

December 9, 2020

For immediate release

Sumitomo Forestry Co., Ltd.

Sumitomo Forestry Expands Plantation Forest Operations in Indonesia's Island of Kalimantan

Sustainable forest management through world-class groundwater level management method
and natural capital enhancement

Sumitomo Forestry Co., Ltd. (President and Representative Director: Toshiro Mitsuyoshi; Headquarters: Chiyoda-ku, Tokyo; hereinafter Sumitomo Forestry) announced that it has acquired on December 8, 2020 the industrial plantation assets and business rights owned by PT. Bina Silva Nusa (hereinafter BSN) in Indonesia's West Kalimantan province to expand Sumitomo Forestry's large-scale industrial plantation forest operations. Sumitomo Forestry will establish a management model unparalleled in the world for stably managing groundwater level even during dry seasons so as to seek a balance between timber production and environmental preservation. This will expand the area managed by the Sumitomo Forestry Group in Indonesia's West Kalimantan province to approximately 155,000 hectares (an increase of 10,000 hectares). In addition, Sumitomo Forestry has made PT. Wana Subur Lestari^{*1} (hereinafter WSL) and PT. Mayangkara Tanaman Industri^{*2} (hereinafter MTI) into consolidated subsidiaries to strengthen its system for sustainable forest management.

Since 2010, under the license from Indonesia's Ministry of Environment and Forestry permitting utilization of timber from commercial forests*, the Sumitomo Forestry Group has been committed to a large-scale forest plantation business conducted through WSL and MTI in cooperation with the ALAS Kusuma Group (hereinafter ALAS), a company involved in forestry management and plywood manufacturing in Indonesia.

On December 8, PT. Kubu Mulia Forestry^{*3} (hereinafter KMF)—which is part of the Sumitomo Forestry Group—completed the procedures for purchasing the industrial plantation assets and business rights owned by BSN.

By acquiring the plantation assets of BSN—located next to WSL and MTI—and accompanying permits and licenses, the area under management has been expanded from 145,000 hectares to 155,000 hectares. Sumitomo Forestry will improve the productivity of plantation forest operations and further expand initiatives for ecosystem conservation by contracting the operations at KMF's business locations to WSL and centrally managing the forest management of WSL, MTI, and KMF.

Regarding the proportion of shares owned in WSL and MTI which were evenly funded by the Sumitomo Forestry Group and ALAS, Sumitomo Forestry will increase share ownership to 80% in WSL and 76% in MTI to make both of them consolidated subsidiaries. The partnership with ALAS so far will be maintained while strengthening the management foundation toward further expansion of plantation forest operations.

The plantations of this business are areas where forest degradation has advanced due to commercial harvesting by



other companies from the 1960s to the mid-1990s in addition to repeated illegal logging and slash-and-burn farming practices. They also include peatland. Peatland contains precious ecosystems, and also plays a significant role in carbon storage and the water cycle on a global scale.

Detailed topographical surveys and boring tests to understand the peat distribution and depth at a level never achieved in the world before were conducted for sustainable forest management of peatland. Traditionally, peatland water level management is drainage-based, meaning that water from soil at a higher elevation is discharged to an area of lower elevation. When peat dries, it encourages the occurrence of peat fires and the breakdown of peat, resulting in the emission of CO₂—which is a cause of global warming—as well as smoke pollution and other issues. On the other hand, the water level management practiced by the Sumitomo Forestry Group is storage-based water management. Based on an enormous amount of survey data, plantations were established to store water, zones were set to manage water level, and infrastructure for water level management were developed. This established a peatland management model unparalleled in the world that stably manages groundwater level even during dry seasons. Through zoning with plantation zones, buffer zones, and protected zones, precious peatland and its ecosystems are maintained while producing timber as an economic activity. These efforts control greenhouse gas emissions from peatlands and forest fires, and also contribute greatly to measures that combat climate change. Currently, continuous improvements are being made to improve peatland management models by using satellites, drones, and other leading-edge technologies.

When these initiatives—conducted together with the Indonesian government—were presented at the United Nations Climate Change Conferences (COP23, COP24, and COP25) at the request of Indonesia, they received high evaluation from international agencies, developing countries with a lot of peatland, and other bodies. Going forward, the Sumitomo Forestry Group will contribute toward the mitigation of global environmental issues and sustainable development by aiming to commercialize consulting services for countries with peatland and deploying and spreading the expertise developed through this business.

