental conservation | 282 |
| Social contribution costs[6] | | Management and operation of Mt. Fuji *Manabi no Mori* | 24 |
| | | Management and operation of *Forester House* | 8 |
| | | Other social contribution activities | 2 |

| Cost Category | Main Activities | Cost (Million Yen) |
|---|---|---|
| | Donations to the Keidanren Nature Conservation Fund | 2 |
| **Total** | | **6,958** |

1. Expenditures for preservation and management of Company-owned forests to foster sustainable forestry, and expenditures in Japan and overseas relating to the environmental business, overseas reforestation expenses for implementing carbon offset, and offset credit purchase expense.
2. Expenditures on waste wood distribution operations and sorting, recycling, appropriate treatment, transportation and management of construction waste, as well as costs incurred in the potting mix business.
3. Expenditures for green purchasing.
4. Office expenses and auditing costs relating to maintenance of ISO 14001 certification; expenditures relating to disclosure of environmental information through advertising, environment-related exhibitions and the CSR Reports; expenditures relating to lectures on environmental education; and costs for life cycle assessment inspections.
5. Expenditures for environment-related research conducted at the Tsukuba Research Institute and expenditures for outsourced research and development by each division.
6. Expenditures related to operating the Mt. Fuji Manabi no Mori natural forest restoration project, and maintaining and operating Forester House; expenditures related to other social contribution activities; donations to the Keidanren Nature Conservation Fund; and provision of financial assistance to the Keidanren Nature Conservation Fund commissioned by the Keidanren Committee on Nature Conservation.

▸ Link to the Keidanren Committee on Nature Conservation

## Environmental Benefits

| Category | Description | Results |
|---|---|---|
| Benefits from costs within operational area | Volume of recycled waste wood from distribution operations (converted into chip equivalents) (1,000 $m^3$) | 1,134 |
| | Volume sold of potting mix using recycled sediment from water purification (1,000 ton) | 24 |
| Benefits from Upstream/Downstream costs | Green purchasing ratio | 69.2 |
| Benefits from management activity costs | Employees designated as internal environmental auditors | 106 |
| Benefits from R&D costs | Conducted a tree-planting ceremony as part of the Kyo-no-Mori Project | - |
| | Registered as a member of the International Partnership for the Satoyama Initiative | - |
| | Received the FY2012 Environment Minister Award for the Model Initiatives on Environment Measures, in recognition for developing technology that uses phytoremediation to cleanse contaminated soil | - |
| | Launched eco-friendly flooring as part of the BeRiche series of wooden housing materials made from timber grown in Japan | - |
| | Signed partnership agreement for measures against climate change in Vietnam (REDD+ demonstration activities) | - |
| | Phytoremediation of soil contaminated with oil by means of Japanese lawn-grass selected as sponsored technology under the Ministry of the Environment's study on low-cost, low-impact technologies for surveying and for counteracting contaminated soil | - |
| | Commenced operation of a quantitative analysis system for forestry resources in Shimokawa, Hokkaido, based on cooperation between privately-owned forests and national forests | - |
| Benefits of social contribution costs | Volunteers who participated in Mt. Fuji Manabi no Mori project | 671 |

| Category | Description | Results |
|---|---|---|
| **Benefits of social contribution costs** | Children participating in the Environmental Education Program at Mt. Fuji Manabi no Mori project | 606 |
| | Visitors to Forester House | 3,028 |

# Environmental Data for Group Companies

## Environmental Data for Group Companies in Japan

Data for manufacturing companies in Japan shows the environmental impact per company and per plant.

**Sumitomo Forestry Crest Co., Ltd.**

| Item (unit) | | Kashima Plant | Shizuoka Plant | Nagoya Plant | Niihama Plant | Kyushu Plant | No. 2 Kyushu Plant | Total |
|---|---|---|---|---|---|---|---|---|
| Energy input (GJ) | | 34,022 | 28,037 | 40,547 | 23,011 | 37,034 | 15,909 | 178,599 |
| Raw material input (t) | | 9,272 | 38,073 | 9,461 | 3,638 | 10,290 | 5,174 | 75,907 |
| Water resource consumption ($m^3$) | | | | | | | | |
| | Clean water | 5,120 | 8,528 | 12,031 | - | 2,448 | 658 | 28,785 |
| | Main water source | Lakes-Kasumigaura/Kitaura (Protected area: partly in Suigo-Tsukuba Quasi-National Park) | Groundwater-Oi River basin | Rivers-Kiso River basin (Protected areas: N/A) | - | Ponds-Tashiro Pond (partly in protected forest) | Reservoirs | - |
| | Industrial water | - | - | - | 5,289 | 22,958 | 158,730 | 186,977 |

| Item (unit) | Kashima Plant | Shizuoka Plant | Nagoya Plant | Niihama Plant | Kyushu Plant | No. 2 Kyushu Plant | Total |
|---|---|---|---|---|---|---|---|
| Main water source | - | - | - | Groundwater (Niihama City Bureau of Waterworks) | Rivers-Arita River basin (partly in Kurokamizan Wildlife Preserve) | Rivers-Arita River basin (partly in Kurokamizan Wildlife Preserve) | - |
| **Greenhouse gas emissions (t-$CO_2$)** | | | | | | | |
| $CO_2$ (Carbon dioxide) | 1,249 | 1,146 | 1,595 | 1,294 | 2,235 | 1,022 | 8,541 |
| $CH_4$ (Methane)[1] | - | 6 | 26 | 5 | 9 | - | 46 |
| $N_2O$ (Dinitrogen monoxide)[1] | - | 0.7 | 3 | 0.6 | 1 | - | 5 |
| **Volume of waste (t)** | 2,605 | 2,050 | 2,707 | 864 | 2,220 | 272 | 10,718 |
| **Total water discharge ($m^3$)** | | | | | | | |
| Sewage | 2,801 | - | - | 5,812 | - | - | 8,613 |
| Ocean area | 1,201 | - | 8,634 | - | - | - | 9,834 |
| Rivers | - | 6,675 | - | - | - | - | 6,675 |
| Lakes | - | - | - | - | 24,870 | 149,359 | 174,229 |
| **Emissions into air (kg)** | | | | | | | |
| SOx (Sulfur oxide) | - | - | 554 | 627 | 304 | 1,869 | 3,554 |

| Item (unit) | Kashima Plant | Shizuoka Plant | Nagoya Plant | Niihama Plant | Kyushu Plant | No. 2 Kyushu Plant | Total |
|---|---|---|---|---|---|---|---|
| NOx (Nitrogen oxide) | - | - | 2,985 | 672 | 1,149 | - | 4,807 |
| Soot and dust | - | - | 1,532 | 657 | 448 | - | 2,637 |

1. Methane and dinitrogen monoxide have been converted to carbon dioxide equivalents.

**Sumirin Agro-Products Co., Ltd.**

| Item (unit) | Sakura Plant | Shinshiro Plant | Tobishima Plant | Total |
|---|---|---|---|---|
| Energy input (GJ) | 2,660 | 4,013 | 1,235 | 7,909 |
| Raw material input (t) | 4,222 | 1,160 | 9,367 | 14,748 |
| Water resource consumption ($m^3$) | | | | |
| Clean water | - | 1,266 | 2,307 | 3,573 |
| Main water source | - | Rivers-<br>Ure River basin (Protected area : partly in Tenryu-Okumikawa Quasi-National Park and Hourai Wildlife Preserve) | Rivers-<br>Kiso River basin (Protected area: N/A) | - |
| Groundwater | 300 | - | - | 300 |
| Greenhouse gas emissions (t-$CO_2$) | | | | |
| $CO_2$ (Carbon dioxide) | 113 | 248 | 91 | 452 |
| Volume of waste (t) | 11 | 28 | 42 | 81 |
| Total water discharge ($m^3$) | | | | |
| Ocean area | - | - | 2,187 | 2,187 |
| Rivers | - | 966 | - | 966 |
| Lakes | - | - | - | - |
| Others | 19 | - | - | 19 |

# Environmental Data for Group Companies outside Japan

Data for manufacturing companies outside Japan shows the environmental impact per company.

