

Environmental and Social Report

2008

March 2008

Performance Data



SUMITOMO FORESTRY CO., LTD.

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Management Systems

Corporate Governance

Sumitomo Forestry is working to enhance and strengthen corporate governance in order to improve the transparency of corporate management and to ensure sound and sustainable management.

State of Corporate Governance and Internal Controls

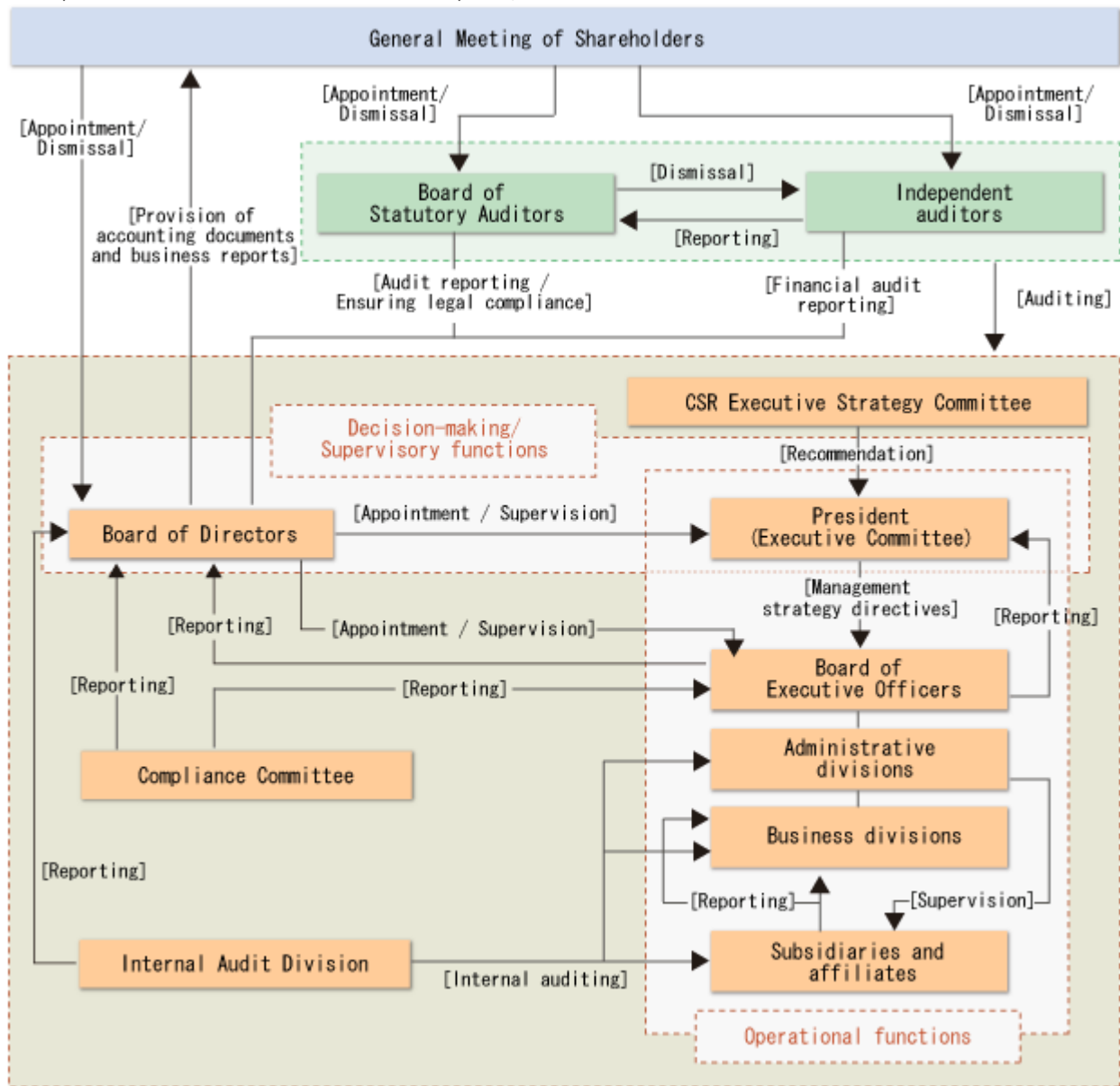
During fiscal 2007, steps were implemented to enhance sound auditing with respect to decision-making and execution of operations at Group companies, while simultaneously ensuring the independence of each Group company. Specifically, the basic regulations (rules concerning official authority, regulations governing the board of directors, audit regulations governing auditors, etc.) were revised, with particular attention given to the independent monitoring and auditing functions of each company and to the clear demarcation of authority between parent company and subsidiary.

Also, in order to ensure the appropriateness of financial reports, a specialist team has been established within the Corporate Planning Division to develop internal control systems. The team has completed preparatory work targeting both the parent company and major Group companies, and began operation of the control systems in April 2008.

Sumitomo Forestry introduced an executive officer system in fiscal 2002, and all directors simultaneously serve as executive officers. Two external directors are chosen as auditors. Director compensation is the sum of director and auditor (separate for internal and external) amounts, as disclosed in business reports.

Stakeholder comment → Sumitomo Forestry should pursue greater transparency and fairness in its management operations. (Management-related CSR expert)

■ Corporate Governance Structure (as of April 1, 2008)



Proper and legally compliant operations are the basis for good management, and therefore we strive to achieve total compliance. We are also enhancing internal controls and risk management to make Sumitomo Forestry more responsive to the diverse risks facing each business.

Compliance

The Sumitomo Forestry Group positions legal compliance as a particularly important management issue, specifically establishing the Compliance Group in the General Administrative Division in fiscal 2006, serving to promote legal compliance management throughout the Sumitomo Forestry Group as a whole.

The Compliance Group works together with the various divisions to identify all pertinent legislation affecting Sumitomo Forestry businesses, considering problems that have to do with essential legal observance, and addressing requirements for concrete solutions to such issues.

Also, in order to encourage permeation of the Compliance Counter system for internal reporting, the Compliance Group has distributed a manual to all employees of Sumitomo Forestry Group companies in Japan, and has been actively encouraging its use. As a result, the number of reports received increased to fifteen, up substantially from the level of six received during the previous fiscal year.

In terms of response for the safeguarding of personal information, however, which is a company-wide compliance issue, improvement has not been seen. In fact, instances of compromised personal information rose from 31 cases in 2006 to 48 in 2007, many during handling by contractors. Accordingly, going forward we will enhance training and guidance, not only within the Sumitomo Forestry Group, but also for subcontractors.

Also, Sumitomo Forestry uses approximately 2,300 company-owned and employee-owned vehicles in the course of business, and steps are being taken to reduce the number of traffic accidents involving these vehicles. These steps include the introduction of a special vehicle and driver management system, the mandatory submission of driving records by employees who drive in the course of their work, safe driving education, and stricter penalties for traffic violations in conjunction with revised internal regulations.



Compliance Desk Manual

Rejection of Anti-Social Elements

Sumitomo Forestry has always maintained a stance of “Maintaining an uncompromising stance against anti-social activities.” In order to clarify this policy, new ethical action guidelines were adopted in 2007 in the form of a statement entitled “[Our Values and Ideals](#)” Our approach in this regard is clearly delineated, and has been announced both internally and externally.

Risk Management

Fiscal 2007 Initiatives

Each division is engaged in the elucidation, evaluation and management of business-related risks, and in fiscal 2007 Sumitomo Forestry began drawing up a new Group-wide “risk map” that takes account of the rapidly changing business environment.

Furthermore, work has begun on an earthquake preparedness and response manual integrating business continuity plan (BCP) concepts, so as to help minimize damage from the cessation of headquarters functions and enable quick response to damaged houses in the event of a major earthquake, which is widely predicted to occur in the near future in the greater Tokyo region.

Response to Improper Acquisition of Certification for Fire Prevention and Resistant Materials by Nichias Corporation

In an announcement dated October 30, 2007, the Japanese Ministry of Land, Infrastructure, Transport and Tourism revealed that Nichias Corporation had obtained ministry certification for semi-fire resistant and fire resistant ceiling materials and room divider panels by using improper test specimens.

In response, Sumitomo Forestry immediately conducted an investigation into whether it or any affiliates had used the improperly certified products. As a result, it was discovered that these products were not standard designated materials for use in Sumitomo Forestry built structures, although a few cases of use were identified.

Number of cases currently identified: 10 units (7 custom-built detached homes and 3 apartment buildings)

Sumitomo Forestry immediately contacted the affected customers and explained the situation. Subsequently, a contact center was established in order to respond to requests from customers for consultation.

Based on our experience with this incident, Sumitomo Forestry undertook a complete review with respect to fire prevention and resistant certified materials procured by the Housing Business Headquarters, as well as the types of certification, compliance status of certification conditions, and confirmation of appropriate certification renewal and management for all publicly certified building material products manufactured by Group manufacturing subsidiaries.

This review found that, of 200 products procured by the Housing Business Headquarters, certain water resistant balcony-related products differed from the approved specifications. Regarding these products, Sumitomo Forestry immediately conducted

tests under actual usage conditions and received appropriate certification from the Ministry of Land, Infrastructure, Transport and Tourism based on the test results.

For products made by Group manufacturing subsidiaries, it was confirmed that periodic verifications were being implemented with respect to mandatory certifications, with appropriate management thereof. However, we decided that internal regulations and voluntary inspection systems should be reinforced at Sumitomo Forestry Crest Co., Ltd., Toyo Plywood Co., Ltd. and Nichiha Fuji Tec Co., Ltd.



Economic Report

Promotion of the Project SPEED Long-Term Management Plan

The long-term management plan for the Sumitomo Forestry Group, entitled Project SPEED, took effect in the fiscal year ending March 2008 as a set of goals for the continuation and further development of our business activities.

The word "SPEED" denotes quickness of implementation, but also stands for the following maxim: "Strong Passion Enables us to become an Excellent company by implementing Detailed strategy."

For many generations now, the Sumitomo Forestry Group has repeated a sustainable cycle of planting and cultivating trees, producing timber and building materials, and then building houses. Accordingly, our management plan incorporates a policy of pursuing sustainable business activities from a long-term and continuity perspective, seeking to contribute to the betterment of society by enriching people's lives through trees.

In addition to our core businesses centered on current revenue such as forestry, manufacturing and distribution of timber and building materials, and contracted construction of custom-built detached wooden houses, the long-term management plan calls for the achievement of a more balanced business portfolio that integrates three priority growth businesses: overseas operations, real estate, and home remodeling. Respective strategies, guidelines and objectives are also outlined.

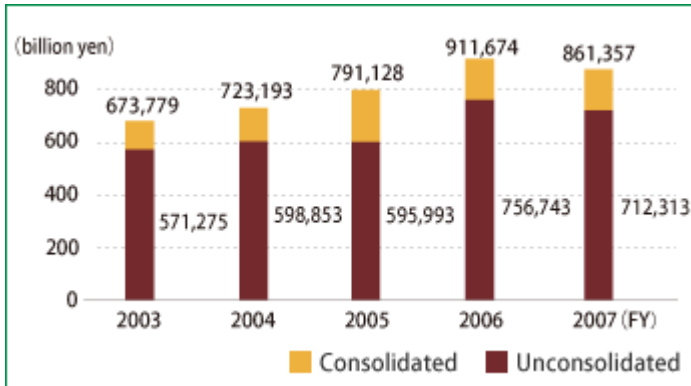
The revenue plan calls for the eventual achievement of ¥80 billion in recurring profit for the fiscal year ending March 2017. The first three years of the plan through the term ending March 2010 are defined as the initial phase, with net sales of ¥990 billion and recurring profit of ¥25 billion targeted for fiscal 2009. By the final year of the plan, fiscal 2016, net sales are targeted to reach ¥1.6 trillion with recurring profit of ¥80 billion.

In parallel with this, a new management benchmark known as "return on capital employed" (ROCE) has been adopted. We plan to realize a business structure that can stably maintain ROCE at 10% or greater (as compared with 7.4% during fiscal 2006).

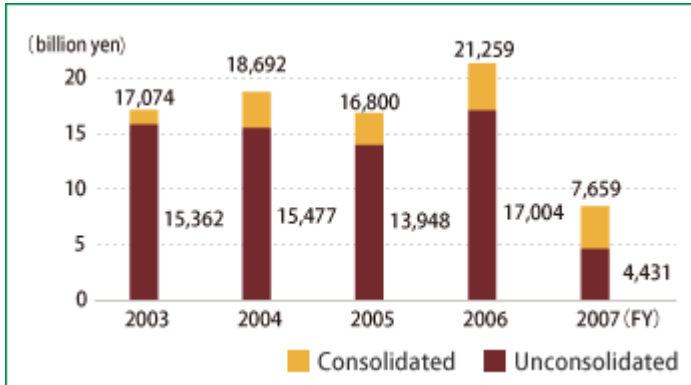
Financial Performance

▶ [For details on financial performance, please click here.](#)

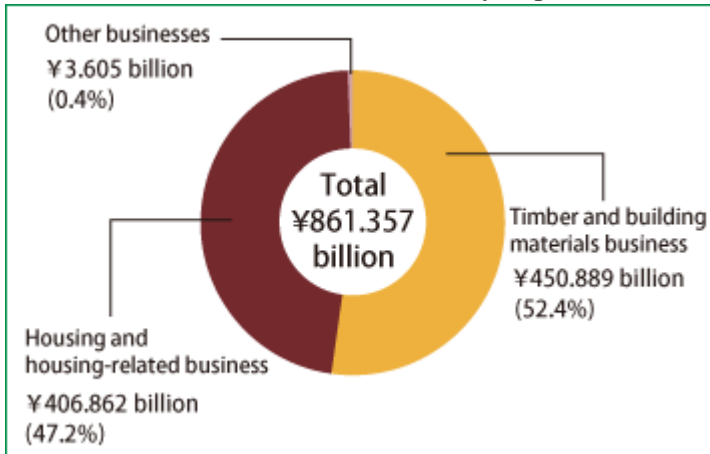
■ Trend in Net Sales



■ Trend in Recurring Income



■ Breakdown of Consolidated Net Sales by Segment (FY2007)



Local Contributions to the Development of Social Infrastructure

At present, rising economic growth, particularly in Asia, is resulting in greater demand for timber-related materials, and as such securing sustainable timber resources is a global issue.

In order to help ensure the availability of timber resources, which are an indispensable aspect of our business domain, Sumitomo Forestry is promoting tree planting and forest management on a worldwide scale. These efforts include global warming countermeasures and the enhancement of internal measures to combat illegal logging to preserve forests, together with proactive steps to contribute to societies and economies of the countries and regions where we do business.

In April 2007, we acquired all outstanding shares in Kowa Lumber Co., Ltd., the parent company of Open Bay Timber Ltd. (OBT) which engages in forestry and timber manufacturing in Papua New Guinea, making the company a wholly owned subsidiary. Since concluding the first plantation timber operations agreement, "Project Agreement Relating to the Open Bay Timber Area," in 1984, OBT has been engaged in the development of plantation timber resources, and has made substantial contributions to the local economies where this development has been undertaken. Sumitomo Forestry is continuing in this vein, and is moving forward with sound expansion in plantation forest resources along with effective utilization of the resulting timber.

The Open Bay region, where OBT is located, lacks sufficient government-provided infrastructure like roads, schools and hospitals. The same is true for administrative services. For this reason, OBT operates a clinic, kindergarten, and supermarket for the employees and their families, as well as other local people.



Social Report

Major Initiatives in Fiscal 2007

At Sumitomo Forestry, each division establishes key initiatives and annual goals. Here, we report on major activity plans and results.