* Issued by the Indonesian government, this is a business license to engage in industrial tree plantation operations in Indonesia. The license is valid for 60 to 100 years.

■ Overview of Companies

PT. Wana Subur Lestari, PT. Mayangkara Tanaman Industri, and PT. Kubu Mulia Forestry

Business description: Industrial plantations and sale of logs

Location of head offices: Kubu Raya Regency in West Kalimantan Province, Republic of Indonesia

*1 PT. Wana Subur Lestari (WSL)

Establishment: October 2009

License period: Until 2107

Plantation location: Kubu Raya Regency in West Kalimantan Province, Republic of Indonesia

Managed area: 40,750 ha

Capital Shareholder composition: Sumitomo Forestry (Singapore) Ltd. 80%; PT. Sari Bumi Kusuma (SBK) 20% (planned)

(SBK is a group company of ALAS Kusuma, a company involved in forestry management and plywood manufacturing in Indonesia)

*2 PT. Mayangkara Tanaman Industri (MTI)

Establishment: September 1989

License period: Until 2069

Plantation location: Kubu Raya Regency, Sanggau Regency, and Ketapang Regency in West Kalimantan Province, Republic of Indonesia

Managed area: 104,664 ha

Capital Shareholder composition: Sumitomo Forestry (Singapore) Ltd. 76%; PT. Harjohn Timber (HT) 24% (planned)

(HT is a group company of ALAS Kusuma, a company involved in forestry management and plywood manufacturing in Indonesia)

*3 PT. Kubu Mulia Forestry (KMF)

Establishment: April 2020

License period: Until 2043

Plantation location: Kubu Raya Regency in West Kalimantan Province, Republic of Indonesia

Managed area: 9,270 ha

Capital Shareholder composition: Sumitomo Forestry (Singapore) Ltd. 99%; PT. Sumitomo Forestry Indonesia 1%

Reference material: Natural capital being developed through a conservation network

Since 2010, the Sumitomo Forestry Group has been conducting business in Indonesia's West Kalimantan province. In December 2020, KMF—which lies between WSL and MTI—was added, growing plantation forest operations to a total area of 155,000 hectares.

In the project area, commercial harvesting by other companies started in the 1960s, depleting tree species with high economic value. After the expiry of commercial harvesting licenses in 1990, illegal harvesting and slash-and-burn farming practices remain rampant, resulting in very little untouched forest land.

In addition, the adjacent national protection forest is a gigantic peatland dome that constitutes a peat ecosystem as well as having a water conservation function. Furthermore, rare animals inhabited some of the remaining forests, but their habitats have also been isolated.

Peat ecosystems are a form of natural capital, and the conservation of these peatlands is an important issue. The boundaries of concessions for industrial forest plantations set by the government do not coincide with those of ecosystems. Therefore, we are working with the local government and surrounding companies in an effort to conserve the environment at the landscape level. We have established green corridors across companies where animals can move freely. We call these the conservation network, and we are also advocating it internationally.

In addition to land animals such as orangutans and gibbons, this area is also home to rare aquatic animals such as Irrawaddy dolphins. Through the conservation network, we establish habitats for these rare animals and corridors for their movement.

The newly added KMF will fulfill the role of building even stronger connections within the Conservation Network which is centered on WSL and MTI.

When considering global environmental issues, the role of tropical forests and peatlands cannot be ignored. In other words, they are closely related to population, energy, climate change, biodiversity, food, and water issues. Sumitomo Forestry will continue to take on the challenge of solving these global issues by properly managing tropical forests and peatlands, and enhancing their values as natural capital as well as valuable public benefits.