### Group Companies outside Japan

| Item (unit) | PT. Rimba Partikel Indonesia | Alpine MDF Industries Pty Ltd. | PT. AST Indonesia | PT. Kutai Timber Indonesia | Nelson Pine Industries Ltd. | Vina Eco Board Co.,Ltd. |
|---|---|---|---|---|---|---|
| Energy input (GJ) | 184,617 | 403,571 | 63,660 | 709,865 | 1,035,032 | 184,617 |
| Raw material input (t) | 120,759 | 232,031 | 27,512 | 418,266 | 728,012 | 147,824 |
| Water resource consumption ($m^3$) | | | | | | |
| Clean water | - | 86,806 | - | - | 352,002 | 67,960 |
| Industrial water | - | - | 26,283 | 210,171 | - | - |
| Groundwater | 272,307 | - | - | 139,836 | - | - |
| Greenhouse gas emissions (t-$CO_2$) | | | | | | |
| $CO_2$ (Carbon dioxide) | 12,766 | 31,070 | 4,541 | 47,795 | 12,797 | 10,777 |
| $CH_4$ (Methane)[1] | 591 | - | - | - | - | - |
| $N_2O$ (Dinitrogen monoxide)[1] | 68 | - | - | - | - | - |
| Volume of waste (t) | 19,377 | 51,008 | 2,082 | 32,321 | 3,355 | -[2] |

| Item (unit) | | PT. Rimba Partikel Indonesia | Alpine MDF Industries Pty Ltd. | PT. AST Indonesia | PT. Kutai Timber Indonesia | Nelson Pine Industries Ltd. | Vina Eco Board Co.,Ltd. |
|---|---|---|---|---|---|---|---|
| Total water discharge ($m^3$) | | | | | | | |
| | Sewage | - | 86,806 | - | - | 300,229 | 35,748 |
| | Ocean area | - | - | - | 196,739 | - | - |
| | Rivers | 269,716 | - | 26,283 | - | - | - |

1. Methane and dinitrogen monoxide have been converted to carbon dioxide equivalents.
2. Calculation began using the fiscal 2014 results

# Corporate Profile

## Sumitomo Forestry Profile

| | |
|---|---|
| **Company Name** | Sumitomo Forestry Co., Ltd. |
| **Address of Headquarters** | 1-3-2 Otemachi, Chiyoda-ku, Tokyo 100-8270, Japan |
| **Paid-in Capital** | ¥27,672 million |
| **Incorporated** | February 20, 1948 |
| **Founded** | 1691 |
| **Number of employees** | Unconsolidated: 4,486; Consolidated: 17,413 (as of March 31, 2014) |
| **Business scope** | **Forestry & Environment Businesses**<br>Management of forests; development of new forestry and environment-related business, etc.<br><br>**Timber & Building Materials Businesses**<br>Purchase, manufacture, secondary processing and sales of timber (logs, wood chips, processed timber, engineered wood, etc.) and building materials (plywood, fiberboard, processed wood materials, concrete and ceramic building materials, metal building materials, housing systems and fixtures, etc.)<br><br>**Housing Businesses**<br>Contract construction, sales, after-sales maintenance and renovation of detached houses and multi-unit residences; sales of interior products; sales of spec homes; rental, management, sales, and brokerage of property; contract work for housing exteriors, garden landscaping and urban greening; CAD work and site surveys, etc.<br><br>**Lifestyle Services**<br>Operation of private-pay elderly care facilities; equipment leasing; insurance agency; manufacture and sales of gardening products; development of information systems; temporary staffing, etc.<br><br>**Overseas Businesses**<br>Manufacture and sales of timber and building materials; contract construction and sales of detached houses, etc.; forestation operations and sales of plantation timber. |
| **Company-owned forest** | 45,808 ha (As of March 31, 2014) |

# Key Financial Data

## Consolidated Net Sales, Operating Income, Recurring Income and Net Income

| | FY2009 | FY2010 | FY2011 | FY2012 | FY2013 |
|---|---|---|---|---|---|
| Net Sales (Billions of yen) | 723.9 | 797.5 | 831.9 | 845.2 | 973.0 |
| Operating Income (Billions of yen) | 9.7 (1.3%) | 14.2 (1.8%) | 19.2 (2.3%) | 25.3 (3.0%) | 33.4 (3.4%) |
| Recurring Income (Billions of yen) | 9.5 (1.3%) | 14.2 (1.8%) | 20.7 (2.5%) | 27.0 (3.2%) | 33.6 (3.4%) |
| Net Income (Billions of yen) | 2.4 (0.3%) | 5.2 (0.6%) | 9.3 (1.1%) | 15.9 (1.9%) | 22.5 (2.3%) |

1 Percentages indicate the ratio to net sales.

## Consolidated Net Sales and Ratio of Net Sales by Segment (FY2013)

| | Timber and Building Material Business | Housing Businesses | Overseas Business | Other Businesses |
|---|---|---|---|---|
| Net Sales (million yen) | 458,611 | 465,368 | 76,320 | 17,286 |
| Ratio of Net Sales (%) | 45.1 | 45.7 | 7.5 | 1.7 |

1 Percentages indicate the ratio to net sales.
2 Net sales for each segment include intersegment sales and transfers. The aggregate of each segment's net sales does not match the consolidated net sales (973 billion yen).

▸ Performance Highlights (link to Investor Relations)

# Editorial Policy for CSR Report 2014

## Purpose of Disclosing CSR Information

The Sumitomo Forestry Group regards the *CSR Report* as an important tool for communicating with all stakeholders, and as such, publishes the report every year on its website.

*The CSR Report 2014* includes a section on “Top Message,” and the rest is then divided into three parts: Management System, Social Report and Environmental Report, which report the Group's philosophy and policies on CSR as well as its specific activities. The report also has a section on“CSR Activity Highlights,” that showcases the Group's distinctive initiatives centered around wood, which aim to contribute to the realization of a sustainable enterprise and a sustainable society.

The website from where the *CSR Report* is available also includes detailed content on the Group’s activities such as forest conservation, biodiversity preservation and social contribution. Please visit the webpages on the Group’s diverse initiatives and feel free to provide us with your feedback.

## Reliability of Report Content

The respective departments of the Sumitomo Forestry Group have endeavored to ensure accuracy by using appropriate measurement and data collection methods for the initiatives and results reported in the *CSR Report*. These methods are also disclosed when relevant. Furthermore, the environmental and social indicators in the report has been assured by KPMG AZSA Sustainability Co., Ltd., as marked with a star★.

## Reference Guidelines

- Sustainability Reporting Guidelines (Edition G3.1 and G4), Global Reporting Initiative (GRI)
- Environmental Reporting Guidelines (2012 Edition), Japanese Ministry of the Environment
- ISO 26000:2010 Guidance on Social Responsibility, International Organization for Standardization

## Reporting Period

April 2013 to March 2014
(The period also includes some activities from April 2014, as well as future expectations.)

## Companies Covered in the Report

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

▸ Link to Related Website: “List of Sumitomo Forestry Group Companies”

## Main Changes during the Reporting Period

On April 14, 2013, Sumitomo Forestry, in conjunction with Gains Century Limited (a wholly owned subsidiary of HKR International Ltd.), acquired all shares issued by Rainbow Alpha Holdings Limited, an HKR affiliate.
On July 1, 2013, Sumitomo Forestry acquired a 50% holding in housing construction firm Bloomfield Homes, which operates in the Dallas/Fort Worth region in Texas, the United States.