Together with Our Customers

| Key Initiatives | CSR Initiatives | FY2007 Results | FY2008 Plan | Division |
|---------------------------------|--|---|---|--|
| Provision of high quality homes | Encouraging utilization of the Housing Performance Indication System | Implemented evaluation for 98.3% of all housing | Encourage system utilization | Housing Business Headquarters |
| | Maintaining SGEC forest certification and promoting use of certified timber | Housing Business Headquarters and 30 internally designated precut factories throughout Japan acquired SGEC separation and labeling certification* | Maintain SGEC forest certification, and increase supply and use of certified timber | Forest Management Division, Timber & Building Materials Business Headquarters, Housing Business Headquarters |
| | Strengthening earthquake resistance and improving asset value through remodeling | 150 projects for remodeling of homes over 60 years old | Promote remodeling business | Sumitomo Forestry Home Tech |
| Communication with customers | Raising customer satisfaction levels | Launched "Satisfaction No. 1 Working Group" to respond more timely to customer feedback, and reduced the number of unaddressed complaints by half | Reduce customer dissatisfaction | Housing Business Headquarters |

* A system for certifying appropriate sorting and labeling by operators during storage, processing and distribution of timber from certified forests accredited by the Forest Stewardship Council (FSC), SGEC and other organizations

Together with Our Business Partners

| Key Initiatives | CSR Initiatives | FY2007 Results | FY2008 Plan | Division |
|--|---|---|---|---|
| Procurement of sustainable raw materials | Ensuring timber traceability, and procuring of sustainable timber | Completed legal compliance investigation for all 280 timber suppliers | Work towards 100% confirmed use of legally compliant timber by the end of fiscal 2009 | Timber & Building Materials Business Headquarters |
| Communication with Business Partners | Enhancement of communication with building contractor | Implemented survey incorporating CSR perspective of building contractors (response rate of 85%) | Reflect survey results in collaborative relationships from fiscal 2008 onward | Housing Business Headquarters |

Together with Our Shareholders

| Key Initiatives | CSR Initiatives | FY2007 Results | FY2008 Plan | Division |
|---|---|---|-------------------------|-----------------------------|
| Communication with Shareholders and Investors | Proactive information disclosure through individual meetings with investors | Held 190 individual investor meetings | Continue implementation | Corporate Planning Division |

Together with Our Employees

| Key Initiatives | CSR Initiatives | FY2007 Results | FY2008 Plan | Division |
|--|---|--|---|--------------------|
| Fostering a workplace environment where a diverse range of employees can work together energetically | Increase in female new hire ratio | Achieved female new hire ratio of 25% | 2011 target of 40% | Personnel Division |
| | Encouragement of parental leave for men | Implemented internal educational activities focused on parental leave for men | Individual support for those wishing to take parental leave Number of men who take parental leave: 3 or more (cumulative number since fiscal 2007) | |
| Creation of a workplace that is safe and healthy | Reduction in long working hours | Established executive committee and working groups | Set working hours according to job type | |
| | Support for physical and mental health | Implemented survey towards encouragement of non-smoking | Commence "Company-wide Quit Smoking Program" | |
| | | Implemented mental health seminars (69 branch offices) | - | |
| | | Promoted toll-free number for "Medical Consultation and Treatment for Mind and Body," resulting in greater utilization (approx. 914 cases) | Continue implementation | |
| Human resources development | Enhancement of training programs for skills development | Cumulative number of training session participants: 7,800 | Number of training session participants: 8,000 | |

Together with Society

| Key Initiatives | CSR Initiatives | FY2007 Results | FY2008 Plan | Division |
|--------------------------------|---|--|-------------------------|---|
| Social contribution activities | Environmental conservation education targeting children, through implementation of the Mt. Fuji Manabi no Mori natural forest restoration project | Achieved participation of 619 elementary and junior high school students in environmental education programs | Continue implementation | CSR Group, General Administrative Division |
| | Educational support for local residents via the KTI Educational Foundation | Provided scholarships to 79 recipients | Continue support | Overseas Business Headquarters |
| Investment activities | Investment towards the realization of a sustainable society | Contributed to the Japanese "Fund to Continue the Activities of Small and Medium-Scale Corporations in the Housing and Related Industries" | - | Timber & Building Materials Business Headquarters |
| | | Invested pension fund assets into socially responsible investment (SRI) funds | Continue SRI | Corporate Pension Fund |

Houses are the basic infrastructure for our lives and special places that we can call our own. As such, they have an enormous influence on the way we live our lives.

Sumitomo Forestry is making society better by providing houses where people can live for a long time feeling secure.

High-Quality Houses with Excellent All-Round Balance

Building Longer-Lasting Homes

With environmental issues becoming increasingly serious in recent years, and a decreasing birth rate and graying of Japanese society, there is widening recognition that homes are social assets that should be utilized in an inter-generational and circulatory manner. Houses in Japan typically have an expected lifespan of around 30 years, extremely short in comparison to an average of over 100 years in most Western countries. In this context, the environmental impact of rebuilding so often is substantial.

Sumitomo Forestry believes that the promotion of longer-lasting and high quality houses serving as “social assets” will play an important role in fostering a more prosperous society, and as such we are moving forward with the following four specific policies to provide longer lasting homes.

- Improvement of basic functions for houses, offering greater peace of mind
- Creation of comfortable living environments
- Improvement of spatial variability to accommodate changes in lifestyles
- Enhancement of maintenance programs to support long-term upkeep requirements

Meanwhile, debate on the proposed Law Concerning the Encouragement of Long-Lasting, High-Quality Housing Popularization is proceeding during the 2008 session of the Japanese Diet, and efforts by Sumitomo Forestry include participation in the Ultra Long-Lasting Housing Leadership Model Project organized by the Japanese Ministry of Land, Infrastructure, Transport and Tourism.

Stakeholder comment → I would like to see Sumitomo Forestry contribute to the reformation of the way houses are evaluated, taking into account taxation as in the US for example, so that quality housing becomes social asset in Japan. (NGO)

Improvement in Durability

In order to realize a high level of durability capable of being lived in by three successive generations, the expected minimum standard service life* of principal structural members has been set at 75 years. Standard specifications for the structural framework are the highest possible Level 3 in terms of evaluation based on the Japanese Housing Performance Indication System with respect to Alleviated Deterioration.

* The number of years a material or component is expected to function as originally intended, assuming a certain level of maintenance (including regular inspections) as envisaged by Sumitomo Forestry

Stakeholder comment → I would like to see the concept of living in a house over a long period of time reflected more in design of the house overall and its various components. (Consumer behavior analyst)

Disaster Preparedness

In the event of a fire or natural disaster such as an earthquake or destructive typhoon, earthquake and fire resistant housing is an important element in the protection of life and property. Sumitomo Forestry uses the Multi-Balance Construction Method, incorporating post-and-beam design together with integrated panels, to minimize deformation of the house due to earthquake-induced movement. Beams and large columns are also connected using BF metal joints in the big-frame configuration for superior earthquake resistance. The combination of these two methods delivers a structural framework with excellent strength.

Earthquake resistance is verified by testing performed on full-scale structural frameworks. With respect to the Multi-Balance Construction Method, peak ground acceleration equivalent to 1.2 times the maximum that was measured during the 1995 Kobe Earthquake, or 1,090gal, was applied, followed by sustained ground acceleration on a similar scale, with no structural damage or collapse. Excellent strength and stability were thus confirmed, far exceeding the criteria for the highest possible Level 3 (Japan Meteorological Agency seismic intensity 7, or approx. 600gal) in the Japanese Housing Performance Indication System. Sumitomo Forestry also employs the latest seismic isolation technology to limit movement transmitted to a structure, providing for greater safety inside.

Full-scale simulated earthquake testing, the first in Japan to be applied to triple layer wooden beam Rahmen structures, was conducted to evaluate the big-frame configuration, and confirmed the integrity of the structural framework. In strength testing of joints, horizontal vibration resistance was confirmed to withstand 16.2 times the shear resistance of walls as specified in the Building Standards Law of Japan.

In terms of fire resistance, standard specifications for Sumitomo Forestry houses include external wall materials capable of 30-minute fire resistant performance. This can be increased to 45 or 60-minute resistance depending on regulations governing the specific building location and/or customer preference. In fiscal 2007, certification by the Japanese Ministry of Land, Infrastructure, Transport and Tourism of fire resistant building materials produced by Nichias Corporation was revealed to have been obtained improperly. We identified 10 Sumitomo Forestry built homes using these improperly certified materials, and worked closely with the affected customers to rectify the situation and ensure requisite safety.

When an earthquake, flood or other natural disaster occurs, a disaster response team is established at the nearest local Sumitomo Forestry branch to undertake swift recovery and repair work of affected housing, as well as implement support measures to help alleviate concerns on the part of our customers.

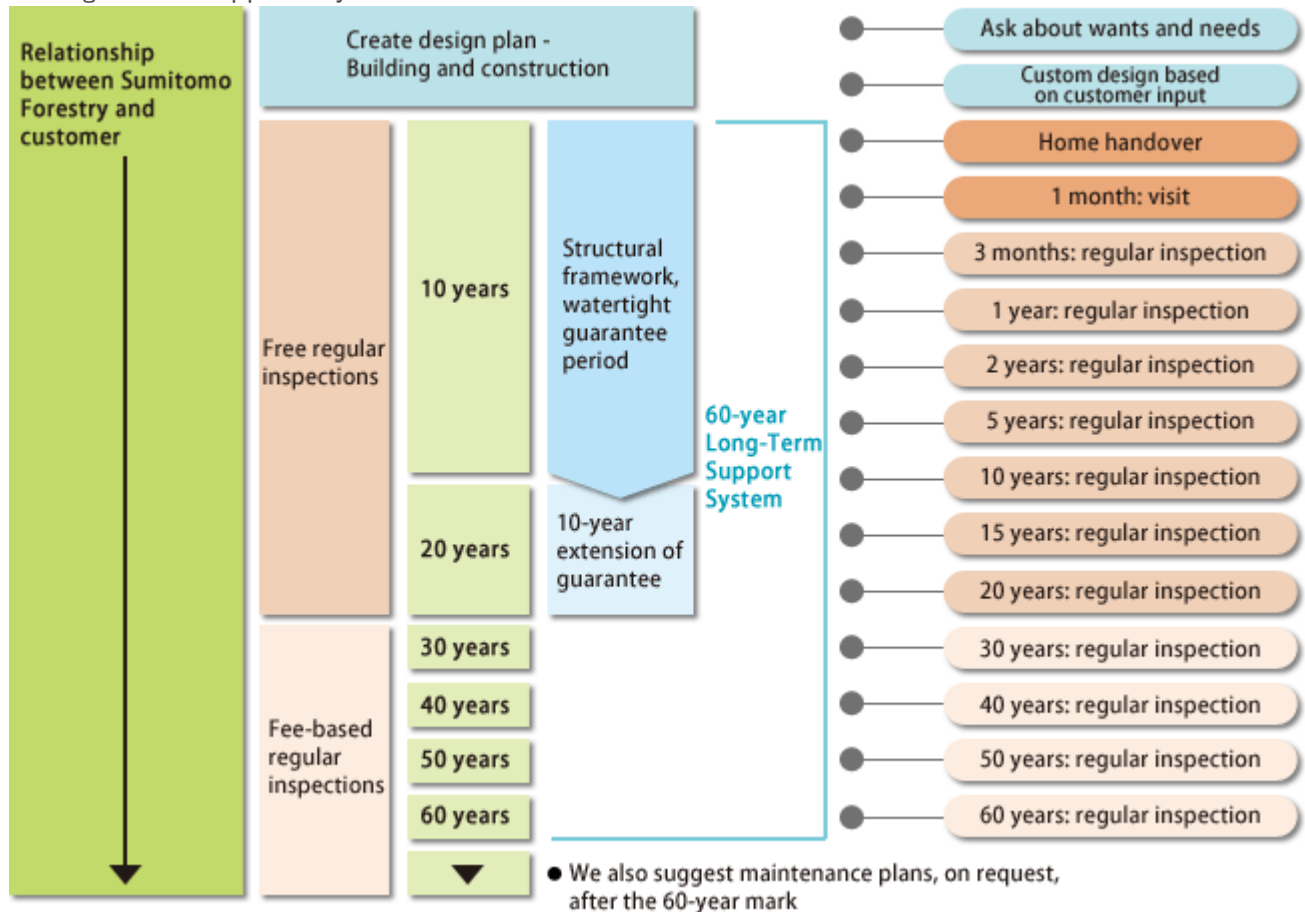
[!\[\]\(5a132f13505a6571904d622757b7a8f0_img.jpg\) Response to Improper Fire Resistant Certification by Nichias Corporation](#)

Enhancement of the Long-Term Support System

In order to help our customers live comfortably in their homes for as long as possible, Sumitomo Forestry offers the Long-Term Support System, providing maintenance support over a 60 year period after the sale of a home.

Overview of the Long-Term Support System

■ Long-Term Support System



- Ensure the principal structural members of the house have an expected functional lifespan of at least 75 years
- Determine a service life for each material and design the home to facilitate inspections, repairs, and materials replacement
- Implement regular inspections over a 60-year period
- Propose maintenance programs (including renovation), and keep maintenance-related records
- Implement proposals from the design stage that will allow for future changes in the life stages of the occupants
- 24-hour Customer Support Center and Call Center support

Stakeholder comment → I would like to see Sumitomo Forestry, as a housing builder, develop a service to provide comfortable homes whereby character is added to an existing home with each passing year. (NGO)

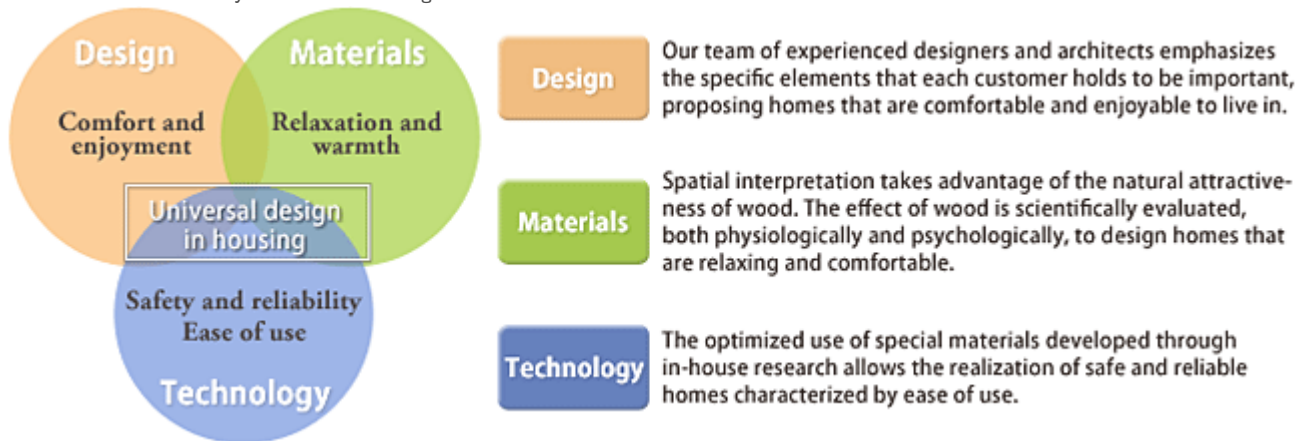
Pursuit of Universal Design

Sumitomo Forestry offers homes that integrate universal design as a keystone for safe, comfortable and enjoyable living by the entire family.