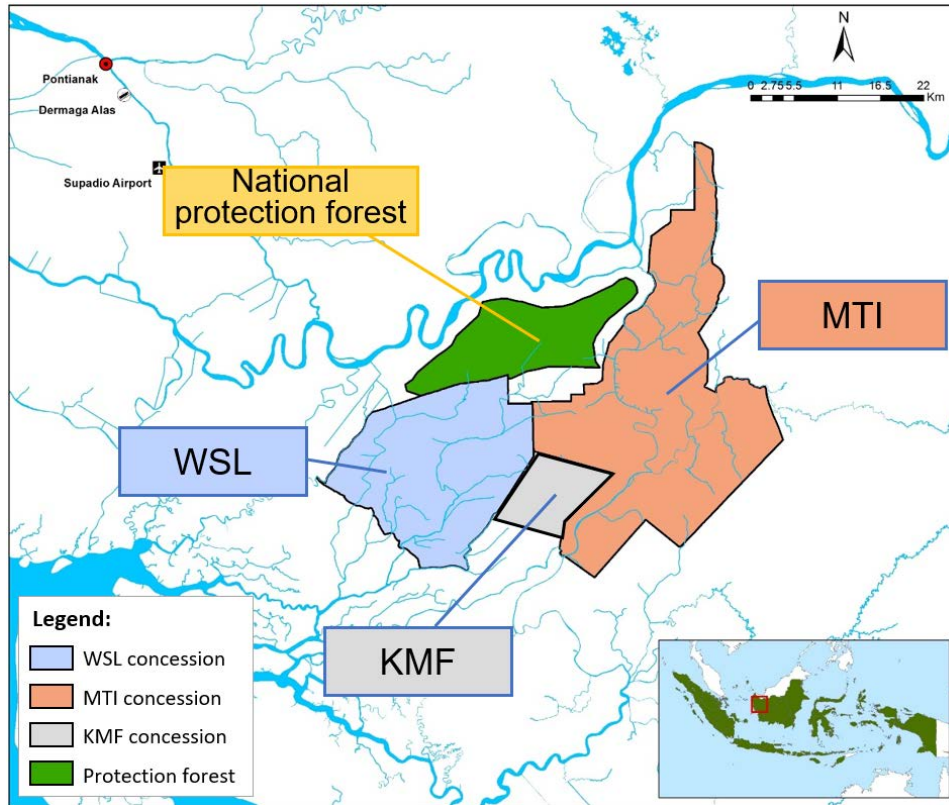


Figure 1 Location of WSL/MTI/KMF

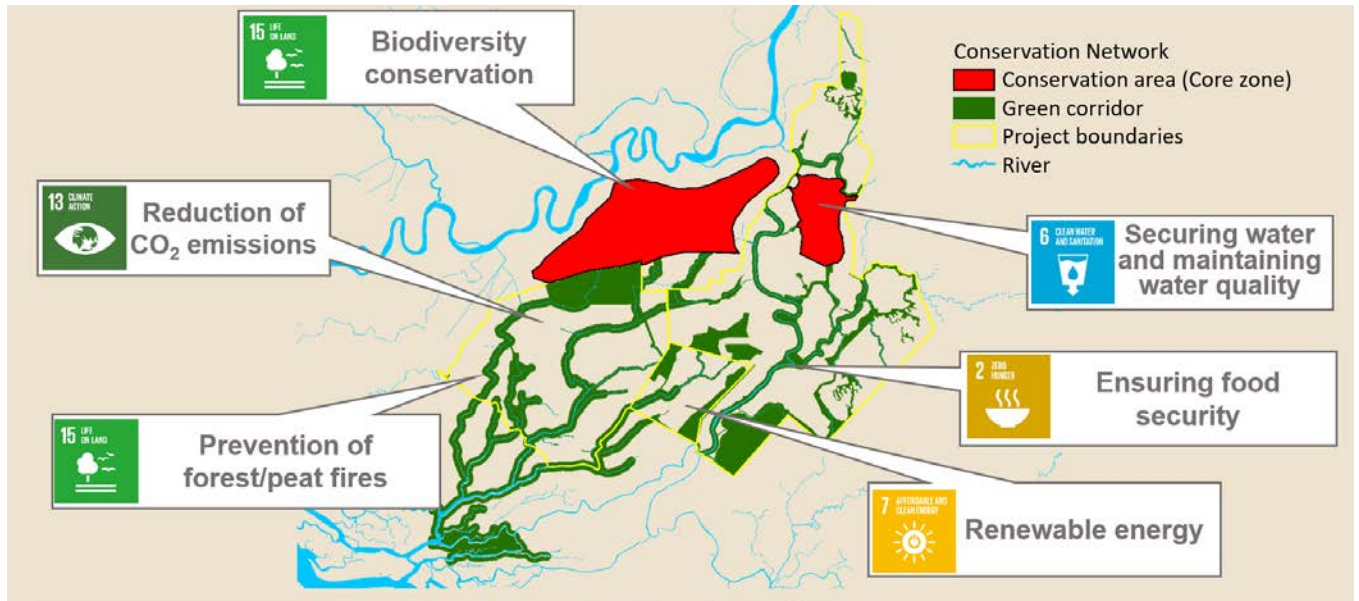


Figure2 Natural Capitals and SDGs Nurtured by the Conservation Network