## Publication Date

The end of October 2014 (Previous: October 2013; Next: October 2015)

## Publication Team

Sumitomo Forestry Co., Ltd.
Keidanren Kaikan,3-2, Otemachi 1-chome, Chiyoda-ku, Tokyo, 100-8270, Japan
CSR Team, Corporate Communications Department and Environmental Management Department

# GRI G4 Content Index

## General Standard 5ÍåÖf2ädzWSå

| G4 Disclosure | | ISO26000 Disclosure | Location |
|---|---|---|---|
| **Strategy and Analysis** | | | |
| G4-1 | a. Provide a statement from the most senior decision-maker of the organization (such as CEO, chair, or equivalent senior position) about the relevance of sustainability to the organization and the organization's strategy for addressing sustainability. | 6.2 | >Top Message |
| G4-2 | a. Provide a description of key impacts, risks, and opportunities. The organization should provide two concise narrative sections on key impacts, risks, and opportunities. | 6.2 | >Top Message<br>>Risk Management<br>>CSR Management<br>>Environmental Risk Management<br>>IR Library |
| **Organizational Profile** | | | |
| G4-3* | a. Report the name of the organization. | | >Corporate Profile |
| G4-4* | a. Report the primary brands, products, and services. | | >Corporate Profile<br>>CSR Management<br>>Our Business |
| G4-5* | a. Report the location of the organization's headquarters. | | >Corporate Profile |
| G4-6* | a. Report the number of countries where the organization operates, and names of countries where either the organization has significant operations or that are specifically relevant to the sustainability topics covered in the report. | | >Sumitomo Forestry Group |
| G4-7* | a. Report the nature of ownership and legal form. | | >Corporate Profile |
| G4-8* | a. Report the markets served (including geographic breakdown, sectors served, and types of customers and beneficiaries). | | >Corporate Profile<br>>Sumitomo Forestry Group |
| G4-9* | a. Report the scale of the organization, including:<br>・Total number of employees<br>・Total number of operations<br>・Net sales (for private sector organizations) or net revenues (for public sector organizations)<br>・Total capitalization broken down in terms of debt and equity (for private sector organizations)<br>・Quantity of products or services provided | | >Corporate Profile<br>>Performance Highlights |
| G4-10* | a. Report the total number of employees by employment contract and gender.<br>b. Report the total number of permanent employees by employment type and gender.<br>c. Report the total workforce by employees and supervised workers and by gender.<br>d. Report the total workforce by region and gender.<br>e. Report whether a substantial portion of the organization's work is performed by workers who are legally recognized as self-employed, or by individuals other than employees or supervised workers, including employees and supervised employees of contractors.<br>f. Report any significant variations in employment numbers (such as seasonal variations in employment in the tourism or agricultural industries). | 6.4<br>6.4.3 | >Employee Data |
| G4-11* | a. Report the percentage of total employees covered by collective bargaining agreements. | 6.4<br>6.4.3<br>6.4.4<br>6.4.5<br>6.3.10 | >Employee Data |
| G4-12* | a. Describe the organization's supply chain. | | |

| | | | |
|---|---|---|---|
| G4-13* | a. Report any significant changes during the reporting period regarding the organization's size, structure, ownership, or its supply<br>・Changes in the location of, or changes in, operations, including facility openings, closings, and expansions<br>・Changes in the share capital structure and other capital formation, maintenance, and alteration operations (for private sector<br>・Changes in the location of suppliers, the structure of the supply chain, or in relationships with suppliers, including selection and termination | | ＞Corporate Profile<br>＞Performance Highlights |
| **Commitments to External Initiatives** | | | |
| G4-14* | a. Report whether and how the precautionary approach or principle is addressed by the organization. | 6.2 | ＞Risk Management<br>＞Housing Safety and Quality Control<br>＞Product Safety and Quality Control of Building Materials<br>＞Policy and System for Sustainable Procurement of Timber<br>＞Occupational Health and Safety<br>＞Environmental Management Structure<br>＞Environmental Risk Management |
| G4-15* | a. List externally developed economic, environmental and social charters, principles, or other initiatives to which the organization subscribes or which it endorses. | 6.2 | ＞CSR Management |
| G4-16* | a. List memberships of associations (such as industry associations) and national or international advocacy organizations in which the organization:<br>・Holds a position on the governance body<br>・Participates in projects or committees<br>・Provides substantive funding beyond routine membership dues<br>・Views membership as strategic | 6.2 | |
| **Identified Material Aspects and Boundaries** | | | |
| G4-17* | a. List all entities included in the organization's consolidated financial statements or equivalent documents.<br>b. Report whether any entity included in the organization's consolidated financial statements or equivalent documents is not covered by the report. | 6.2 | ＞CSR Management<br>＞Our Business |
| G4-18* | a. Explain the process for defining the report content and the Aspect Boundaries.<br>b. Explain how the organization has implemented the Reporting Principles for Defining Report Content. | | ＞Editorial Policy for CSR Report 2014 |
| G4-19* | a. List all the material Aspects identified in the process for defining report content. | | |
| G4-20* | a. For each material Aspect, report the Aspect Boundary within the organization, as follows:<br>・Report whether the Aspect is material within the organization<br>・ If the Aspect is not material for all entities within the organization (as described in G4-17), select one of the following two approaches and report either:<br>—The list of entities or groups of entities included in G4-17 for which the Aspect is not material or<br>—The list of entities or groups of entities included in G4-17 for which the Aspects is material<br>・Report any specific limitation regarding the Aspect Boundary within the organization | | ＞Editorial Policy for CSR Report 2014 |
| G4-21* | a. For each material Aspect, report the Aspect Boundary outside the organization, as follows:<br>・Report whether the Aspect is material outside of the organization<br>・ If the Aspect is material outside of the organization, identify the entities, groups of entities or elements for which the Aspect is material. In addition, describe the geographical location where the Aspect is material for the entities identified<br>・Report any specific limitation regarding the Aspect Boundary outside the organization | | ＞Editorial Policy for CSR Report 2014 |
| G4-22* | a. Report the effect of any restatements of information provided in previous reports, and the reasons for such restatements. | | |
| G4-23* | a. Report significant changes from previous reporting periods in the Scope and Aspect Boundaries. | | ＞Boundaries and Methods of $CO^2$ Emissions Calculation |
| **Stakeholder Engagement** | | | |
| G4-24* | a. Provide a list of stakeholder groups engaged by the organization. | 6.2 | |