Space and flow planning are in accordance with family lifestyles, dimensional planning is designed to enable smooth and easy movement and posture, while handrails and other materials and fixtures are intended to prevent accidents before they happen. These sorts of improvements are facilitated by test results from human lifestyle engineering work at our Tsukuba Research Institute in Japan.

Internal Universal Design Working Groups have been formed since 2003, proceeding with research at the Universal Design House in Tsukuba Research Institute, promoting universal design concepts within the company through projects such as employee participation in Universal Design House living experiments, and promoting hands-on experience for our employees from such projects in their daily work.

■ Sumitomo Forestry Universal Design



Sick House Syndrome Countermeasures

“Sick house syndrome,” where people suffer from symptoms such as eye and throat irritation, headaches or general nausea after moving into new or renovated homes, has become a major social issue in recent years. One of the causes has been identified as the release of volatile organic compounds like formaldehyde from building materials and wallpaper adhesives.

In order to prevent sick house syndrome, Sumitomo Forestry has established strict criteria for the selection of building materials, and is working to reduce problem substances. Our wallpaper, flooring materials, interior doors and fittings, etc. are all “F☆☆☆☆” products, which are those having the smallest amount of formaldehyde release among products meeting the Japanese Industrial Standards (JIS) and Japanese Agricultural Standards (JAS) requirements.

Volatile organic compounds can also be released by furniture and other home-related items. Sumitomo Forestry houses feature 24-hour ventilation systems for the constant circulation of fresh air, as an additional measure to combat sick house syndrome.

Response to Housing Performance Indication System

The Japanese Housing Performance Indication System is a scheme whereby highly reliable evaluation by third-party experts is applied to help potential homebuyers purchase a new home with confidence. There are ten evaluation classes, including “structural stability,” “fire safety,” “durability” and “energy efficiency.”

Sumitomo Forestry, striving not only to ensure customer safety and peace of mind, but also to create higher asset value, has promoted the utilization of the Housing Performance Indication System. During fiscal 2007, 98.3% of our houses were subject to the Housing Performance Evaluation at Design Stage system. In parallel with these efforts, we encourage our customers to make use of the Housing Performance Evaluation at Completion Stage system as well.

Timber Used for Housing

For the sake of maintaining healthy forests, Sumitomo Forestry believes that it is important to procure timber for housing from sustainably managed forests, and as such is engaged in the following initiatives.

In September 2006, Sumitomo Forestry obtained Sustainable Green Ecosystem Council (SGEC)¹ certification for approximately 40,000 hectares of company-owned forestland in Japan—Monbetsu (Hokkaido), Ogawa (Wakayama), Niihama (Shikoku), and Hyuga (Kyushu)—verifying the compatibility of the natural environment with sustainable forest management. SGEC CoC (Chain of Custody) certification (SGEC separation and labeling certification²) was also acquired in October 2007, demonstrating appropriate classification and labeling of certified timber at every step, from log transportation and processing through to housing construction.



SGEC certified timber used for housing

Having both SGEC forest and SGEC separation and labeling certifications is validation that certified timber is appropriately managed in each process, including logging, distribution, timber processing and precut processing, and provides third-party verification that certified timber is used for Sumitomo Forestry houses. Sumitomo Forestry is the first major housing builder in Japan to obtain this dual certification.

As a result, all engineered standard studs made of Hokkaido-grown Japanese larch used in Sumitomo Forestry Home houses built in the Hokkaido area have the certificate of use of certified timber attached.

We will be moving forward with the use of certified timber from company-owned forests in Wakayama, Shikoku, and Kyushu in the future, and, based on the Timber Procurement Philosophy and Policy announced in June 2007, expanded efforts are being made to use Japanese produced timber.

1. Japan's own forestry certification system through which management of forests is verified as sustainable by third parties. Certification is based on seven standards that include the preservation of biodiversity and the conservation and maintenance of soil and water resources.
2. A system for certifying appropriate sorting and labeling by operators during storage, processing and distribution of timber from certified forests accredited by the Forest Stewardship Council (FSC), SGEC and other organizations

Stakeholder comment — As the industry leader and from the perspectives of combating global warming and cultivating water sources, I hope Sumitomo Forestry will continue to promote the use of Japanese timber. (NGO)

Our Focus on Wooden Housing

Japan is blessed with plentiful forest resources, and wooden houses have been built here from ancient times. While creating a calming ambience, natural wood is characterized by various aspects that make it suited to daily life in Japan's four seasons. At Sumitomo Forestry, we take advantage of the natural appeal of wood, focusing on harmony with nature in our homes to create the Sumitomo Forestry Home houses under the *MyForest* brand. *MyForest* homes use Japanese-produced cypress wood for structural members such as posts, and this use of Japanese timber in turn assists in the revitalization of the Japanese forestry industry, which helps protect Japan's forests against degradation. We are also looking to offer homes that allow comfortable living throughout the four seasons, and to that extent our *Ryouonbou* design approach incorporates traditional approaches to natural light and good airflow.

Stakeholder comment → I think it's good to use wood, with its cozy feel, for parts of the house that you actually see and touch, such as the walls and ceiling, in addition to using it for the frame. (Customer)

Multi-Unit Residential Building Initiatives

Sumitomo Forestry is also engaged in the construction of multi-unit residential buildings using two-by-four and reinforced concrete construction methods, which deliver excellent earthquake resistance and durability.

Construction of two-by-four multi-unit residential buildings features high basic performance with particular respect to fire resistance, wind resistance, soundproofing, and insulation and airtightness. In addition, designs make excellent use of available space to provide high added-value, and performance levels are verified by the Japan 2x4 Home Builders Association. Multi-unit residential buildings based on reinforced concrete construction offer excellent performance based on solid expertise, delivering exceptional quality together with high asset value.

In order to help customers make the best use of their land, Sumitomo Forestry also offers land evaluations free of charge, market surveys, architectural planning, cash flow planning, financial planning, and various other consulting services, as well as construction, supervision and building maintenance services, fully supporting apartment and condominium rental management. Our connection with Group affiliate Sun Step Co., Ltd. enables comprehensive response at every point, including tenant search, operations, and management support.

Promotion of Remodeling Projects

Although the expected service life of modern Japanese homes is considered to be about 30 years, Sumitomo Forestry Home Tech Co., Ltd. (a Group company specializing in remodeling work) offers remodeling proposals to make houses even older than that suitable for longer term, comfortable living. Based on our strong expertise in wooden housing, the Sumitomo Forestry Group employs technological and design capabilities for improved structural safety, as well as using quality wood to create a warmer atmosphere.

At present, around 40% of Japan's detached wooden houses are considered to be

insufficiently earthquake resistant, meaning earthquake reinforcement is essential for safe and worry-free living in these structures. To help address this need, Sumitomo Forestry Home Tech and the Tsukuba Research Institute have jointly developed four proprietary technologies for greater earthquake resistance. Portal frame shear wall, glass block shear wall, and the Sumirin ARC Construction Method have successfully passed technical evaluation by The Japan Building Disaster Prevention Association, while special tough panels have obtained approval by the Japanese Ministry of Land, Infrastructure, Transport and Tourism. These technologies also enable shorter renovation work schedules, and offer greater comfort and peace of mind to customers.

Leveraging our knowledge of wood and technical capabilities in traditional wooden housing, we also renovate historic Japanese houses. Maintaining historical structures for the future through the application of highly refined wood-related technology is important from the perspective of protecting assets with high social value.

We are also working to strengthen our training systems, aiming at improved proposal creation and technical capabilities to be able to respond to the needs of our customers, family by family, house by house. In fiscal 2007, our work on five projects was recognized by awards for excellence in three categories (“Overall,” “Living Room” and “Bath & Kitchen”) in the Housing Remodeling Contest hosted by the Center for Housing Renovation and Dispute Settlement Support.

During fiscal 2007 we worked on approximately 150 remodeling projects involving houses over 60 years old. We look forward to expanding this business in the future, helping to recreate longer-lasting, high quality homes.

Maintaining the Beauty and Charm of Old Houses

Renovating a 150 Year-Old Wooden House

“We want to preserve the exposed main pillars and beams of our family’s ancestral home, while also making it suitable for modern living, and we want to use solid timber so that we can enjoy the warmth and fragrance of wood.” When a customer in Shizuoka came to us with this request, we were able to propose a renovation plan that both incorporated the timber from the original house and provided for earthquake resistant reinforcement.

From the Remodeling Engineer

In order for the family to continue living in the 150 year-old house with peace of mind, we came up with a design that would address deterioration in areas such as the bath and kitchen, as well as improving earthquake resistance. The wood materials that could be reused were reworked for the renovated version, and in addition to the beams and posts, even old interior doors, fittings and flooring were re-integrated wherever possible. Solid timber components were also newly introduced, with close attention paid to maintaining the wood feel.



Keiko Asai
(Grade 1 Architect),
Remodeling Engineer,
Sumitomo Forestry
Home Tech

From the Customer

We decided to do the renovation after my son told me that he wanted to keep the old house with its generous use of real wood. Our relatives were also pleased that we were going to maintain the original look. Now that the renovation is complete, we have a new appreciation for the benefits of wood, and we’re always on the lookout for antique furniture that matches the house.



Family members who have had their house in Shizuoka Prefecture remodeled by Sumitomo Forestry Home Tech

The remodeled house received an award for excellence in the "Overall" category of the 24th Housing Remodeling Contest



Exterior



The left-hand entryway step uses Japanese zelkova wood from the original structure

Participation in JTI Project

In order to create a quality living environment for all society, Sumitomo Forestry understands the importance of raising the value of individual homes, improving the overall quality of the housing available to society, and making secondhand house buying as smooth as possible.

For this reason, along with our ongoing efforts to supply high value homes, we became a supporting corporate participant from December 2006 in a project known as the Japan Trans-housing Institute. This non-profit public corporation is backed by the Japanese Ministry of Land, Infrastructure, Transport and Tourism together with private sector companies, and has been responsible for the public sector support system for the rental house market which was introduced in fiscal 2006, providing guaranteed agreements to rent homes belonging to people whose children have grown up, and subletting these homes to families with young children.

By participating in this program, we are looking to enhance our after-sales services and advisory capabilities with regard to housing and living, as well as further developing derivative businesses such as secondhand house buying and remodeling of current homes, while at the same time collecting information on diversifying lifestyles and housing requirements.

At present, we provide information on this new system to our customers living in Sumitomo Forestry Home houses in the greater Tokyo area extending to Kanagawa, Chiba and Saitama prefectures.

Stakeholder comment I would like to see the Sumitomo Forestry's housing business, and the housing industry in general, switch to a focus on developing long-term social assets. (NGO)

Communication with Customers

Striving for Customer Satisfaction

At Sumitomo Forestry, our basic philosophy is "Putting Customers First." The core of our business is providing high quality housing and services that satisfy our customers. Our relationship with our customers via housing is played out over a lifetime, and our goal, from design through to after-sales support, is to respond to all of our customers' expectations, while reducing the number of dissatisfied customers to zero.

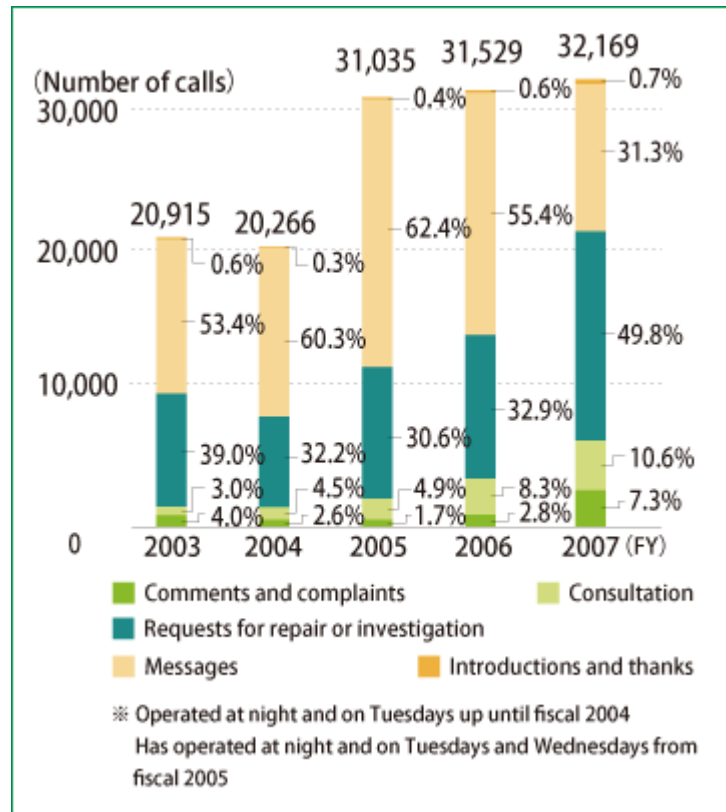
To achieve this, we not only listen to our customers as much as possible, but also strive continuously to instill the concept of putting the customer first in each and every one of our employees through a wide range of education, training, and ongoing study initiatives.

24-Hour, 365-Day Support through Our Customer Support Centers and Call Center

Sumitomo Forestry places strong emphasis on after-sales services after a home has been handed over to its new owners, helping to foster comfortable living on the part of our customers.

Customer Support Centers specializing in after-sales support are located throughout Japan, where specialist operators accept requests for consultation and/or repairs and maintenance. A dedicated Call Center is also available for response at night and on the days that the Customer Support Centers are closed. This has resulted in the ability to provide customers with 24-hour, 365-day access to after-sales support staff.

■ Breakdown of Call Center Consultations



Inauguration of the “Satisfaction No.1 Working Group”

Sumitomo Forestry set up the “Satisfaction No.1 Working Group” in April 2007 with the objectives of reducing the number of dissatisfied customers and boosting customer satisfaction in general, seeking to give further substance to the concept of always putting the customer first. Previous efforts had resulted in year-by-year functional improvements in the organization of our Customer Support Centers and Call Center to deliver prompt and individualized response. The new working group drew upon this past experience and got started by fundamentally reevaluating the various relevant issues.

The members of the Satisfaction No.1 Working Group represent the various divisions of the Housing Business Headquarters. By comprehensively analyzing previously received customer comments, new issues have been identified and improvement strategies formulated. A parallel initiative has been to establish an integrated groupware information management system. This has led to faster response to customer inquiries and complaints, with smoother sharing of relevant information, resulting in the number of unaddressed complaints declining by half since the system was launched in March 2007. We are committed to making even more effective use of this system in the future as part of our ongoing efforts to raise customer satisfaction levels.

The final goal of the Satisfaction No.1 Working Group is to reduce the number of dissatisfied customers to zero, with work now focused on the intermediate objective of a 30% cut in current remediation costs by 2010.

Regular Survey Implementation

In order to accurately assess the comments from our customers, Sumitomo Forestry implements questionnaire-type surveys at the time a new residence is occupied, during the 2nd year, and during the 10th year. These surveys request detailed responses to questions covering design, building materials, equipment and fixtures, Sumitomo Forestry staff attitudes and responses, etc., with survey results tabulated annually so as to aid in future improvements. Also, at the end of each maintenance visit or inspection, the customer is given a postcard questionnaire eliciting feedback on subjects such as response speed, the quality of repair or maintenance, and the attitude and behavior of maintenance contractors.

We are currently evaluating data from some 90,000 questionnaire responses, covering surveys for the past six years conducted upon new occupancy and at the beginning of the second year, and we will use the results to realize further enhanced products and services.

Keeping Our Customers Informed

Even after handing over a new residence to one of our customers, Sumitomo Forestry continues to provide useful maintenance tips along with lifestyle ideas. This is part of our commitment to detailed communication to help our customers meet their lifestyle needs.

One of our communication tools is Club Forest, a special website that our homeowners can register to use, offering information on a variety of subjects such as gardening and interior decoration, as well as access to consultation on maintenance and repair. Requests submitted via the website are answered by a return telephone call from our Customer Support Centers during regular working hours. The website has received 9,690 member registrations to date, and in fiscal 2007 received approximately 1.45 million page views.



Club Forest, the special website for owners of Sumitomo Forestry houses

Another communication tool is our home and lifestyle magazine *Suteki-na Kazoku*, which is sent out to our homeowners on a semiannual basis. The magazine also introduces all sorts of lifestyle-related information, including details about Group company businesses such as remodeling and property development. Print runs for each issue were 190,000 in fiscal 2007.



Home and lifestyle magazine *Suteki-na Kazoku*

Stakeholder comment I believe it is important that Sumitomo Forestry maintains constant communication with customers and consumers in general. (Management-related CSR expert)

Standards for Advertising

Sumitomo Forestry conducts thorough advance checking of all advertising, so as not to convey unclear or misleading information, and strict compliance is demanded with respect to the Japanese Building Lots and Buildings Transaction Business Law, Act Against Unjustifiable Premiums and Misleading Representations, Copyright Law, and all other relevant legislation. In June 2007, however, the company was found in violation of the Fair Competition Code Concerning Real Estate Postings due to a real estate advertisement considered to invite misunderstanding. In response, we ran corrected advertisements together with an apology, and have been taking further steps since July 2007 to prevent any recurrence by reinforcing our confirmation system.

Stakeholder comment → Society expects a company to provide consumers with correct information and accurately convey the company's objectives. (NGO)

Property Development

Sumitomo Forestry's Property Development Business Division works to promote property development for safe, worry-free, comfortable and healthy living for everyone, from children to senior citizens. These development efforts include consideration for the neighboring environment, construction and situating of homes so as to foster communication among residents, security measures, and the establishment of residents' associations.

Internally, training sessions were held in August 2007 on the theme of "residential development utilizing greenery," with study focusing on integrating residential spaces with their surroundings.

Sumirin Life Assist Co., Ltd. began plans in 2006 in Aoi Ward, Shizuoka City for a large-scale development known as the Shizuoka Aoi-no-Mori Project, centered on the three key terms of wellbeing, elderly care, and healthcare. The site has a total area of approximately 24,000m², containing detached houses, a gymnasium, nursing home, clinic, park, and other amenities developed in cooperation with local residents. The gymnasium was finished in October 2007, followed by the commencement of first phase residential lot sales in November 2007, and completion of the nursing home with special care facilities in March 2008. Construction of the medical clinic is scheduled for completion in fiscal 2008, with second phase residential lot sales to commence in fiscal 2009.



The Home Shizuoka Aoi-no-Mori

Stakeholder comment → · I hope Sumitomo Forestry will extend its "greening" technology to a wide variety of other urban developments. (Business partner)
· I hope Sumitomo Forestry will try and improve the townscapes and cityscapes with its housing projects. (NGO)

Together with Our Business Partners

Together with our construction subcontractors and our business partners for timber and building materials, etc., we are working to reduce environmental impact, as well as improve workplace health and safety.

Providing High Quality Timber and Building Materials

Sumitomo Forestry Group companies manufacturing wooden building materials, both in Japan and overseas, have in place measures to ensure only high quality timber and materials are supplied to customers.

All plants operated by Sumitomo Forestry Crest Co., Ltd., a Sumitomo Forestry Group company in Japan, and three plants operated by Toyo Plywood Co., Ltd., also a Sumitomo Forestry Group company in Japan, have acquired ISO 9001 certification for quality management, employing strict quality control systems for all processes. Both companies take inspection samples from each and every production lot to ensure that the products strictly comply with Japanese Industrial Standards (JIS) and Japanese Agricultural Standards (JAS) regulations. In order to further improve quality, the two companies introduced a new quality information management system in fiscal 2007. This system helps to promptly relay customer complaints to the production line, which in turn facilitates prevention of further substandard products from reaching the market and assists in the general improvement of quality.

Sumitomo Forestry has been promoting the acquisition of JIS and ISO certification by overseas Group companies as well. In 2003, a medium density fiberboard (MDF) plant operated by New Zealand affiliate [Nelson Pine Industries Ltd.](#) became the first in the Oceania region to obtain JIS certification for fiberboard. Since then, other Group companies' plants producing fiberboard, plywood and engineered wood have also been pursuing certification.

In May 2007, PT. Rimba Partikel Indonesia (RPI) received the first-ever JIS certification awarded to a particle board plant within Indonesia. RPI maintains a high share of Indonesian production, and the acquisition of JIS certification means that customers of the company can use high quality products such as those carrying the "F☆☆☆☆" designation, indicating reduced levels of formaldehyde, even more confidently than before.

Procurement of Sustainable Raw Materials

Green Procurement

Based on the commitment to “Contributing to society through the vigorous pursuit of business operations in harmony with conservation principles” as embodied in our Environmental Philosophy, Sumitomo Forestry strives to prevent environmental pollution, reduction of environmental impact, and the establishment of a recycling-oriented society. We have put forth Green Procurement Guidelines and *Timber Procurement Standards*, and we preferentially purchase goods and services aligned with these principles from business partners who are working to reduce their own environmental impact. In June 2007, we finalized and announced our Timber Procurement Philosophy and Policy, encompassing legal compliance confirmation for the timber that we handle as well as efforts aimed at improved traceability.

Going forward, in accordance with these principles, we will be reinforcing our environmentally oriented cooperative framework from two directions: evaluation of the environmental conservation activities of our business partners, and product assessment based on the standards that have been established.

Stakeholder comment → I hope that Sumitomo Forestry is taking into consideration societal factors when conducting procurement and other business activities. (NGO)

■ Green Procurement Guidelines (outline of product evaluation)

1. Reduction of the use of substances or emissions that affect the environment or human health
2. Reduced consumption of energy resources
3. Use of materials from forests managed in a legal and sustainable manner
4. Usability over the long term
5. Suitability for recycling
6. Use of recyclable materials and reusable components
7. Ease of proper treatment or disposal at end of lifecycle

■ Timber Procurement Philosophy

Timber is a renewable natural resource. Sumitomo Forestry views forest ecosystems and natural resources of the forest as precious and irreplaceable assets belonging to all mankind. Together with our suppliers, we will incorporate environmental and social considerations into our procurement of timber as we strive to realize a sustainable society that is able to develop in harmony with our forests.

■ Timber Procurement Policy

1. Ensure timber procurement is legal and sustainable:
 - Comply with relevant laws and regulations and enhance systems for confirming the legality of timber;
 - Increase procurement of timber produced through sustainable forest management;
 - Increase the use of plantation timber while promoting planting efforts as a way to help maintain forest resources.

2. Establish a traceable supply chain:
 - Together with suppliers, strive to improve the reliability of traceability management;
 - Together with suppliers, ascertain whether forests of high conservation value are being properly managed;
 - Carry out proper information disclosure to ensure transparency in procurement;
 - Maintain ongoing dialogue with suppliers to help prevent corruption and to advocate human rights and basic workers' rights.

3. Reduce environmental impact throughout the entire lifecycle of products and utilize timber resources effectively:
 - Actively use domestic timber to help conserve national land and revitalize the forestry industry;
 - Promote the utilization of such materials as thinnings and wood waste, the reuse and recycling of timber, and related technological development;
 - Strive to reduce the environmental impact of procurement such as through improvements to distribution efficiency.

4. Together with stakeholders:
 - Together with stakeholders, make continual improvements;
 - Place value on biological diversity and the cultures, traditions and economies of communities coexisting with forests;
 - Convey to stakeholders the importance of incorporating environmental and social considerations into timber procurement.

■ Action Principles

The following are principles of action for the procurement of timber.

1. Review Timber Procurement Philosophy, Policy and Action Plan at least once a year.
2. Place importance on direct communication with suppliers, and implement logging and processing site surveys by employees as necessary.
3. Survey suppliers' stances on and activities for environmental protection and other efforts.
4. Ascertain the legality and whether or not procured timber is produced from sustainable forests at least once a year based on the standards and methods established in each area.
5. Promote procurement of timber produced from sustainable forests, plantation forests and certified forests.
6. Reduce the environmental impact of products with respect to their lifecycles. This includes effective utilization of wood materials, technological development, and improvements to distribution efficiency.
7. Maintain ongoing dialogue with stakeholders, such as governmental organizations, environmental NGOs, business associations, and consumers, and reflect such dialogue in improvements.
8. Disclose pertinent information through the *Environmental and Social Report* and other means.

■ Action Plan

Specific objectives are established for each area of business.

| Segment | Division | Action | FY | Goal |
|---|--|--|------------|---|
| Group-wide ¹ | | Survey supply chain | 2007 | Finish confirming legality of timber from all suppliers |
| | | Examine sustainability | 2008 | Formulate standards for sustainable forests |
| | | Examine legality of timber | 2009 | Confirm legality of all timber handled |
| Action Plans by Division | | | | |
| Forests in Japan Distribution in Japan | Forest Management Division, Forestry & Environment Headquarters | Promote forestry certification | 2007 | Use 2,000m ³ /year (log basis) of certified timber from company-owned forests ² |
| | | Promote forestry certification | Continuous | Maintain forestry certification of company-owned forests and pursue continual improvement |
| | Sumitomo Forestry Timberland Management Co., Ltd. | Establish system for confirming legality of timber | 2007 | Acquire group certification to establish systems for confirming legal compliance |
| | | Promote handling of Japanese timber | 2010 | Handle 1,000,000m ³ of Japanese timber annually ³ |
| Building materials distribution | Building Materials Division, Timber & Building Materials Business Headquarters | Survey supply chain | 2008 | Finish survey of corporate initiatives of all suppliers |
| | | Examine the legality of imported solid wood building materials | 2009 | Handle only legal imported solid wood building materials |
| Manufacturing in Japan | Sumitomo Forestry Crest Co., Ltd. | Promote use of Japanese timber | 2007 | Use 8,000m ³ /month of Japanese cedar for plywood (Komatsushima Plant) |
| | | Promote forestry certification | 2007 | Acquire SGEC ⁴ separation and labeling certification ⁵ |
| | Toyo Plywood Co., Ltd. | Promote use of Japanese timber | 2007 | Develop and launch building materials made of Sakhalin fir |
| | | Promote forestry certification | 2007 | Commence examination of SGEC separation and labeling certification acquisition |
| Housing | Housing Business Headquarters | Promote forestry certification | 2007 | Begin use of certified timber for housing |
| | | Promote use of Japanese timber | 2008 | Raise usage rate of Japanese timber for principal structural members to 70% |

1. Excludes some handled products
2. Supply to the Housing Business Headquarters
3. Includes timber supplied to the Housing Business Headquarters
4. Japan's own forestry certification system through which management of forests is verified as sustainable by third parties. Certification is based on seven standards that include the preservation of biodiversity and the conservation and maintenance of soil and water resources.
5. A system for certifying appropriate sorting and labeling by operators during storage, processing and distribution of timber from certified forests accredited by the Forest Stewardship Council (FSC), SGEC and other organizations

Ensuring Traceability of Timber

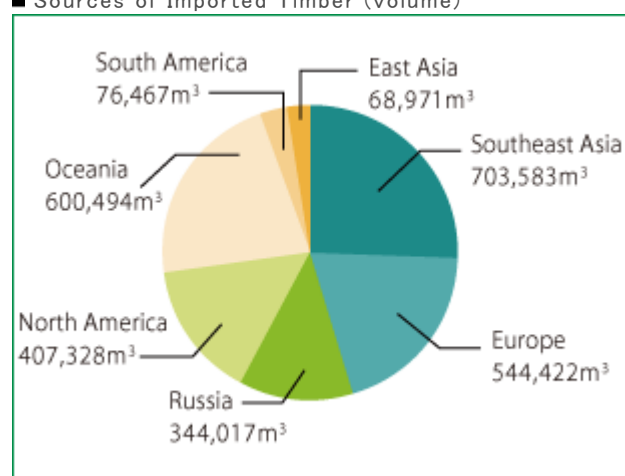
Sumitomo Forestry procures timber and timber products from around the world, and we implement legal compliance confirmation procedures for each of our suppliers so that we can avoid handling timber that has been illegally logged. We strive to boost the reliability of our confirmation investigations by dispatching managers and local representatives to logging sites when necessary. In fiscal 2007 we completed compliance confirmation investigations for all of our overseas suppliers.

As of fiscal 2006, all of our company-owned forests in Japan had acquired Sustainable Green Ecosystem Council (SGEC) forest certification, attesting to the supply of timber from sustainable forests. Furthermore, the Housing Business Headquarters acquired SGEC separation and labeling certification* in fiscal 2007 to facilitate the handling of certified timber used in housing built by Sumitomo Forestry. Accordingly, a complete system has now been organized to support timber traceability, with certification at each stage of the process from forest management and distribution through to housing construction.

In September, 2006, the Wood Products Trading Division of the Timber & Building Materials Business Headquarters obtained Chain of Custody (CoC) certification, having put in place systems for appropriate management of timber from forests accredited by the Forest Stewardship Council (FSC).

* A system for certifying appropriate sorting and labeling by operators during storage, processing and distribution of timber from certified forests accredited by the Forest Stewardship Council (FSC), SGEC and other organizations

■ Sources of Imported Timber (volume)



Communication with Business Partners

The Sumirin-kai: A Forum for Communication with Timber and Building Materials Suppliers

The "Sumirin-kai" is an organization sponsored by Sumitomo Forestry to serve as a forum for communication with suppliers and retailers of building materials in each locale where we do business. Training sessions and information exchange meetings are held in various locations, allowing members to deepen mutual friendship, promote advances in product research and development, enhance production and distribution, and support improvements in the industry as a whole. A monthly e-mail magazine is sent to all supplier members, numbering 698 companies throughout Japan as of March 2008.



General meeting of the Sumirin-kai

Precut Forum 21: A Study Forum for Precut Product Manufacturing Facilities Nationwide

Precut Forum 21, an industry organization founded in 1997, is a nationwide network in Japan with the objectives of improved quality and productivity together with business development of member companies, consisting of precut* product manufacturing facilities engaged in the production of housing frame components manufactured in advance of actual construction.

Sumitomo Forestry is actively involved in the operation of Precut Forum 21, and we have hosted various programs and presentations, including ISO seminars (a series of classes to assist in the acquisition of ISO 9001 certification), study tours of manufacturers in other industries, study sessions on the proper handling of industrial waste, and seminars on business opportunities associated with the use of Japanese timber. Activities in fiscal 2007 targeting improved business knowledge and procedures included a seminar on legislative changes as well as the formation of a discussion group focusing on structural design, production and sales. In the future, we intend to offer programs that will support cost and power savings, improved design capabilities for precut product manufacturing facilities, and general improvement by building contractors.



Training session for site managers at the Sumitomo Forestry School of Professional Building Techniques

* "Precut" can be defined as a construction-related production system using advanced CAD/CAM technology for the high-precision processing of timber that is subsequently taken to construction sites to be fitted together. This is in contrast to the traditional carpentry process of on-site cutting and planing of each piece as needed.

Partnership with the INOS Group

In order to provide reliable and safe housing for our customers, Sumitomo Forestry creates close partnerships with construction companies throughout Japan, having formed the INOS Group to share our extensive expertise developed over many years and implement our warrantee system. Membership stood at 321 companies as of March 2008.