| | | | |
|---|---|---|---|
| G4-25* | a. Report the basis for identification and selection of stakeholders with whom to engage. | 6.2 | |
| G4-26* | a. Report the organization's approach to stakeholder engagement, including frequency of engagement by type and by stakeholder group, and an indication of whether any of the engagement was undertaken specifically as part of the report preparation process. | 6.2 | |
| G4-27* | a. Report key topics and concerns that have been raised through stakeholder engagement, and how the organization has responded to those key topics and concerns, including through its reporting. Report the stakeholder groups that raised each of the key topics and concerns. | 6.2 | >Together with Our Customers<br>>Together with Our Business Partners<br>>Together with Our Shareholders and Investors<br>>Together with Our Employees<br>>Together with Local Communities |
| **Report Profile** | | | |
| G4-28* | a. Reporting period (such as fiscal or calendar year) for information provided. | | >Editorial Policy for CSR Report 2014 |
| G4-29* | a. Date of most recent previous report (if any). | | >Editorial Policy for CSR Report 2014 |
| G4-30* | a. Reporting cycle (such as annual, biennial). | | >Editorial Policy for CSR Report 2014 |
| G4-31* | a. Provide the contact point for questions regarding the report or its contents. | | >Editorial Policy for CSR Report 2014 |
| **GRI Content Index** | | | |
| G4-32* | a. Report the 'in accordance' option the organization has chosen.<br>b. Report the GRI Content Index for the chosen option (see tables below).<br>c. Report the reference to the External Assurance Report, if the report has been externally assured. (GRI recommends the use of external assurance but it is not a requirement to be 'in accordance' with the Guidelines.) | | GRI G4 Content Index |
| **Assurance** | | | |
| G4-33* | a. Report the organization's policy and current practice with regard to seeking external assurance for the report.<br>b. If not included in the assurance report accompanying the sustainability report, report the scope and basis of any external<br>c. Report the relationship between the organization and the assurance providers.<br>d. Report whether the highest governance body or senior executives are involved in seeking assurance for the organization ' s sustainability report. | 7.5.3 | >Third Party Assurance Report |
| **Governance** | | | |
| **Governance Structure and Composition** | | | |
| G4-34* | a. Report the governance structure of the organization, including committees of the highest governance body. Identify any committees responsible for decision-making on economic, environmental and social impacts. | | >Corporate Governance |
| G4-35 | a. Report the process for delegating authority for economic, environmental and social topics from the highest governance body to senior executives and other employees. | | >Corporate Governance |
| G4-36 | a. Report whether the organization has appointed an executive-level position or positions with responsibility for economic, environmental and social topics, and whether post holders report directly to the highest governance body. | | >Corporate Governance |
| G4-37 | a. Report processes for consultation between stakeholders and the highest governance body on economic, environmental and social topics. If consultation is delegated, describe to whom and any feedback processes to the highest governance body. | | >Corporate Governance<br>>Information Disclosure and Communication<br>>Communication with Employees |
| G4-38 | a. Report the composition of the highest governance body and its<br>・Executive or non-executive Independence<br>・Tenure on the governance body<br>・Number of each individual ' s other significant positions and commitments, and the nature of the commitments<br>・Gender<br>・Membership of under-represented social groups<br>・Competences relating to economic, environmental and social<br>・Stakeholder representation | | >Corporate Governance |
| G4-39 | a. Report whether the Chair of the highest governance body is also an executive officer (and, if so, his or her function within the organization's management and the reasons for this arrangement). | | >Corporate Governance |

| | | | |
|---|---|---|---|
| G4-40 | a. Report the nomination and selection processes for the highest governance body and its committees, and the criteria used for nominating and selecting highest governance body members,<br>・Whether and how diversity is considered<br>・Whether and how independence is considered<br>・Whether and how expertise and experience relating to economic, environmental and social topics are considered<br>・Whether and how stakeholders (including shareholders) are involved | | |
| G4-41 | a. Report processes for the highest governance body to ensure conflicts of interest are avoided and managed. Report whether conflicts of interest are disclosed to stakeholders, including, as a<br>・Cross-board membership<br>・Cross-shareholding with suppliers and other stakeholders<br>・Existence of controlling shareholder<br>・Related party disclosures | | |
| **Highest Governance Body's Role in Setting Purpose, Values, and Strategy** | | | |
| G4-42 | a. Report the highest governance body's and senior executives' roles in the development, approval, and updating of the organization's purpose, value or mission statements, strategies, policies, and goals related to economic, environmental and social impacts. | | ＞Corporate Governance |
| **Highest Governance Body's Competencies and Performance Evaluation** | | | |
| G4-43 | a. Report the measures taken to develop and enhance the highest governance body's collective knowledge of economic, environmental and social topics. | | |
| G4-44 | a. Report the processes for evaluation of the highest governance body's performance with respect to governance of economic, environmental and social topics. Report whether such evaluation is independent or not, and its frequency. Report whether such<br>b. Report actions taken in response to evaluation of the highest governance body's performance with respect to governance of economic, environmental and social topics, including, as a minimum, changes in membership and organizational practice. | | ＞Corporate Governance |
| **Highest Governance Body's Role in Risk Management** | | | |
| G4-45 | a. Report the highest governance body's role in the identification and management of economic, environmental and social impacts, risks, and opportunities. Include the highest governance body's role in the implementation of due diligence processes.<br>b. Report whether stakeholder consultation is used to support the highest governance body's identification and management of economic, environmental and social impacts, risks, and opportunities. | 6.2 | ＞Corporate Governance<br>＞Risk Management<br>＞CSR Management<br>＞Policy and System for Sustainable Procurement of Timber<br>＞Environmental Management Structure |
| G4-46 | a. Report the highest governance body's role in reviewing the effectiveness of the organization's risk management processes for economic, environmental and social topics. | | ＞Risk Management |
| G4-47 | a. Report the frequency of the highest governance body's review of economic, environmental and social impacts, risks, and opportunities. | 6.2 | ＞Corporate Governance<br>＞Risk Management<br>＞CSR Management<br>＞Policy and System for Sustainable Procurement of Timber<br>＞Environmental Management Structure |
| **Highest Governance Body's Role in Sustainability Reporting** | | | |
| G4-48 | a. Report the highest committee or position that formally reviews and approves the organization's sustainability report and ensures that all material Aspects are covered. | | |
| **Highest Governance Body's Role in Evaluating Economic, Environmental and Social Performance** | | | |
| G4-49 | a. Report the process for communicating critical concerns to the highest governance body. | 6.2 | ＞Corporate Governance<br>＞Information Disclosure and Communication<br>＞Communication with Employees |
| G4-50 | a. Report the nature and total number of critical concerns that were communicated to the highest governance body and the mechanism(s) used to address and resolve them. | | |

| | | | |
|---|---|---|---|
| **Remuneration and Incentives** | | | |
| G4-51 | a. Report the remuneration policies for the highest governance body and senior executives for the below types of remuneration:<br>・Fixed pay and variable pay:<br>—Performance-based pay<br>—Equity-based pay<br>—Bonuses<br>—Deferred or vested shares<br>・Sign-on bonuses or recruitment incentive payments<br>・Termination payments<br>・Clawbacks<br>・Retirement benefits, including the difference between benefit schemes and contribution rates for the highest governance body, senior executives, and all other employees<br>b. Report how performance criteria in the remuneration policy relate to the highest governance body's and senior executives' economic, environmental and social objectives. | 6.2 | >Corporate Governance |
| G4-52 | a. Report the process for determining remuneration. Report whether remuneration consultants are involved in determining remuneration and whether they are independent of management. Report any other relationships which the remuneration consultants have with the organization. | | |
| G4-53 | a. Report how stakeholders' views are sought and taken into account regarding remuneration, including the results of votes on remuneration policies and proposals, if applicable. | 6.2 | >Corporate Governance<br>>Information Disclosure and Communication<br>>Communication with Employees |
| G4-54 | a. Report the ratio of the annual total compensation for the organization's highest-paid individual in each country of significant operations to the median annual total compensation for all employees (excluding the highest-paid individual) in the same country. | | |
| G4-55 | a. Report the ratio of percentage increase in annual total compensation for the organization's highest-paid individual in each country of significant operations to the median percentage increase in annual total compensation for all employees (excluding the highest-paid individual) in the same country. | | |
| **Ethics and Integrity** | | | |
| G4-56* | a. Describe the organization's values, principles, standards and norms of behavior such as codes of conduct and codes of ethics. | 4.4 | >Corporate Policies |
| G4-57 | a. Report the internal and external mechanisms for seeking advice on ethical and lawful behavior, and matters related to organizational integrity, such as helplines or advice lines. | | >Intellectual Property Management |
| G4-58 | a. Report the internal and external mechanisms for reporting concerns about unethical or unlawful behavior, and matters related to organizational integrity, such as escalation through line management, whistleblowing mechanisms or hotlines. | | >Intellectual Property Management |