As members of the INOS Group, local construction companies are eligible to use construction technology and guaranteed-quality building materials provided by Sumitomo Forestry, as well as taking advantage of our computerized structural calculation and estimate generating systems, and the capability to efficiently create construction completion certificates, typhoon damage warrantees, etc. Accordingly, local INOS Group members are able to respond to customer requirements in a manner that reflects the importance members place on customer trust, and to integrate the safety and reliability associated with Sumitomo Forestry expertise.

Recent years have seen heightened public interest in the issue of falsified structural calculation certificates, and a revised ordinance from the Japanese Ministry of Land, Infrastructure, Transport and Tourism was put forth in June 2007 specifying stricter procedures for architectural confirmation and inspection. In response, the INOS Group has held familiarization sessions, and is working to ensure, with the aid of computers, that drawings conform with the structural calculations.

The INOS Group holds a General Meeting annually, aimed at facilitating communication and shared objectives among members. The 12th such General Meeting was held in May 2007, attended by 530 participants from throughout Japan. This meeting featured a presentation by renowned architect Tadao Ando, as well as the presentation of excellence in design awards for the *INOS House* brand.

As of March 2008, members of the INOS Group have completed 20,300 residences, with new construction of 1,500 structures targeted during fiscal 2008.

Publication of the *Building Materials Monthly Magazine*

Sumitomo Forestry publishes the *Building Materials Monthly* magazine, aimed at manufacturers, purchasers and distributors of timber and building materials. Based on an editorial view that "change is propagated from the building site," the publication seeks to grasp timely industry information and trends, with the objective of promoting linkages and common interests among business partners. With each month seeing the printing of 5,000 copies, the magazine plays an important role in connecting manufacturers with purchasers and resellers.

Communication with Building Contractors

Cooperative relationships characterized by strength and trust with our building contractors are essential to business development efforts by Sumitomo Forestry.

In order to promote even better partnerships, we operate the nationwide Association of Sumitomo Forestry Safe Building Contractors, which provides information to improve the technical skill levels and construction management capabilities of the building contractors, considers problem areas together with contractor representatives, and presents awards for excellence to outstanding site managers and carpenters.

“Appreciation Evenings” are held to give members the opportunity to interact with each other, and during fiscal 2007 these events were held at five locations throughout Japan, with total attendance of 1,209 people.

To gain an effective understanding of building contractor conditions and issues, fiscal 2007 saw the launch of the “Survey on CSR,” expanding on the previously administered annual “Survey on Production Systems.” The questionnaire was designed to identify weaknesses and flaws in our standards, plans, etc., as well as facilitate improvements in operations, safety, and technical capabilities. It was also useful in helping to enlighten the employees of our building contractors (typically small and medium sized enterprises) with respect to the concepts embedded in our approach to CSR, incorporating concerns such as strict legal compliance, environmental conservation, respect for human rights, and contributions to local communities. A response rate of 85% was achieved by the fiscal 2007 survey, and the results will be reflected in improvements from fiscal 2008 onward.

Many building contractors face a shortage of skilled labor and/or aging among their craftsmen, such that cooperation and support in the training of a new generation of builders is needed in order to ensure the same level of production in the future. The Sumitomo Forestry School of Professional Building Techniques, founded in 1988, offers a one year carpentry course for people wanting to work for Sumitomo Forestry, as well as five to ten-day beginning and intermediate training courses in accordance with the requirements of building contractors, provided as a means to support human resources development.

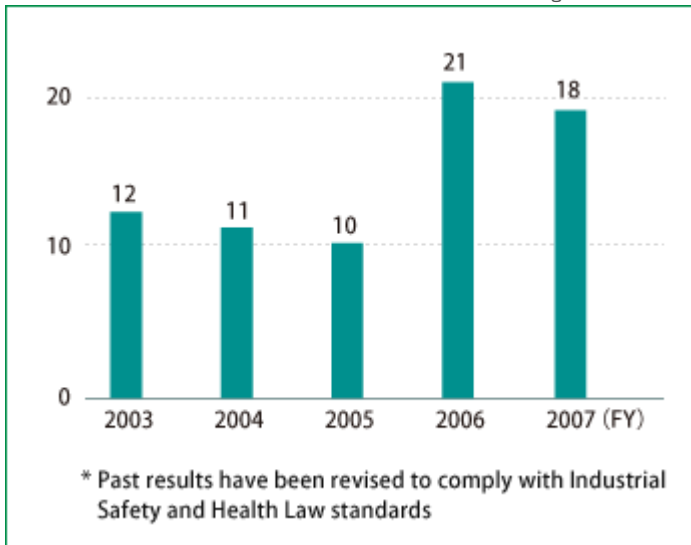
Improved Quality and Workplace Safety at Housing Construction Sites

Based on Sumitomo Forestry's independently formulated Health and Safety Management Guidelines, and with the cooperation of our building contractors, we are endeavoring to eliminate work-related accidents, including construction site accidents involving falls and slipping, heavy machinery, or power tools. In fiscal 2007, adopting a basic policy of full implementation of danger prediction procedures for preventing disasters, four priority areas were targeted: wearing of helmets at all times, zero industrial accident, comprehensive self-management, and complete guidance and training for workplace health and safety confirmation. With these themes in mind, each company division was charged with requisite planning and implementation.

Every branch office holds monthly safety patrols and workplace health and safety meetings. The monthly safety patrols are inclusive of representatives from all building contractors currently engaged, touring the relevant construction sites for mutual verification of safety and quality. Meanwhile, the workplace health and safety meetings are focused on discussion of relevant improvements.

Furthermore, at every local chapter of the Association of Sumitomo Forestry Safe Building Contractors, training sessions are held to promote greater safety and higher quality.

■ Number of Work-Related Accidents at Building Contractor Locations (at least 4 days off)



Zero Emissions Efforts in Concert with Waste Treatment Contractors

The Sumitomo Forestry Group has established a goal of 98% recycling of industrial waste from production plants, new housing construction sites and other locations by March 2010, and all divisions, including affiliates, are making efforts toward the achievement of zero waste emissions. Internal collaboration is of course essential to these efforts, and the same is true with respect to building contractors engaged in on-site sorting of waste and intermediate waste treatment contractors to whom industrial waste processing is consigned. Reduction of industrial waste generated during housing construction work is not an issue that can be resolved solely at construction sites. Reconsideration needs to take place at all levels, including technological development, materials procurement, production, and waste processing.

During fiscal 2007, Sumitomo Forestry undertook interviews and surveys with respect to intermediate industrial waste treatment plants, investigating the amounts of respective categories of materials accepted and the corresponding levels of recycling. Also, a Kanto Regional Zero Emissions Joint Council was convened among Sumitomo Forestry Group waste-emitting entities and intermediate waste processors as a concrete step towards achieving zero waste emissions. As a result, items found by the waste processors to be particularly difficult to recycle were identified, and consideration has begun in terms of how to proceed, including whether such materials can be used as fuel in the process of cement-making, or as part of the cement mixture itself. We have also been interviewing manufacturers of various types of materials to assess the acquisition status of "inter-region recovery and recycling certification" and as such we have started investigating a recycling framework that would incorporate such certified companies.

Sumitomo Forestry ensures high transparency in management and proactive disclosure of information to build trust with shareholders and investors.

Communication with Shareholders and Investors

Information Disclosure

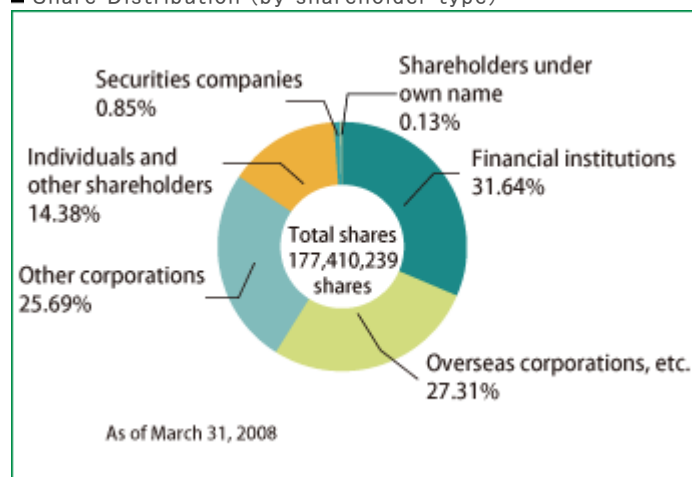
In the interest of greater transparency of management, Sumitomo Forestry takes a proactive approach to information disclosure. At the General Meeting of Shareholders every June, for example, we seek to make reports and explanations as easy as possible to understand, accompanying them with images and illustrations. Also, both print and online versions are provided for our *Annual Report* (in both Japanese and English), as well as a Japanese language report for shareholders on business activities. These documents are intended to portray the essence of Sumitomo Forestry in an accurate and detailed manner.

In order to continue gaining greater trust from our shareholders and investors, we hold earnings briefings and individual meetings to explain our business results following the announcement of our interim and year-end results, striving for proactive communication. Fiscal 2007 saw 190 of these individual meetings, about the same number as in fiscal 2006.

In December 2007, in order to strengthen and expand our ties with investors (including individuals), the Board of Directors decided to reduce the minimum share unit from 1,000 shares to 100, and this change was implemented on both the Tokyo Stock Exchange and Osaka Securities Exchange in February 2008.

We also proactively participate in external events, so as to disseminate as widely as possible the essence of what Sumitomo Forestry is all about. In September 2007, for

■ Share Distribution (by shareholder type)



IR reports



Presentation at the Merrill Lynch Japan Conference

example, we made a presentation at the Merrill Lynch Japan Conference, Japan's largest IR event, sponsored by Merrill Lynch Japan Securities Co., Ltd. and featuring the participation of institutional investors from around the world. In our presentation entitled "Sumitomo Forestry's Pursuit of Realizing the Full Potential of Trees: Present and Future," we described our engagement in both upstream and downstream activities, emphasizing the spirit of sustainability which pervades our operations and our high level of competitiveness.

Inclusion in Socially Responsible Investment Indexes

Inclusion in Socially Responsible Investment Indexes

Recent years have seen a growing focus on socially responsible investment (SRI). In this approach to choosing where to invest, assessment of corporate social responsibility (CSR), including environmental responsiveness, social activities and ethical stance, is weighed alongside financial performance.

In addition to being selected as a component stock of the well-known Dow Jones Sustainability World Index (DJSI World) for three years running, Sumitomo Forestry has been part of the FTSE4Good Global Index since September 2004.

We will continue to promote social responsibility in our economic, environmental and social endeavors, striving to earn our place in investors' portfolios as a rewarding destination for SRI.



Sumitomo Forestry understands that employees are human assets of the company and therefore strives to maintain a comfortable and productive working environment for people from all backgrounds.

Fostering a Workplace Environment where a Diverse Range of Employees Can Work Together Energetically

Basic Personnel Policy

Sumitomo Forestry has in place personnel systems based on a basic policy that employees are human assets of the company and therefore strives to maintain a comfortable and productive working environment for people from all backgrounds.

In fiscal 2007, while promoting autonomous choices on the part of individual employees and moving forward with improved career-oriented systems, we also worked on priority issues such as enhanced career-building assistance and reinforced affirmative action.

Basic Personnel Policy

As we aim to be a truly “excellent company” in housing and wood products businesses, we shall make efforts to put in place effective personnel systems, carry out appropriate and efficient placement of human assets, implement human resources development and training, and build a group of “strong and independent” individuals who are always willing to take up a challenge, all in accordance with Sumitomo Forestry’s Corporate Philosophy, which states, “Respect for humanity— We work to create an open corporate culture that instills a strong sense of pride and motivation in employees.”

■ Employment

| Full-time regular employees (as of March 31, 2008) | |
|---|------------------|
| Management level | 2,159 |
| Non-management level | 2,464 |
| Contract employees (interior coordinators) | 232 |
| Contract employees (non- interior coordinators) | 82 |
| Hosted from other companies | 14 |
| Average years of service | 11.66 |
| Average annual salary | ¥7.85 million |
| Ratio of disabled employees | 1.75% |

Employee Hiring and Promotion Policies

It is essential for Sumitomo Forestry to secure outstanding human resources in order to continue our business operations and make substantive contributions to society. In hiring employees, we seek “mentally tough and fair” people who are capable of facilitating corporate innovation both in Japan and abroad, who have a sense of the fairness and integrity that characterizes our corporate culture, and who have an abiding respect for other human beings.

The hiring team within the Personnel Division at Sumitomo Forestry holds “self-discovery seminars” for students who have begun their search for career opportunities after graduation. This program aims to assist young people in making choices about their lives, addressing subjects such as how to select candidate companies in the job-hunting process, methods of self-analysis, and the types of human resources that companies are looking for. The seminar was held 32 times during fiscal 2007, and was attended by 2,650 students.

■ Recruiting Results

| | FY2007 recruiting | | | FY2008 recruiting | | |
|---------------------|-------------------|--------|-------|-------------------|--------|-------|
| | Male | Female | Total | Male | Female | Total |
| Housing sales | 69 | 10 | 79 | 80 | 17 | 97 |
| Housing engineering | 34 | 6 | 40 | 24 | 13 | 37 |
| General management | 20 | 8 | 28 | 22 | 10 | 32 |
| <i>Succeed</i> | 9 | 1 | 10 | 0 | 0 | 0 |
| Total | 132 | 25 | 157 | 126 | 40 | 166 |

Hiring Policies at Overseas Group Companies

In order to contribute to local economies at our overseas affiliates, we have always hired locally to the greatest extent possible, including for management positions.

For example, at all Group companies in Indonesia (PT. Kutai Timber Indonesia, PT. Rimba Partikel Indonesia and PT. AST Indonesia) 99% of all employees are locally hired. At New Zealand affiliate Nelson Pine Industries Ltd., which has a workforce of over 200, all but three people were hired locally.

While short-term positions may feature in particular businesses, we generally look to create employment opportunities with continued contract renewals over the long term, thereby establishing positive relations with local communities.

Helping Employees Achieve a Balance between Work and Personal Lives

As a housing and wood products businesses company, we aim to create a workplace environment that allows a rich family life. To this end, we are proactively expanding programs to enable our employees to achieve a balance between their professional and personal lives.

■ Vacation and Leave Programs Promoting a Balance between Work and Personal Lives

| Relevant Programs | Description | FY2007 results |
|-----------------------------|---|--|
| “Family Friendly Day” | System for providing Saturday/Sunday off at least once a month at branches of the Housing Business Headquarters that are normally off on Tuesday and Wednesday. | Rate of employees utilizing the program, where applicable: 25.9% |
| “Refresh Vacation Program” | System enabling five consecutive days of vacation time, separate from New Year and summer vacation periods, available to regular employees, temporary staff and contract employees who have been employed by the company for at least one year. | Rate of employees company-wide utilizing the program: 52.4% |
| Parental leave | System available to regular and contract employees with a child aged up to 18 months. Shortened workdays were introduced from fiscal 2006, and program content was enhanced to encourage male employees to actively participate in child raising. Participants can avail themselves of shortened workdays until their children have completed the fourth grade of elementary school, which is above the age specified by law for such programs. | Rate of female employees taking parental leave: 100% Utilized by 4 male employees |
| Nursing leave | System allowing up to 365 cumulative days of leave per family member requiring nursing care, available to regular and contract employees. | 1 person |
| Family illness/injury leave | System allowing up to five days of leave for the care of ill or injured family members, available to regular and contract employees. | - |

Stakeholder comment → I would like to know what concrete steps are being taken to encourage employees to spend more time with their families. (Customer)

Trial Introduction of Tele-work

In preparation for a potential “tele-work” system allowing employees to work at home or other locations distinct from their offices, participants in a trial work-at-home program were recruited in October 2007 from among employees working at the Tokyo headquarters building. Thirteen people signed up for the program, and an approximate six month trial was undertaken from January 2008.