* Core Indicator

## Specific Standard 5ĺăÖf2ădzM\Šă

| G4 Disclosure | | ISO26000 Disclosure | Location |
|---|---|---|---|
| **Economic** | | | |
| **Aspect: Economic Performance** | | | |
| G4-EC1 | Direct economic value generated and distributed | 6.8.1<br>6.8.2<br>6.8.3<br>6.8.7<br>6.8.9 | >Returns to Shareholders<br>>Promotion of Social Contribution Activities<br>>Corporate Profile<br>>Financial Results (PDF500KB) |
| G4-EC2 | Financial implications and other risks and opportunities for the organization's activities due to climate change | 6.5.5 | >Environmental Risk Management |
| G4-EC3 | Coverage of the organization's defined benefit plan obligations | 6.8.7 | >IR Library |
| G4-EC4 | Financial assistance received from government | | |
| **Aspect: Market Presence** | | | |
| G4-EC5 | Ratios of standard entry level wage by gender compared to local minimum wage at significant locations of operation | 6.3.7<br>6.3.10<br>6.4.3<br>6.4.4<br>6.8.1<br>6.8.2 | |
| G4-EC6 | Proportion of senior management hired from the local community at significant locations of operation | 6.4.3<br>6.8.1<br>6.8.2<br>6.8.5<br>6.8.7 | >Fair Employment and Treatment<br>>Employee Data |

| | | | |
|---|---|---|---|
| **Aspect: Indirect Economic Impacts** | | | |
| G4-EC7 | Development and impact of infrastructure investments and services supported | 6.3.9<br>6.8.1<br>6.8.2<br>6.8.7<br>6.8.9 | >Examples of Overseas Community Development and Regional Contribution Activities<br>>Sustainable Procurement of Timber<br>>Together with Local Communities<br>>Saving of Energy and Reduction of Greenhouse Gas Emissions During Residence Period<br>>Contributing to the Reduction of Greenhouse Gases through Our Business<br>>Forest Management in Japan<br>>Forest Management Overseas<br>>Biodiversity Conservation in Company-Owned Forests in Japan and Plantation Forests Overseas<br>>Conservation of Biodiversity through Business and Services |
| G4-EC8 | Significant indirect economic impacts, including the extent of impacts | 6.3.9<br>6.6.6<br>6.6.7<br>6.7.8<br>6.8.1<br>6.8.2<br>6.8.5<br>6.8.6<br>6.8.7<br>6.8.9 | >Risk Management<br>>Environmental Risk Management |
| **Aspect: Procurement Practices** | | | |
| G4-EC9 | Proportion of spending on local suppliers at significant locations of operation | 6.4.3<br>6.6.6<br>6.8.1<br>6.8.2<br>6.8.7 | |
| **Environmental** | | | |
| **Aspect: Materials** | | | |
| G4-EN1 | Materials used by weight or volume | 6.5.1<br>6.5.2<br>6.5.4 | >Environmental Impact of Business Activities |
| G4-EN2 | Percentage of materials used that are recycled input materials | 6.5.1<br>6.5.2<br>6.5.4 | |
| **Aspect: Energy** | | | |
| G4-EN3 | Energy consumption within the organization | 6.5.1<br>6.5.2<br>6.5.4 | >Environmental Impact of Business Activities<br>>Saving of Energy and Reduction of Greenhouse Gas Emissions from Business Activities |
| G4-EN4 | Energy consumption outside of the organization | 6.5.1<br>6.5.2<br>6.5.4 | |
| G4-EN5 | Energy intensity | 6.5.1<br>6.5.2<br>6.5.4 | >Saving of Energy and Reduction of Greenhouse Gas Emissions from Business Activities |
| G4-EN6 | Reduction of energy consumption | 6.5.1<br>6.5.2<br>6.5.4<br>6.5.5 | >Saving of Energy and Reduction of Greenhouse Gas Emissions During Residence Period<br>>Saving of Energy and Reduction of Greenhouse Gas Emissions from Business Activities |
| G4-EN7 | Reductions in energy requirements of products and services | 6.5.1<br>6.5.2<br>6.5.4<br>6.5.5 | >Contributing to the Reduction of Greenhouse Gases through Our Business |
| **Aspect: Water** | | | |
| G4-EN8 | Total water withdrawal by source | 6.5.1<br>6.5.2<br>6.5.4 | >Environmental Impact of Business Activities<br>>Efficient Use of Water Resources |
| G4-EN9 | Water sources significantly affected by withdrawal of water | 6.5.1<br>6.5.2<br>6.5.4 | >Environmental Data for Group Companies |
| G4-EN10 | Percentage and total volume of water recycled and reused | 6.5.1<br>6.5.2<br>6.5.4 | >Efficient Use of Water Resources |
| **Aspect: Biodiversity** | | | |
| G4-EN11 | Operational sites owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas | 6.5.1<br>6.5.2<br>6.5.6 | >Policies and Targets for Biodiversity Conservation<br>>Biodiversity Conservation in Company-Owned Forests in Japan and Plantation Forests Overseas<br>>Conservation of Biodiversity through Business and Services |

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| G4-EN12 | Description of significant impacts of activities, products, and services on biodiversity in protected areas and areas of high biodiversity value outside protected areas | 6.5.1<br>6.5.2<br>6.5.6 | >Examples of Social Contribution Activities in Japan<br>>Environmental Risk Management<br>>Policies and Targets for Biodiversity Conservation<br>>Biodiversity Conservation in Company-Owned Forests in Japan and Plantation Forests Overseas<br>>Conservation of Biodiversity through Business and Services |
| G4-EN13 | Habitats protected or restored | 6.5.1<br>6.5.2<br>6.5.6 | >Examples of Social Contribution Activities in Japan<br>>Policies and Targets for Biodiversity Conservation<br>>Biodiversity Conservation in Company-Owned Forests in Japan and Plantation Forests Overseas<br>>Conservation of Biodiversity through Business and Services |
| G4-EN14 | Total number of IUCN Red List species and national conservation list species with habitats in areas affected by operations, by level of extinction risk | 6.5.1<br>6.5.2<br>6.5.6 | >Biodiversity Conservation in Company-Owned Forests in Japan and Plantation Forests Overseas |
| **Aspect: Emissions** | | | |
| G4-EN15 | Direct greenhouse gas (GHG) emissions (Scope 1) | 6.5.1<br>6.5.2<br>6.5.5 | >Environmental Impact of Business Activities<br>>Saving of Energy and Reduction of Greenhouse Gas Emissions from Business Activities |
| G4-EN16 | Energy indirect greenhouse gas (GHG) emissions (Scope 2) | 6.5.1<br>6.5.2<br>6.5.5 | >Environmental Impact of Business Activities<br>>Saving of Energy and Reduction of Greenhouse Gas Emissions from Business Activities |
| G4-EN17 | Other indirect greenhouse gas (GHG) emissions (Scope 3) | 6.5.1<br>6.5.2<br>6.5.5 | >Environmental Impact of Business Activities<br>>Saving of Energy and Reduction of Greenhouse Gas Emissions from Business Activities |
| G4-EN18 | Greenhouse gas (GHG) emissions intensity | 6.5.1<br>6.5.2<br>6.5.5 | >Saving of Energy and Reduction of Greenhouse Gas Emissions from Business Activities |
| G4-EN19 | Reduction of greenhouse gas (GHG) emissions | 6.5.1<br>6.5.2<br>6.5.5 | >Saving of Energy and Reduction of Greenhouse Gas Emissions from Business Activities<br>>Saving of Energy and Reduction of Greenhouse Gas Emissions During Residence Period<br>>Contributing to the Reduction of Greenhouse Gases through Our Business<br>>Sustainable Forest Management<br>>Forest Management in Japan<br>>Forest Management Overseas |
| G4-EN20 | Emissions of ozone-depleting substances (ODS) | 6.5.1<br>6.5.2<br>6.5.3<br>6.5.5 | |
| G4-EN21 | NOX, SOX, and other significant air emissions | 6.5.1<br>6.5.2<br>6.5.3 | >Management of Hazardous Chemical Substances |
| **Aspect: Effluents and Waste** | | | |
| G4-EN22 | Total water discharge by quality and destination | 6.5.1<br>6.5.2<br>6.5.3 | >Management of Hazardous Chemical Substances<br>>Environmental Impact of Business Activities |
| G4-EN23 | Total weight of waste by type and disposal method | 6.5<br>6.5.3 | >Environmental Impact of Business Activities<br>>Reduction, Recycling and Appropriate Disposal of Waste |
| G4-EN24 | Total number and volume of significant spills | 6.5.1<br>6.5.2<br>6.5.3 | |
| G4-EN25 | Weight of transported, imported, exported, or treated waste deemed hazardous under the terms of the Basel Convention2 Annex I, II, III, and VIII, and percentage of transported waste shipped internationally | 6.5.1<br>6.5.2<br>6.5.3 | |
| G4-EN26 | Identity, size, protected status, and biodiversity value of water bodies and related habitats significantly affected by the organization's discharges of water and runoff | 6.5.1<br>6.5.2<br>6.5.3<br>6.5.4<br>6.5.6 | |