The introduction of tele-work is being considered in order to integrate different working styles, and is incorporated in the 2nd Action Plan (fiscal 2007–2008), which is based on the Law for Measures to Support the Development of the Next Generation (Next Generation Law). At present, related issues include information security, tele-work employee status, treatment and compensation, work environment, and health management. A questionnaire given to participants in the trial program seeks to elicit various advantages and disadvantages of the program in advance of full-scale implementation.

Response to the Next Generation Law

The Law for Measures to Support the Development of the Next Generation (Next Generation Law) requires employers to formulate and implement action plans to support employees in child raising.

The programs contained in Sumitomo Forestry's 1st Action Plan (fiscal 2005–2006) satisfied the designated requirements, and appropriate certification was granted by the Tokyo Labour Bureau in April 2007.

The 2nd Action Plan (fiscal 2007–2008) focuses further on the balance between work and home. In particular, initiatives are incorporated to change the corporate culture and internal systems in order to actively encourage men in the company to take part in child raising. A goal was established to have at least three men obtain parental leave, and as such related educational activities were undertaken internally during fiscal 2007.

Continued individual assistance for men wanting to obtain parental leave is being offered in fiscal 2008, with plans for special "parent discussions" to help better ascertain the needs of employees with young children. Tele-work is also being implemented on a trial basis as a possible means of helping to achieve a productive balance between work and home.

Stakeholder comment

I hope that Sumitomo Forestry and its affiliates continue to provide workplace environments and systems that allow employees to spend more time with their families. (Business partner)

Affirmative Action

Sumitomo Forestry is committed to creating a workplace where people can realize their full potential, regardless of gender. To encourage more substantive professional roles for women, efforts are being pursued to expand the presence of women in all job categories and to provide support for child-raising.

In March 2007, Sumitomo Forestry formulated its Medium-Term Affirmative Action Plan. The plan seeks to foster understanding of initiatives to promote greater opportunities for women, as well as reconfirming the need to create a workplace in which both men and women can find a balance between their professional and personal lives. Accordingly, specific three year and five year targets are to be set for the ratio of female to male employees, management positions filled by female employees, and female new hires.

As part of fiscal 2007 activities, a questionnaire was sent out to employees at 30 branches of the company. According to the results, it was found that almost nobody felt that jobs were limited by reason of being a woman. On the other hand, some employees did express opinions that deserve further consideration, such as it being difficult to balance the demands of marriage and child-raising with work, and that presently women are expected to perform overtime as a regular part of the job although it is not viable



Special "parent discussion"



"Kurumin" mark certifying Sumitomo Forestry's Action Plan is in accordance with the Next Generation Law

over the long-term due to the difference in physical endurance levels between men and women.

We will be responding to the questionnaire results by providing training for managers with women under their supervision, reducing long working hours, seeking to improve the balance between professional and personal life for male employees, striving to help each employee realize their own potential, and generally endeavoring to create an enjoyable workplace where both men and women can work with enthusiasm.

Stakeholder comment Society is placing ever more importance on the concept of diversity, and for a company the more diverse range of people it employs, the greater its potential will be. (Financial and environmental expert)

■ Female Employee Percentage Indexes (%)

| Category | 2005 | 2006 | 2007 | 2011 (Goal) |
|---|------|------|------|-------------|
| Percentage of female employees (including contract and temporary positions) | 15.2 | 15.8 | 15.8 | 20.0 |
| Percentage of management positions filled by female employees | 0.7 | 0.7 | 0.9 | 2.0 |
| Percentage of newly hired female graduates | 10.6 | 15.4 | 25.0 | 40.0 |

Prevention of Sexual Harassment

Sumitomo Forestry unequivocally prohibits sexual harassment as described in our action statement "Our Values and Ideals" and in our Employment Regulations. Prevention-oriented education is undertaken, such as during training for new graduates upon entry to the company and reference is made in the Compliance Desk Manual. A consultation desk has also been established in the Personnel Division, and appropriate responses are made as necessary.

New Business Proposition Program

In fiscal 2006, Sumitomo Forestry launched the Power for the Future Project, a program for soliciting new business proposals, so that the motivation and skills of employees could be utilized to generate new businesses.

Business proposals and plans submitted by employees are reviewed, and those adopted are awarded special monetary bonuses. Moreover, the proposal that wins the "Grand Prix" receives encouragement directly from top management, and is actually implemented as a new business.



"Grand Prix" winner (front, right) with various senior executives

A total of 371 projects were submitted in fiscal 2007, with five passing preliminary review. After revision and secondary review, a proposal submitted by an employee at Housing Business Headquarters who had been with the company for three years and presented from a uniquely woman's perspective, received the "Grand Prix." Part of the motivation for this particular proposal was to "expand the possibilities for women's social

advancement through business,” and a feasibility study and other preparations are currently underway to transform this idea into an actual business venture.

Stakeholder comment I think it is important for employees to thoroughly understand the benefits that the businesses they are involved in offer and communicate these to society. (Employee)

Communication with Our Employees

An awareness survey regarding our action statement “Our Values and Ideals” was conducted to identify the current status and issues pertaining to the company culture and employee consciousness as perceived by Sumitomo Forestry employees and top management. While the results showed that most employees “work with pride,” they also indicated room for improvement in terms of contributing to local communities, internal communication, and the balance between professional and personal life.

These results will be reflected in future improvement efforts, so as to foster creation of an environment in which each employee can take pride in his or her work, and which is worthy of society’s trust.

Relations with the Labor Union

Sumitomo Forestry seeks to achieve a mutually beneficial relationship with its labor union, aiming for healthy business development. Labor agreements are based on the Labor Union Law, and all employees (with the exception of middle management and above) belong to the company union. The company is committed to ensuring economic stability for union members, and to maintaining and improving working conditions.

Informal discussions with top management are held to promote healthy and smooth relations between management and labor. A Safety and Health Committee has also been established, composed of management and union representatives, and is intended to foster improved workplace safety and health.

Priority efforts during fiscal 2007 included reduction of long working hours, proper management of attendance, improvement of the workplace environment, review of personnel systems, and expansion of work opportunities for female employees. With respect to the issue of long working hours in particular, an executive committee and working groups with representation by both management and labor were formed to encourage appropriate control over working hours and limitations on overtime, and investigate specific improvement measures. Various proposals are being explored, in line with the respective situations applying to each division, including reconsideration of employee assignments, limitations on the length of meetings, and core time designation.

Creating a Safe and Healthy Workplace Environment

Workplace Safety and Health Policies

Sumitomo Forestry is actively engaged in fostering a workplace where employees can perform their duties in a safe and healthy manner. Recent years have seen growing efforts to reduce long working hours in order to maintain the physical and mental health

of employees and help them reach a good balance between professional and personal life. With the establishment of our Rules for Safety and Health Management, and based on awareness regarding our basic personnel policy that employees are valuable “human assets,” we are striving to improve workplace health and safety regardless of an employee’s position. One example of this is the implementation of regular physical checkups regardless of employment status.

Reduction of Long Working Hours

Reduced overtime translates to improvement in employee health and morale, reduction of employee turnover, acquisition of outstanding human resources, and ultimately enhancing the ability to provide high value-added products and services to customers. Accordingly, this issue has been assigned the highest priority.

Given that office work is increasingly centered on working in front of computers, we introduced a compulsory 10 p.m. PC shutdown system in June 2007 as a measure against Visual Display Terminal (VDT) syndrome and to discourage working late at night.

In October 2007, an executive committee and working groups were established to encourage appropriate control over working hours and limitations on overtime, and as such these groups are launching initiatives relating to diversification of the work performed by employees, appropriate work structures in accordance with individual employee situations, and appropriate length of time spent at work.

In consideration of the nighttime work requirements relating to housing sales, the executive committee decided in March 2008 to make the work starting time 45 minutes later for sales and design groups, while making the ending time 45 minutes earlier. This new schedule will be implemented at all branches nationwide from August 2008.

Stakeholder comment I look forward to seeing the results of reduced working hours. (Customer)

Anti-Smoking Program

Sumitomo Forestry implements systems and programs to support the physical and mental health of our employees, while also disseminating information to encourage greater awareness of the importance of taking responsibility for one’s own health.

As part of this effort, a questionnaire on smoking was administered to all employees during fiscal 2007. It was found as a result that the smoking rate among employees is 37%, or approximately 1,800 people, of whom 70% responded that they “would like to quit smoking if possible.” It was also found that 80% of all employees are in favor of company support for quitting. In response to this situation, a three-month

“Company-wide Quit Smoking Program” was initiated in April 2008. Use of nicotine gum was encouraged at the start of the program, advice and encouragement was sent out via e-mail by an external health advisor, and a consultation service was provided for counseling. Calls for participants went out in February 2008,



Anti-smoking poster

with roughly 50 people taking on the challenge. The company's initial objective is to reduce the employee smoking rate by 10%, and as such we intend to continue to actively support those who wish to quit.

Smoking areas were designated for all offices in April 2006, and these are now being progressively removed as offices are converted to being fully non-smoking.

Mental Health Initiatives

In an effort to further support the maintenance of the mental health of employees, Sumitomo Forestry has been running a Mental Health Support Program since April 2006.

One part of the program in fiscal 2007 was a seminar by specialist counselors entitled "Medical Consultation and Treatment for Mind and Body," presented in 69 locations throughout Japan as of the end of March 2008. Topics covered included general discussion of mental health, relationship between stress and alcohol, and how to avoid depression, ranging from basic concepts to practical measures, with a section added especially for managers. Following each seminar, counseling sessions were also available for those who wanted them.

A toll-free telephone service known as the "Medical Consultation and Treatment for Mind and Body" has also been initiated, accepting calls regarding workplace concerns, relations with other people, general frustrations and worries, and requests for information on medical facilities. In June 2007, a card printed with information about the service was distributed to let regular, contract, and temporary employees know about it and encourage utilization. A total of 914 calls were received during fiscal 2007.

Health Checkups

To assist in their health maintenance, all employees are given a regular health checkup each year, with more extensive examinations available to employees over 35 and/or employee dependents who request it.

Helping People Grow at Sumitomo Forestry

Supporting the development of independently minded human assets is the basis of Sumitomo Forestry's human resources development policy.

Human Resources Development Policies

In order to "work to create an open and inclusive corporate culture that values diversity" as proclaimed in our Action Guidelines, Sumitomo Forestry pursues basic policies on human resources development that promotes "autonomy."

Naturally, training is provided for specific job categories and levels within the company, but training options are also made available in accordance with specific employee requirements and current social requirements, focusing on the development of future business leaders as well as consideration of individual careers. Courses offered by the Sumitomo Forestry Business College (self-development training courses offered on a

voluntary participation basis for people working in the housing sector) have also been revised, with availability expanded to all employees, and with content adjusted to better meet a diverse range of needs. Consideration is now being given to further expanding this program Group-wide.

Sales Group Manager Meetings:

Achieving Performance Targets and Developing Human Resources

Following the collapse of Japan's economic bubble in 1992, Japanese companies introduced performance based remuneration systems, accompanied by a strong tendency to emphasize short-term performance over longer term human resources development. Sumitomo Forestry, however, places a high degree of importance on the realization of long-term strategy and the promotion of human resources development. Meetings for sales group managers, who are at the front lines of housing sales and responsible for human resources development, were therefore initiated to seek out a means of simultaneously achieving performance targets and adequately developing human resources.

These meetings, focusing on the theme of "achieving performance targets and developing human resources," were attended by 30 participants in the Eastern Japan area and 34 participants in the Western Japan and Tokai areas. Various problems and possible solutions were elicited from the meetings and discussed further with the executive manager of the Housing Business Headquarters, general managers of divisions under the Housing Business Headquarters, and the general manager of the Personnel Division at a later date. Comments from managers included the need for evaluation methods with respect to human resources development, as well as the desire for training at the branch level sharing concrete examples of success and failure.

Going forward, we will be creating regular and ongoing opportunities for the exchange of opinions from the front lines of our business, leading to positive changes in human resources development.

Multifaceted Training

Sumitomo Forestry provides a wide variety of training opportunities, not only for the development of career-minded employees capable of taking the initiative, but also to help cultivate business skills corresponding to individual interests and ambitions. Average per employee expenditures on training for fiscal 2007 totaled ¥86,300.

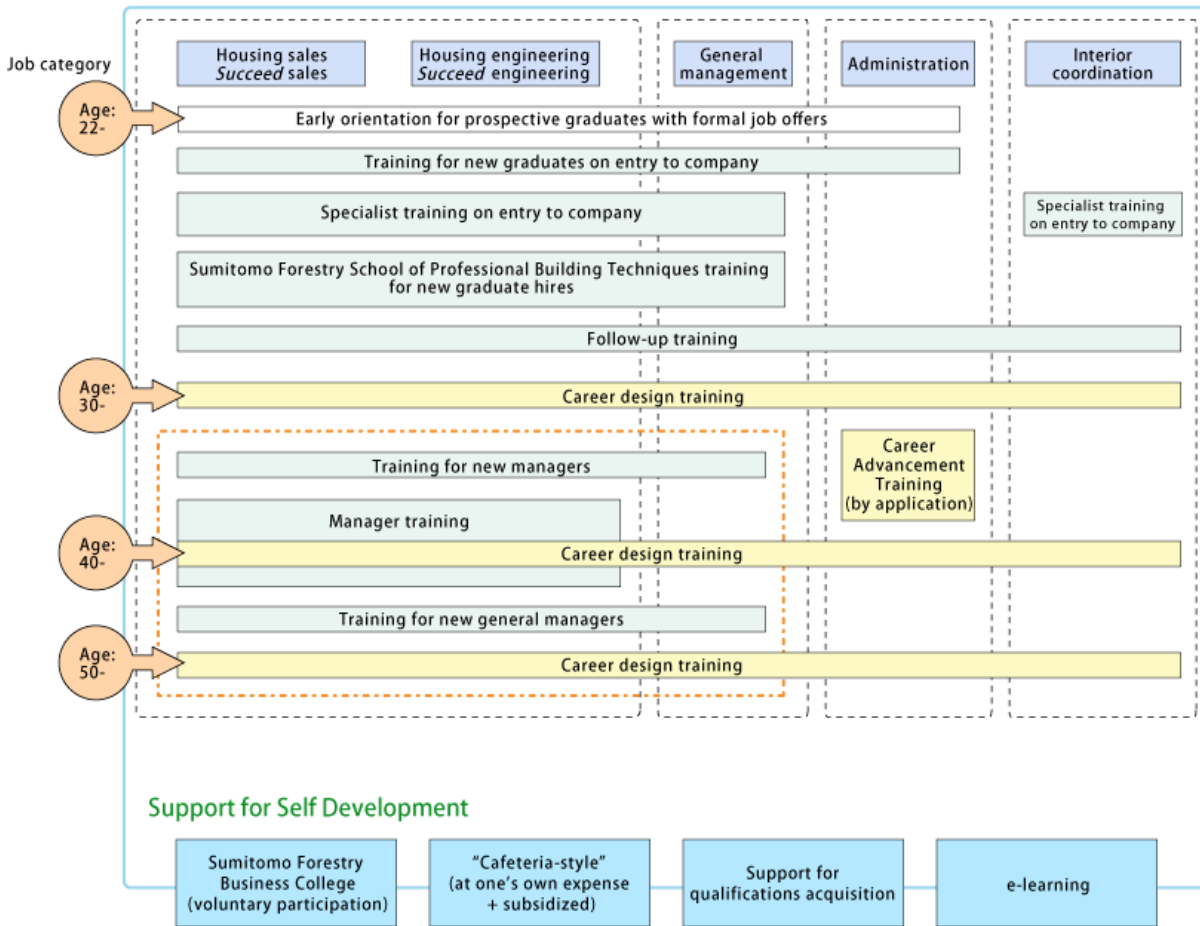
■ Multifaceted Training Programs

| Training programs | Description | FY2007 results (participants) |
|---|--|-------------------------------|
| Periodic training for different levels and job categories | Specific training for different job categories for new employees upon entry to the company, training for new graduates at Sumitomo Forestry School of Professional Building Techniques, follow-up training, training for those who have changed job categories, new manager training, job-specific and objective-oriented training for mid-level managers, training for new general managers, etc. | 3,300 |
| Selective training for different needs | Training for career stage transition, including programs for management strategy, female managers, and career design. | 800 |
| | Acquisition through external studies such as MBA programs of highly specialized knowledge concerning management and problem-solving methodology. | 1 |
| Voluntary training | Training at Sumitomo Forestry Business College for all job categories and for job-specific skills and knowledge improvement. | 3,500 |
| “Cafeteria-style” training | Subsidized external training programs to acquire official qualifications and enhanced business skills. | 200 |

Initiatives for Further Enhancing Human Resources Development Programs

■ Human Resources Development System

- Career training
- Mandatory training for specific job categories and levels (includes performance appraisal staff training)
- Performance appraisal staff training
- Support for self development



In August and September 2007, a survey was conducted with respect to “cafeteria-style” training participation status and desired content, in order to accurately ascertain employee training requirements and improve the program. Based on the results of this survey, in addition to continuing support for the acquisition of external qualifications, support was initiated specifically for employees systematically studying management outside the company.