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| **Aspect: Products and Services** | | | |
| G4-EN27 | Extent of impact mitigation of environmental impacts of products and services | 6.5.1<br>6.5.2<br>6.5.3<br>6.5.4<br>6.5.5<br>6.7.5 | >Environmental Impact of Business Activities<br>>Saving of Energy and Reduction of Greenhouse Gas Emissions During Residence Period<br>>Contributing to the Reduction of Greenhouse Gases through Our Business<br>>Forest Management in Japan<br>>Forest Management Overseas<br>>Biodiversity Conservation in Company-Owned Forests in Japan and Plantation Forests Overseas<br>>Conservation of Biodiversity through Business and Services |
| G4-EN28 | Percentage of products sold and their packaging materials that are reclaimed by category<br><br>a. Report the percentage of reclaimed products and their packaging materials for each product category.<br>b. Report how the data for this Indicator has been collected. | 6.5.1<br>6.5.2<br>6.5.3<br>6.5.4<br>6.7.5 | |
| **Aspect: Compliance** | | | |
| G4-EN29 | Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations | 6.5.1<br>6.5.2<br>4.6 | |
| **Aspect: Transport** | | | |
| G4-EN30 | Significant environmental impacts of transporting products and other goods and materials for the organization's operations, and transporting members of the workforce | 6.5.1<br>6.5.2<br>6.5.4<br>6.6.6 | >Environmental Impact of Business Activities<br>>Saving of Energy and Reduction of Greenhouse Gas Emissions from Business Activities<br>>Saving of Energy and Reduction of Greenhouse Gas Emissions During Residence Period<br>>Contributing to the Reduction of Greenhouse Gases through Our Business |
| **Aspect: Overall** | | | |
| G4-EN31 | Total environmental protection expenditures and investments by type | 6.5.1<br>6.5.2 | >Environmental Accounting |
| **Aspect: Supplier Environmental Assessment** | | | |
| G4-EN32 | Percentage of new suppliers that were screened using environmental criteria | 6.3.5<br>6.5.1<br>6.5.2<br>6.6.6<br>7.3.1 | |
| G4-EN33 | Significant actual and potential negative environmental impacts in the supply chain and actions taken | 6.3.5<br>6.5.1<br>6.5.2<br>6.6.6<br>7.3.1 | |
| **Aspect: Environmental Grievance Mechanisms** | | | |
| G4-EN34 | Number of grievances about environmental impacts filed, addressed, and resolved through formal grievance mechanisms | 6.3.6<br>6.5.1<br>6.5.2 | |
| **Social** | | | |
| **Labor practices and decent work** | | | |
| **Aspect: Employment** | | | |
| G4-LA1 | Total number and rates of new employee hires and employee turnover by age group, gender, and region | 6.4.1<br>6.4.2<br>6.4.3 | >Employee Data |
| G4-LA2 | Benefits provided to full-time employees that are not provided to temporary or part-time employees, by significant locations of operation | 6.4.1<br>6.4.2<br>6.4.4<br>6.8.7 | |
| G4-LA3 | Return to work and retention rates after parental leave, by gender | 6.4.1<br>6.4.2<br>6.4.4 | >Employee Data |
| **Aspect: Labor/Management Relations** | | | |
| G4-LA4 | Minimum notice periods regarding operational changes, including whether these are specified in collective agreements | 6.4.1<br>6.4.2<br>6.4.3<br>6.4.5 | |
| **Aspect: Occupational Health and Safety** | | | |
| G4-LA5 | Percentage of total workforce represented in formal joint management – worker health and safety committees that help monitor and advise on occupational health and safety programs | 6.4.1<br>6.4.2<br>6.4.6 | |

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| G4-LA6 | Type of injury and rates of injury, occupational diseases, lost days, and absenteeism, and total number of work-related fatalities, by region and by gender | 6.4.1<br>6.4.2<br>6.4.6<br>6.8.8 | >Employee Data |
| G4-LA7 | Workers with high incidence or high risk of diseases related to their occupation | 6.4.1<br>6.4.2<br>6.4.6<br>6.8<br>6.8.3<br>6.8.4<br>6.8.8 | >Occupational Health and Safety |
| G4-LA8 | Health and safety topics covered in formal agreements with trade unions | 6.4.1<br>6.4.2<br>6.4.6 | >Communication with Employees |
| **Aspect: Training and Education** | | | |
| G4-LA9 | Average hours of training per year per employee by gender, and by employee category | 6.4.1<br>6.4.2<br>6.4.7 | >Employee Data |
| G4-LA10 | Programs for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings | 6.4.1<br>6.4.2<br>6.4.7<br>6.8.5 | >Human Resources Development |
| G4-LA11 | Percentage of employees receiving regular performance and career development reviews, by gender and by employee category | 6.4.1<br>6.4.2<br>6.4.7 | >Human Resources Development |
| **Aspect: Diversity and Equal Opportunity** | | | |
| G4-LA12 | Composition of governance bodies and breakdown of employees per employee category according to gender, age group, minority group membership, and other indicators of diversity | 6.2.3<br>6.3.7<br>6.3.10<br>6.4.1<br>6.4.2<br>6.4.3 | >Employee Data |
| **Aspect: Equal Remuneration for Women and Men** | | | |
| G4-LA13 | Ratio of basic salary and remuneration of women to men by employee category, by significant locations of operation | 6.3.7<br>6.3.10<br>6.4.1<br>6.4.2<br>6.4.3<br>6.4.4 | |
| **Aspect: Supplier Assessment for Labor Practices** | | | |
| G4-LA14 | Percentage of new suppliers that were screened using labor practices criteria<br>a. Report the percentage of new suppliers that were screened using labor practices criteria. | 6.3.5<br>6.4.1<br>6.4.2<br>6.4.3<br>6.6.6<br>7.3.1 | |
| G4-LA15 | Significant actual and potential negative impacts for labor practices in the supply chain and actions taken | 6.3.5<br>6.4.1<br>6.4.2<br>6.4.3<br>6.6.6<br>7.3.1 | |
| **Aspect: Labor Practices Grievance Mechanisms** | | | |
| G4-LA16 | Number of grievances about labor practices filed, addressed, and resolved through formal grievance mechanisms | 6.3.6<br>6.4.1<br>6.4.2 | |
| **Human Rights** | | | |
| **Aspect: Investment** | | | |
| G4-HR1 | Total number and percentage of significant investment agreements and contracts that include human rights clauses or that underwent human rights screening | 4.8<br>6.3.1<br>6.3.2<br>6.3.3<br>6.3.5<br>6.6.6 | |
| G4-HR2 | Total hours of employee training on human rights policies or procedures concerning aspects of human rights that are relevant to operations, including the percentage of employees trained | 4.8<br>6.3.1<br>6.3.2<br>6.3.5 | >Respect for Human Rights |
| **Aspect: Non-discrimination** | | | |
| G4-HR3 | Total number of incidents of discrimination and corrective actions taken | 4.8<br>6.3.1<br>6.3.2<br>6.3.6<br>6.3.7<br>6.3.10<br>6.4.3 | |
| **Aspect: Freedom of Association and Collective Bargaining** | | | |