Implementation of e-Learning

In addition to the training described above, Sumitomo Forestry operates e-learning programs to respond as necessary to training requirements as they become apparent. Recent e-learning courses have included one in April 2007 to reflect on the Sumitomo Spirit and animate the wider Sumitomo Group, with the objective of re-instilling employees’ sense of confidence and pride. Another, offered in June, focused on information security and related company rules. In August a course was released for the study of background information pertaining to the Timber Procurement Philosophy and Policy, including “forest resources and environmental issues” and “deforestation and our efforts to address it,” while another course in October was designed to facilitate awareness and action with respect to “putting the customer first.” All employees take these courses, including regular, contract, temporary and part-time employees, as well as company officers.

Stakeholder comment — Looking to the future, I believe it is important for a company like Sumitomo Forestry, with its considerable financial resources, to make even greater efforts in training employees. (Architect)

Career Consultation and Support

The Career Support Desk began operations in April 2007, providing individualized assistance by specialized staff to employees to help them in managing their careers. Approximately 60 people took advantage of this program during fiscal 2007.

Re-employment Efforts

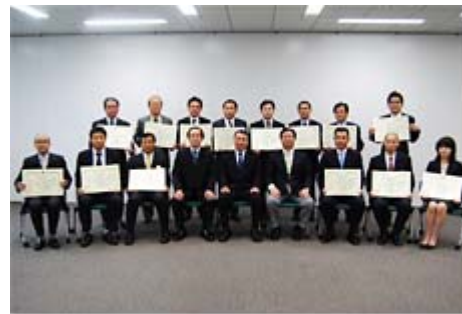
Sumitomo Forestry actively fosters re-employment efforts, both as a means of boosting Group performance by continuing to utilize employees with proven abilities and skills who have reached retirement age, and to respond to the needs of people who want to keep working after the preliminary retirement age of 60. Provided that such employees meet certain requirements such as continuous employment of at least ten years, possession of designated skills and/or experience, and a personal desire for re-employment, they can register with Sumirin Business Service (a Group affiliate engaged in personnel outsourcing) for re-employment through the age of 65 via temporary staff contracts.

Fiscal 2007 saw 21 people achieve re-employment, and future plans call for 80% of employees reaching preliminary retirement to be re-employed.

Intellectual Property

Sumitomo Forestry seeks to cultivate an active environment for the creation of intellectual property. With respect to environmental

issues, we are pursuing the registration of technical rights to competitive technology we have developed such as that related to timber and extending the lifespan of housing. As for legal compliance, we seek to aggressively protect our own intellectual property and to avoid infringing on rights controlled by other entities. With respect to environmentally related intellectual property, we are promoting shared internal utilization through various means, including the establishment of an "Environmentally Related Intellectual Property Map," publication of "Intellectual Property News," and introduction of relevant material on company websites.

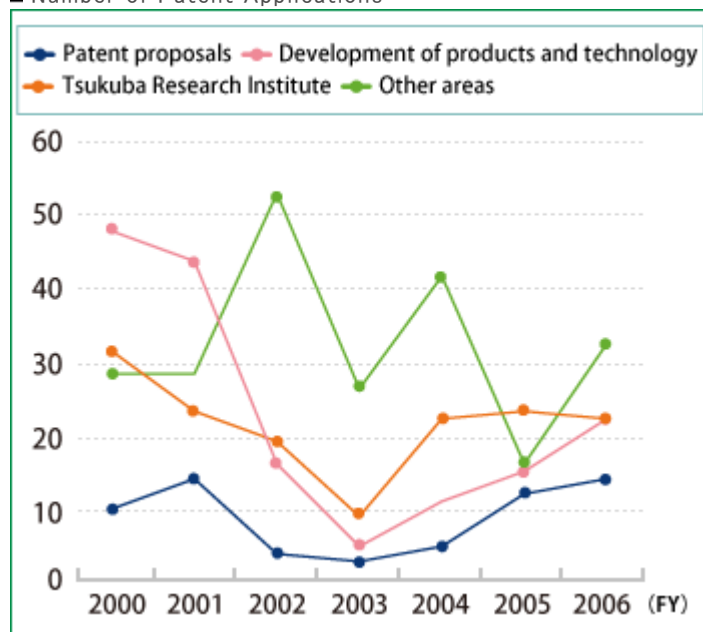


Employees awarded for their innovative proposals

Patent proposal and award programs have also been initiated, and monetary incentives are awarded to employees who submit ideas for outstanding inventions. Patent proposal awareness is rising year by year. In fiscal 2007, 864 proposals were received. Education with regard to intellectual property is also incorporated in new graduate and general training programs.

At an intellectual property awards ceremony in April 2008, prizes were presented to patent leaders and others for their proposals relating to the *Pluskip* closet design and *Ryouonbou* design. Following the awards, a lecture by intellectual property consultant Yasumitsu Tomioka was delivered to prize recipients and other employees involved with intellectual property, to facilitate greater recognition and understanding of the subject. Some 35 people attended the lecture.

■ Number of Patent Applications



Continuation of Skills

In order to continue building Sumitomo Forestry Home houses that utilize the advantages of the traditional wooden post-and-beam construction method, it is important to pass on skills and techniques to the next generation of workers. We have always aimed to foster future craftspeople (carpenters) who excel in

terms of skills, knowledge and work ethic, and this led us to the founding in 1988 of the Sumitomo Forestry School of Professional Building Techniques. Fiscal 2007 saw 35 people graduate from the School, making a total of 771 since its establishment.

The institution is a boarding school, and candidate carpenters who have joined Group affiliate Sumitomo Forestry Home Engineering Co., Ltd. study a varied curriculum, from traditional wooden post-and-beam construction methods to the latest construction techniques, for a year. The skills acquired are always highly evaluated, with typically strong performances at the yearly National Skills Competition in Japan. In November 2007, a School graduate working at the Hyogo Branch of Sumitomo Forestry Home Engineering won the silver medal in the Carpentry category of the 39th WorldSkills Competition. This was the first time in 12 years for a Japanese entrant to win a medal. In March 2008, four graduates of the School won awards at the National Skills Competition, including a silver and bronze medal, marking the second consecutive year that the School has taken away such honors.

The Sumitomo Forestry School of Professional Building Techniques also serves as a center for the training of new employees of other Sumitomo Forestry Group companies, regardless of specific occupation. The School also cooperates in work experience programs for local junior high school students, and as such four second-year students were accepted in January 2008. Also in January 2008, School instructors served as volunteer leaders of the "Handmade Future Workshop" joined by elementary school children and sponsored by the local Vocational Ability Development Association of Chiba Prefecture. These are just a few of the ways in which the School is helping to transmit traditional skills to future generations.

In May 2007 an employee with 38 years of experience in carpentry (20 of which with Sumitomo Forestry Home Engineering) was presented with a Master Carpenter award by the Japanese Minister of Land, Infrastructure, Transport and Tourism. This award is given only to the most skillful people at the absolute top of their field, and recognizes their substantial efforts to train and foster others in their given profession.



Silver medal won in the Carpentry category at the 39th WorldSkills Competition



Recipient of the prestigious Outstanding Craftsman awarded by the Japanese Minister of Land, Infrastructure, Transport and Tourism

Stakeholder comment I hope that Sumitomo Forestry will ensure that its corporate culture, skills and knowledge, developed and fine-tuned over many years, is successfully passed on to future generations. (Financial and environmental expert)

Human Rights Initiatives

At Sumitomo Forestry, in order to increase awareness among employees of human rights issues, all newly hired employees receive human rights training as part of their introductory instruction. Guest instructors from outside the company hosted training sessions on a variety of different topics in fiscal 2007, including on the issue of sexual harassment. A total of 170 participants (including Group affiliate employees) took part.

Sumitomo Forestry makes use of the knowledge and expertise it has accumulated through its business activities in performing social contribution activities relating to environmental education and forest preservation. We also engage actively in communication with society in order to convey our corporate stance.

Ongoing Communication with Society

Policy

One of the requirements of engaging in sustainable development as a company is ongoing communication with society. It is essential, we believe, to gain the recognition and understanding of all our stakeholders. Since fiscal 2005, Sumitomo Forestry has adopted a unique mascot known as "Kikorin" for use in presenting our corporate stance in newspapers, magazines, television and other media. We place special emphasis on direct communication, participating in special events and environmental lectures, striving to impart a better understanding of Sumitomo Forestry.

Dissemination of Information about Wood

Following the previous year's appearance, the Sustainable Forest Gallery was again presented at Roppongi Hills in Tokyo in January 2008, conveying to the general public the attraction of wood as a renewable natural resource. Rather than being composed simply of visual displays, the exhibit encouraged visitors to also use touch, hearing, smell and even taste, to gain a new appreciation for what makes wood special, experiencing unique characteristics not found in any other material. Presentations by employees involved in home building and forest management were made on the weekend, with the week-long event drawing attendance of approximately 3,700 people. During the summer vacation period in 2007, a joint event was held with the National Children's Castle "Kodomo no Shiro" in Tokyo, featuring "Kikorin's Toy Factory." "Kikorin's Forest" was recreated using real Japanese cypress logs, and visiting children could touch and feel the "forest" containing the toy factory. Programs included "block making" and creating bird call whistles (using wood from branches collected from company-owned forests), with cumulative attendance of about 5,900 children. Other aspects of the well-received event included panel displays and a play area with wood blocks made from offcuts from staircases in Sumitomo Forestry Home houses.



Experiencing what makes wood so special through all five senses at the Sustainable Forest Gallery



Kikorin's Toy Factory

Hosting of School Field Trips

In order to contribute to children's education, Sumitomo Forestry hosts field trips in conjunction with the integrated learning programs and social studies classes of the Japanese school curriculum. Themes include forest management, environmental initiatives and the housing business, arranged in accordance with specific community and school requests. These field trips provide enhanced learning experiences for children, and as such we extend our cooperation to the greatest extent possible.



Junior high school students listening to an explanation about housing materials

In July 2007, three third-year students from Shiba Junior High School in Minato-ku, Tokyo visited our head office as part of a social studies project. The theme of their project was "corporate efforts to reduce CO₂ emissions," and Sumitomo Forestry staff were able to provide detailed responses to their questions concerning forest management in Japan, the significance of using timber produced in Japan, and the state of forest destruction in developing countries. We also showed them samples of various materials such as engineered wood and plywood, and explained how concern for the environment is integrated into Sumitomo Forestry's housing operations.

In February 2008, four students from Bunrin Junior High School in Bunkyo-ku, Tokyo visited our Ikebukuro Branch's Oji model home, as part of their career education activities. The manager of Oji model home and employees of the Head Office in Tokyo spent time with them to discuss the importance of work itself and the Sumitomo Forestry approach to building homes. We were pleased to welcome students from two other schools undertaking similar programs during fiscal 2007.

Stakeholder comment Sumitomo Forestry should consider using the likes of "house building workshops" to convey the skills and knowledge it has developed through its businesses to the general public. (NGO)

Acceptance of JICA Regional Trainees

Given that concern for sustainable forest management has been recently intensifying throughout the world, the Japan International Cooperation Agency (JICA) implemented a training session in Sapporo on Criteria & Indicators (C&I) and Forest Certification for Pan Pacific Countries in October 2007, focusing on sustainable forest management expertise and forest certification systems. Sumitomo Forestry welcomed participants to our Monbetsu Forestry Office in Hokkaido, providing explanations on our forestry business and acquisition of forest certification, as well as a tour of company-owned forestland.

Participants consisted of forest administration staff members and researchers, numbering 10 individuals from various countries, including Argentina, Chile, Indonesia and Myanmar. They asked many questions about Japanese forest management and forest certification systems, and our employees were impressed with their high level of interest and enthusiasm.

Sustainable forest management is a major issue that affects all nations. We will consider

ways that we can respond to future training-related requests, so as to apply the expertise derived from operating our company-owned forests.



Training at the Monbetsu Forestry Office

Evaluation by Society

Awards Received by Sumitomo Forestry for Corporate Advertising

In December 2007, Sumitomo Forestry newspaper advertisements received two awards in The 56th Nikkei Advertising Awards 2007: the Environmental Advertising Award and the Division Award.

The advertisements in question appeared from November 2006 to August 2007 in a series of seven advertisements in the *Nihon Keizai Shimbun*, and were highlighted as “Using a friendly mascot to present the publicly prominent but difficult subject of achieving a sustainable society, in a series that made the subject much easier to understand.”

A magazine advertisement also using the Kikorin mascot and run repeatedly from October 2006 received the second-place award in the 50th Japanese Magazine Ad Awards. In this advertisement, the Kikorin character engages in conversation with animals to convey the meaning of “sustainability” in an easy-to-understand manner. The advertisement was commended for the overall expressiveness that was achieved.

Future advertising by Sumitomo Forestry will also be seeking to promote “the achievement of a sustainable society” in fun and interesting ways.



Award winning corporate advertisement

Environmental and Social Report Wins Award

In April 2008, Sumitomo Forestry's *Environmental and Social Report 2007* received a Bronze Award at Japan's 11th Green Reporting Awards. The report was commended for "focusing on forest sustainability and the clear direction the company is pursuing with respect to environmental preservation activities in close connection with its core businesses." We intend to continue to clearly identify relevant issues and report on them with a high level of transparency, and continue promoting CSR activities while strengthening communication with the general public through our *Environmental and Social Report*.