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| G4-HR4 | Operations and suppliers identified in which the right to exercise freedom of association and collective bargaining may be violated or at significant risk, and measures taken to support these rights | 6.3.1<br>6.3.2<br>6.3.3<br>6.3.4<br>6.3.5<br>6.3.8<br>6.3.10<br>6.4.5<br>6.6.6 | |
| **Aspect: Child Labor** | | | |
| G4-HR5 | Operations and suppliers identified as having significant risk for incidents of child labor, and measures taken to contribute to the effective abolition of child labor | 4.8<br>6.3.1<br>6.3.2<br>6.3.3<br>6.3.4<br>6.3.5<br>6.3.7<br>6.3.10<br>6.6.6<br>6.8.4 | ＞Policy and System for Sustainable Procurement of Timber<br>＞Sustainable Procurement of Timber<br>＞Communication with Our Business Partners |
| **Aspect: Forced or Compulsory Labor** | | | |
| G4-HR6 | Operations and suppliers identified as having significant risk for incidents of forced or compulsory labor, and measures to contribute to the elimination of all forms of forced or compulsory labor | 4.8<br>6.3.1<br>6.3.2<br>6.3.3<br>6.3.4<br>6.3.5<br>6.3.10<br>6.6.6 | ＞Policy and System for Sustainable Procurement of Timber<br>＞Sustainable Procurement of Timber<br>＞Communication with Our Business Partners |
| **Aspect: Security Practices** | | | |
| G4-HR7 | Percentage of security personnel trained in the organization's human rights policies or procedures that are relevant to operations | 4.8<br>6.3.1<br>6.3.2<br>6.3.4<br>6.3.5<br>6.6.6 | |
| **Aspect: Indigenous Rights** | | | |
| G4-HR8 | Total number of incidents of violations involving rights of indigenous peoples and actions taken | 4.8<br>6.3.1<br>6.3.2<br>6.3.4<br>6.3.6<br>6.3.7<br>6.3.8<br>6.6.7<br>6.8.3 | |
| **Aspect: Assessment** | | | |
| G4-HR9 | Total number and percentage of operations that have been subject to human rights reviews or impact assessments | 4.8<br>6.3.1<br>6.3.2<br>6.3.3<br>6.3.4<br>6.3.5 | |
| **Aspect: Supplier Human Rights Assessment** | | | |
| G4-HR10 | Percentage of new suppliers that were screened using human rights criteria | 4.8<br>6.3.1<br>6.3.2<br>6.3.3<br>6.3.4<br>6.3.5<br>6.6.6 | ＞Communication with Our Business Partners |
| G4-HR11 | Significant actual and potential negative human rights impacts in the supply chain and actions taken | 4.8<br>6.3.1<br>6.3.2<br>6.3.3<br>6.3.4<br>6.3.5<br>6.6.6 | |
| **Aspect: Human Rights Grievance Mechanisms** | | | |
| G4-HR12 | Number of grievances about human rights impacts filed, addressed, and resolved through formal grievance mechanisms | 4.8<br>6.3.1<br>6.3.2<br>6.3.6 | |
| **Society** | | | |
| **Aspect: Local Communities** | | | |

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|---|---|---|---|
| G4-SO1 | Percentage of operations with implemented local community engagement, impact assessments, and development programs | 6.3.9<br>6.5.1<br>6.5.2<br>6.5.3<br>6.8 | >Examples of Social Contribution Activities in Japan<br>>Examples of Overseas Community Development and Regional Contribution Activities<br>>Forest Management in Japan<br>>Forest Management Overseas |
| G4-SO2 | Operations with significant actual or potential negative impacts on local communities | 6.3.9<br>6.5.3<br>6.8 | |
| **Aspect: Anti-corruption** | | | |
| G4-SO3 | Total number and percentage of operations assessed for risks related to corruption and the significant risks identified | 6.6.1<br>6.6.2<br>6.6.3 | >Risk Management |
| G4-SO4 | Communication and training on anti-corruption policies and procedures | 6.6.1<br>6.6.2<br>6.6.3<br>6.6.6 | >Risk Management |
| G4-SO5 | Confirmed incidents of corruption and actions taken | 6.6.1<br>6.6.2<br>6.6.3 | >Business Continuity Management |
| **Aspect: Public Policy** | | | |
| G4-SO6 | Total value of political contributions by country and recipient/beneficiary | 6.6.1<br>6.6.2<br>6.6.4 | |
| **Aspect: Anti-competitive Behavior** | | | |
| G4-SO7 | Total number of legal actions for anti-competitive behavior, anti-trust, and monopoly practices and their outcomes | 6.6.1<br>6.6.2<br>6.6.5<br>6.6.7 | |
| **Aspect: Compliance** | | | |
| G4-SO8 | Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with laws and regulations | 4.6<br>6.6.1<br>6.6.2 | |
| **Aspect: Supplier Assessment for Impacts on Society** | | | |
| G4-SO9 | Percentage of new suppliers that were screened using criteria for impacts on society | 6.3.5<br>6.6.1<br>6.6.2<br>6.6.6<br>6.8.1<br>6.8.2<br>7.3.1 | |
| G4-SO10 | Significant actual and potential negative impacts on society in the supply chain and actions taken | 6.3.5<br>6.6.1<br>6.6.2<br>6.6.6<br>6.8.1<br>6.8.2<br>7.3.1 | |
| **Aspect: Grievance Mechanisms for Impacts on Society** | | | |
| G4-SO11 | Number of grievances about impacts on society filed, addressed, and resolved through formal grievance mechanisms | 6.3.6<br>6.6.1<br>6.6.2<br>6.8.1<br>6.8.2 | |
| **Product Responsibility** | | | |
| **Aspect: Customer Health and Safety** | | | |
| G4-PR1 | Percentage of significant product and service categories for which health and safety impacts are assessed for improvement | 6.7.1<br>6.7.2<br>6.7.4<br>6.7.5<br>6.8.8 | >Housing Safety and Quality Control<br>>Product Safety and Quality Control of Building Materials |
| G4-PR2 | Total number of incidents of non-compliance with regulations and voluntary codes concerning the health and safety impacts of products and services during their life cycle, by type of outcomes | 4.6<br>6.7.1<br>6.7.2<br>6.7.4<br>6.7.5<br>6.8.8 | |
| **Aspect: Product and Service Labeling** | | | |
| G4-PR3 | Type of product and service information required by the organization's procedures for product and service information and labeling, and percentage of significant product and service categories subject to such information requirements | 6.7.1<br>6.7.2<br>6.7.3<br>6.7.4<br>6.7.5<br>6.7.9 | >Housing Safety and Quality Control<br>>Product Safety and Quality Control of Building Materials |

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| G4-PR4 | Total number of incidents of non-compliance with regulations and voluntary codes concerning product and service information and labeling, by type of outcomes | 4.6<br>6.7.1<br>6.7.2<br>6.7.3<br>6.7.4<br>6.7.5<br>6.7.9 | |
| G4-PR5 | Results of surveys measuring customer satisfaction | 6.7.1<br>6.7.2<br>6.7.6 | >Housing Safety and Quality Control<br>>Communication with Our Customers |
| **Aspect: Marketing Communications** | | | |
| G4-PR6 | Sale of banned or disputed products | | |
| G4-PR7 | Total number of incidents of non-compliance with regulations and voluntary codes concerning marketing communications, including advertising, promotion, and sponsorship, by type of outcomes | 4.6<br>6.7.1<br>6.7.2<br>6.7.3 | |
| **Aspect: Customer Privacy** | | | |
| G4-PR8 | Total number of substantiated complaints regarding breaches of customer privacy and losses of customer data | 6.7.1<br>6.7.2<br>6.7.7 | |
| **Aspect: Compliance** | | | |
| G4-PR9 | Monetary value of significant fines for non-compliance with laws and regulations concerning the provision and use of products and services | 4.6<br>6.7.1<br>6.7.2<br>6.7.6 | |

# External Recognition

## Inclusion in Socially Responsible Investment (SRI) Indices (as of April 2014)

Sumitomo Forestry has been continuously included in the Dow Jones Sustainability Indices since 2005.

Sumitomo Forestry has been included in the FTSE4Good Global Index every year since 2004.

Sumitomo Forestry has been consecutively included in the Morningstar Socially Responsible Investment Index (MS-SRI) since 2008.

# Awards and Recognition by Third Parties in Fiscal 2013

| Date | Awards | Recognition | Scope of Recognition |
|---|---|---|---|
| July 2013 | 42nd WorldSkills Competition | Received Medallion for Excellence in the carpentry category (News Release: http://sfc.jp/english/pdf/20130710.pdf) | Sumitomo Forestry Home Engineering Co., Ltd |
| July 2013 | 7th Kids Design Award Kids Design Association | Sumitomo Forestry's *comama* new spatial design for living areas to support comfortable raising of children received an award in the Individual and Households category at the Kids Design Award. | Sumitomo Forestry |
| July 2013 | 7th Kids Design Award Kids Design Association | Sumitomo Forestry's *Hagukumi no Niwa* garden design for raising children received an award in the Individual and Households category at the Kids Design Award. | Sumitomo Forestry |

| Date | Awards | Recognition | Scope of Recognition |
|---|---|---|---|
| July 2013 | Received the FY2012 Environment Minister Award for the Model Initiatives on Environment Measures | In recognition of the development of a technique to cleanse contaminated soil using phytoremediation, Sumitomo Forestry received the FY2012 Environment Minister Award for the Model Initiatives on Environment Measures. (News Release: http://sfc.jp/english/pdf/20130722.pdf) | JX Nippon Oil & Energy Corporation |
| October 2013 | FY2013 Good Design Awards Japan Institute of Design Promotion | Sumitomo Forestry's "prototype model house," a recommended house type exhibited at various sites nationwide using uniform plans and exterior designs, received a Good Design Award 2013. GOOD DESIGN AWARD 2013 (News Release: http://sfc.jp/english/pdf/20131003.pdf) | Sumitomo Forestry |
| October 2013 | FY2013 Good Design Awards Japan Institute of Design Promotion | Sumitomo Forestry's "border-type wood tiles," made using offcuts from flooring and stair material manufacturing and from disposed shochu (an alcoholic beverage) distilling barrels, and used as dressed lumber for interior use, received a Good Design Award 2013. GOOD DESIGN AWARD 2013 (News Release: http://sfc.jp/english/pdf/20131003.pdf) | Sumitomo Forestry |

| Date | Awards | Recognition | Scope of Recognition |
|---|---|---|---|
| October 2013 | FY2013 Good Design Awards Japan Institute of Design Promotion | Sumitomo Forestry Home Tech's "dual construction method for vibration control and seismic resistance" received a Good Design Award 2013.<br>GOOD DESIGN AWARD 2013<br>(News Release: http://sfc.jp/english/pdf/20131003.pdf) | Sumitomo Forestry Home Tech Co., Ltd. |
| October 2013 | Wood Architecture and Construction Technology Guidance Program Ministry of Land, Infrastructure, Transport and Tourism | "Spa Village Horikawa—Horikawa Therapeutic Spring (Iyashi-no-Yu)," a project designed and constructed by Sumitomo Forestry, was selected to be a part of the Wood Architecture and Construction Technology Guidance Program.<br>(News Release: http://sfc.jp/english/pdf/20131007.pdf) | Sumitomo Forestry |
| November 2013 | Selected for listing on the CDP Climate Change 2013 CDLI as a leading company in climate disclosure<br>CDP | Sumitomo Forestry was listed in the Climate Disclosure Leadership Index (CDLI), having received the highest score of 99 in the 2013 survey for its excellent information disclosure on greenhouse gas emission calculation and target management, climate change strategy, and risk management.<br>CDP CLIMATE DISCLOSURE LEADER 2013<br>(News Release: http://sfc.jp/english/pdf/20131107.pdf) | Sumitomo Forestry |

| Date | Awards | Recognition | Scope of Recognition |
|---|---|---|---|
| November 2013 | 51st National Skills Competition | Entrants from Sumitomo Forestry won a silver medal and fighting spirit award in the carpentry category.<br>(News Release: http://sfc.jp/english/pdf/20131129.pdf) | Sumitomo Forestry Home Engineering Co., Ltd. |
| February 2014 | The Sustainability Yearbook2014 RobecoSAM AG | For the second consecutive year, Sumitomo Forestry earned a Gold Class rating as a company which excels in sustainability and was selected as an industry leader.<br>ROBECOSAM Sustainability Award Industry Leader 2014<br>ROBECOSAM Sustainability Award Gold Class 2014<br>(News Release: http://sfc.jp/english/pdf/20140206.pdf) | Sumitomo Forestry |

# Independent Assurance Report

To the President and Representative Director of Sumitomo Forestry Co., Ltd.

We were engaged by Sumitomo Forestry Co., Ltd. (the "Company") to undertake a limited assurance engagement of the environmental and social performance indicators marked with a green star ★ for the period from April 1, 2013 to March 31, 2014 (the "Indicators") included in its CSR Report 2014 (the "Report") for the fiscal year ended March 31, 2014.

## The Company's Responsibility

The Company is responsible for the preparation of the Indicators in accordance with its own reporting criteria (the "Company's reporting criteria"), as described in the Report, which are derived, among others, from the Sustainability Reporting Guidelines version 3.1 of the Global Reporting Initiative and Environmental Reporting Guidelines of Japan's Ministry of the Environment.

## Our Responsibility

Our responsibility is to express a limited assurance conclusion on the Indicators based on the procedures we have performed. We conducted our engagement in accordance with 'International Standard on Assurance Engagements (ISAE) 3000, Assurance Engagements other than Audits or Reviews of Historical Financial Information', 'ISAE 3410, Assurance Engagements on Greenhouse Gas Statements', issued by the International Auditing and Assurance Standards Board, and the 'Practical Guidelines for the Assurance of Sustainability Information' of the Japanese Association of Assurance Organizations for Sustainability Information. The limited assurance engagement consisted of making inquiries, primarily of persons responsible for the preparation of information presented in the Report, and applying analytical and other procedures, and the procedures performed vary in nature from, and are less in extent than for, a reasonable assurance engagement. The level of assurance provided is thus not as high as that provided by a reasonable assurance engagement. Our assurance procedures included:

- Interviewing with the Company's responsible personnel to obtain an understanding of its policy for the preparation of the Report and reviewing the Company's reporting criteria.
- Inquiring about the design of the systems and methods used to collect and process the Indicators.
- Performing analytical reviews of the Indicators.
- Examining, on a test basis, evidence supporting the generation, aggregation and reporting of the Indicators in conformity with the Company's reporting criteria, and also recalculating the Indicators.
- Visiting to the Kashima plant of Sumitomo Forestry Crest Co., Ltd. selected on the basis of a risk analysis.
- Evaluating the overall statement in which the Indicators are expressed.

## Conclusion

Based on the procedures performed, as described above, nothing has come to our attention that causes us to believe that the Indicators in the Report are not prepared, in all material respects, in accordance with the Company's reporting criteria as described in the Report.

## Our Independence and Quality Control

We have complied with the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants, which includes independence and other requirements founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior. In accordance with International Standard on Quality Control 1, we maintain a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

KPMG AZSA Sustainability Co., Ltd.

KPMG AZSA Sustainability Co., Ltd.
Tokyo, Japan
December 18, 2014

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