Environmental and Social Report 2007

Social Contribution Activities Based on Our Core Business

Policy on Social Contribution Activities

As well as protecting our abundant forests well into the future, Sumitomo Forestry is engaged in a wide range of social contribution activities, as we believe we should make use of our technology and knowledge to contribute to the sustainable utilization of timber resources and local community development. Fostering greater understanding about forests among a broader scope of society is a particularly important element of forest preservation. This is why Sumitomo Forestry puts effort into environmental education, through lectures and classes at elementary or junior high schools, and field trips to company-owned forests. We also undertake regeneration of forests damaged by disaster and engage in other activities that contribute to the betterment of society.

Another aspect is support for individual volunteer efforts undertaken by our employees, in terms of creating a workplace environment that will allow them to make their own contributions to local communities.

Forester House Initiatives

Along with introducing the general public to our initiatives regarding sustainable forestry, which go back over a century, we have also opened a facility known as Forester House. This approximately 400m² facility, opened in 1993, is located within the company-owned forest in the Besshiyama area of Niihama, Ehime Prefecture, and serves as a point of dissemination of information on various forest functions and forestry. Exhibits were updated in 2005.



Forester House

Forester House was founded to commemorate the 100th anniversary of the large-scale reforestation plan launched in 1894 by Teigo Iba, the manager of the Sumitomo Besshi Copper Mine (and later the second Director General of Sumitomo). Georama exhibits

illustrate work processes from tree planting to logging, while a picture gallery shows company-owned forests, and other exhibits portray the history of Sumitomo Forestry and its environmental initiatives.

The facility is open to the public, and can be used as a base for walks in the forest, nature observation, or environmental education. It is also visited by around 5,000 people annually for training purposes. Future plans call for further enhancement of activities so that even more people will be able to utilize Forester House, and for continued dissemination of information.

Mt. Fuji Manabi no Mori Project

Sumitomo Forestry initiated the Mt. Fuji Manabi no Mori natural forest restoration project in 1997. Typhoon Violet in 1996 inflicted severe damage upon national forest on the foothills to the south of Mt. Fuji, and a restoration effort was launched as part of our efforts to help the local community. A steering committee was set up, comprising representatives from the local government, NGOs, academic institutions and media organizations, and a wide variety of ideas were garnered. Even now that major planting activities have been completed, efforts to encourage forest cultivation activities such as the clearing away of underbrush are continuing.

The Environmental Education Program was launched in fiscal 2006, aimed at local elementary and junior high school students, and is being undertaken in collaboration with the Fujinomiya City Board of Education (Shizuoka Prefecture) and the NGO, Whole Earth Nature School. The project allows children to experience Mt. Fuji's natural environment and improve their understanding of nature in a fun manner by exploring Manabi no Mori, looking for wildlife, listening for characteristic birdsongs, observing the ecology of trees and wild grasses, and using their five senses in nature-related games. The Forest Ark facility, also part of the project, showcases various equipment such as solar and wind generating systems, a bio-toilet, and a pellet stove, allowing visitors to experience elements of an environmentally-friendly lifestyle. About 620 students participated in related environmental studies programs during fiscal 2007.

From fiscal 2007, a nature experience program has also been launched for children who are living under the protection of the state. October 2007 saw a visit by 11 children from the Fukuden-kai Tokyo Hon-in facility. The day was spent in the forest, which was a refreshing experience for these visitors.

In addition to these environmental studies and nature experience programs, the Mt. Fuji Manabi no Mori project offers support in training local human resources for the promotion of environmental education, and is involved in investigations to ascertain the effectiveness and impact of the restoration activities. These include vegetation monitoring and wildlife habitat surveys by external specialists as well as basic investigations related to forest utilization and conservation.



Nature experience program



Forest cultivation activities

Stakeholder comment

I'd like to see more opportunities like the Manabi no Mori environmental education support program for children living in cities. (Customer)

Preservation of Tokyo Headwater Forests

From April 2005, in support of volunteer activities engaged in by our employees, Sumitomo Forestry has provided assistance for employees participating in the Tamagawa Suigen Shinrintai sponsored by the Tokyo Metropolitan Bureau of Waterworks.

Again in fiscal 2007, in a joint effort to provide fresher water to the citizens of Tokyo, our employees participated in maintenance activities for plantations in the Okutama area, including path-making in spring and summer, as well as pruning and tree thinning work in the autumn and winter.

Information Dissemination at Symposiums and Other Events

In order to utilize the knowledge and experience gained thus far for the benefit of society, Sumitomo Forestry is also active in sponsoring various lecture presentations. In May 2007, for example, at a seminar held by the Imported House Industries Organization, we made a presentation entitled "Where we procure timber products for use in housing," targeting industry participants. Our representatives also spoke about specific efforts directed towards the future, emphasizing the need for proper management of Japan's forests and the importance of organizing a maintenance system in proportion to the amount of timber harvested.

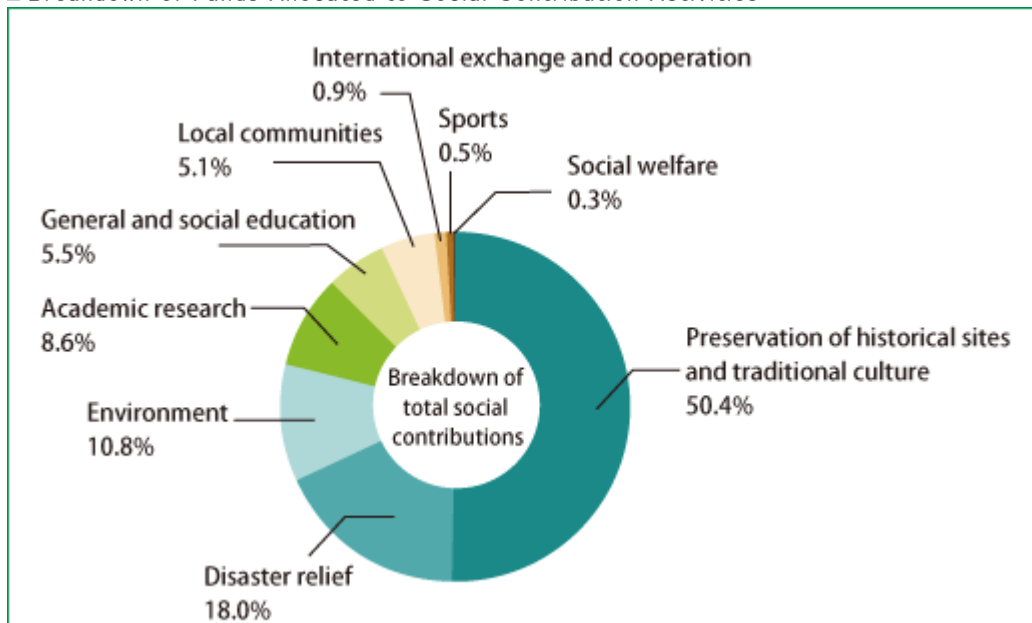


Symposium on Business and Biodiversity

At the Symposium on Business and Biodiversity sponsored by the Mitsui Sumitomo Insurance Co., Ltd., we introduced timber procurement efforts linked to biodiversity conservation. This presentation covered our longstanding approach to sustainable business and our vision for the future.

Funds Allocated to Social Contribution Activities

■ Breakdown of Funds Allocated to Social Contribution Activities



Other Social Contribution Activities

KTI Educational Foundation

To commemorate the 30th anniversary of its founding, our Indonesian Group company, [PT. Kutai Timber Indonesia \(KTI\)](#), established the KTI Educational Foundation in 2000 for providing scholarships to elementary and middle school students living in the vicinity of the KTI plant and plantations. The Foundation also provides relief donations in the wake of natural disasters such as earthquakes and floods.

In 2007, the foundation provided approximately 46.5 million rupiah (equivalent to roughly ¥590,000) to 59 elementary and 19 middle school students, and 1 high school student.

Support for Regional Environmental Conservation Efforts through the Sumitomo Forestry School of Professional Building Techniques

From fiscal 2006, as part of orientation for new students, the Sumitomo Forestry School of Professional Building Techniques participated in a local city-wide cleanup program for the removal of illegally dumped rubbish, organized by the Yotsukaido Cleanup Association. Participation gave school students the opportunity to think about trash-related issues and volunteer activities, helping to foster suitable attitudes on the part of potential future builders, as well as making a contribution to the local community. Participation in April 2008 numbered 45, with cleanup conducted for about two hours along roads near the school. Various comments were received after the event, with one participant saying, "I was surprised to find even televisions and car navigation units that had been thrown away." Another noted that, "It was good to gain appreciation for the work put in by volunteers."



Cleanup activity

Contributions to Public Policy

As an active member of the Social Capital Organizational Deliberation Council, Sumitomo Forestry makes suggestions regarding legislation such as the Building Standards Law and the Building Judiciary Designated Housing Defect Collateral Execution Law.

During fiscal 2007 in particular, the creation of a system for residential construction to maintain housing asset value for inter-generational use has become a more urgent task in the context of solutions to intensifying environmental issues. The president of Sumitomo Forestry, in his position as chairperson of the Policy Committee of the Japan Federation of Housing Organizations, has been a strong supporter of the formulation of guidelines for ultra long-lasting housing and policies concerning construction and maintenance systems.

Relief Funds for Victims of the Chuetsu Offshore Earthquake

As part of relief efforts for the victims of natural disasters, which have occurred

frequently in recent years, Sumitomo Forestry initiated a system in June 2007 for employees to make donations, known as the Yasashisa no Tanemaki Fund. The fund provides a mechanism to collect voluntary donations from employees and rapidly channel the money towards humanitarian assistance.

Following the Chuetsu Offshore Earthquake (Niigata Prefecture) in July 2007, a total of approximately ¥1.27 million was raised from 930 employee donors over the two-week period from July 23. This money was then given to the official 2007 Niigata Prefecture Chuetsu Offshore Earthquake Relief Fund.

Investment towards Realization of a Sustainable Society

Investment in the Clean Fund

Global warming and other environmental issues have grown in severity in recent years, meaning greater importance is being placed on initiatives aimed at realizing a sustainable society. Given this, more consideration towards the environment is also required in money flows. Sumitomo Forestry became the first company to begin investing in the Clean Fund set up in March 2007 by the Sumitomo Mitsui Banking Corporation. The ¥500 million investment is contributing to environmental conservation in the form of funding for the environmental initiatives of small and medium-sized businesses. We will maintain a corporate social responsibility (CSR) outlook as we actively pursue investments providing some sort of contribution to society.

Support for the Fund to Continue the Activities of Small and Medium-Scale Corporations in the Housing and Related Industries

Sumitomo Forestry has contributed ¥2 billion as of February 2008 to the Fund to Continue the Activities of Small and Medium-Scale Corporations in the Housing and Related Industries. The Fund provides assistance to companies which, although having proprietary technology, face operational difficulties due to the lack of a successor to take over from the current head.

This is the first small and medium-sized business continuation fund in Japan to specifically focus on the housing industry, established in February 2008 with total capitalization of ¥5 billion. Leveraging Sumitomo Forestry's longstanding network and expertise, companies in which the fund invests can avail themselves of the resources needed to tackle succession issues and support new business development.

In the context of a declining birth rate, less housing construction and a stricter regulatory environment in Japan, the Fund to Continue the Activities of Small and Medium-Scale Corporations in the Housing and Related Industries takes up issues that are difficult to effectively address by any one company on its own, providing assistance specifically for small and medium size companies. Since the fund is characterized by support for companies facing difficulties in terms of managerial succession, rather than rehabilitation or debt relief, it is envisioned that it will encourage the sustainable growth of the industry as a whole.



Masahiro Mine
General Manager, Business
Administrative Division
Timber & Building Materials
Business Headquarters

SRI through Pension Funds

Socially responsible investment (SRI) funds have attracted considerable attention recently, from the perspective of investment in firms that place importance on environmental consideration and engage in socially oriented activities. Globally, such funds account for approximately ¥300 trillion, and, while their scale in Japan is smaller than in Western countries, the domestic assets of such funds are estimated to be in the range of ¥840 billion, and are rapidly expanding.

The corporate pension funds that are employed by the Sumitomo Forestry pension plan have placed ¥780 million in SRI funds (out of assets totaling ¥35.35 billion, as of the end of March 2008), in line with CSR promotion by Sumitomo Forestry itself, as well as the social significance of such investment.



Environmental Report

Environmental Vision

Sumitomo Forestry will contribute to the creation of a sustainable society by pursuing initiatives in line with the company's Medium-Term Environmental Management Policy.

Environmental Philosophy and Environmental Policies

In October 2007, the Sumitomo Forestry Group revised its Environmental Philosophy and Environmental Policies, making them easier to read and understand in an effort to accelerate progress on environmental initiatives.

Stakeholder comment → I think it is important for Sumitomo Forestry to have society gain an understanding of its corporate vision. (Financial and environmental expert)

Environmental Philosophy

With many years of practical experience in silviculture, Sumitomo Forestry Group has an appreciation of the wonderful renewable resource that forests represent and the benefits that nature provides. Environmental protection is imperative in the 21st century. As a corporate group with a close affinity with nature, we are aware of the potential impact of our activities on the environment, and we contribute to society through the vigorous pursuit of business operations in harmony with conservation principles.

Environmental Policies

As a positive contribution to the creation of a sustainable society that achieves a balance between the environment and economy and gives due consideration to such issues as biodiversity and the prevention of global warming, the Sumitomo Forestry Group shall ensure conformance of its business operations to the following policies.

1. Develop a business domain centered on trees and wood

Cultivate forests as a way to preserve and enhance natural environments and forest functionality while seeking to actively utilize those timber resources.

2. Develop and sell environmentally-friendly products

Pursue the development, design and sale of products and technologies that are environmentally superior in terms of the entire product lifecycle.

3. Minimize environmental impact

Make efforts to prevent environmental pollution through accurate assessment of direct and indirect influences on the environment; promote green procurement of timber and other building materials and green purchasing of office products and other goods; and, achieve and maintain zero emissions through proper waste treatment and 3R (reduce, reuse, recycle) initiatives.

4. Make ongoing improvements to environmental activity and the environmental management system

Establish environmental budgets to ensure implementation of the Environmental Policies, and make ongoing improvements to environmental budgets and the environmental management system through reviews conducted at least once a year.

5. Ensure strict legal compliance

Adhere to all environmental laws, rules and regulations, voluntary standards, accords with stakeholders and other environmental conventions.

6. Promote environmental education

Provide environmental education for all people involved in the business operations of the Sumitomo Forestry Group and encourage voluntary environmental activities.

7. Place emphasis on communication

Actively disclose information and respect the opinions of stakeholders while pursuing environmental initiatives.

8. Publicly disclose and ensure implementation of the Environmental Policies

Make the Environmental Policies available to the general public and ensure familiarization with the policies by all people involved in the business operations of the Sumitomo Forestry Group.

Ryu Yano, President/Director
(Revised on October 1, 2007)

Medium-Term Environmental Management Policy

The Medium-Term Environmental Management Policy formulated in December 2005 stipulates four central themes for environmental management: (1) Pursue thorough environmental management; (2) Strengthen and promote environmental education; (3) Enhance environmental communication; and (4) Promote social contribution activities. Sumitomo Forestry is working hard to reduce the environmental impact of its activities by pursuing the following principal initiatives.

Principal Initiatives for Comprehensive Environmental Management

- In addition to reducing CO₂ emissions from business operations, we will work with customers and business partners to lessen the environmental impact of products and services throughout their entire lifecycles.
- We will achieve sustainability of timber resources through the promotion of green procurement and the use of timber cut from forests that have received special forest management certification.
- We will aim to achieve zero emissions at an early stage.
- We will strictly control the use of harmful substances.

Outcome of Fiscal 2007 Activities

Individual divisions in the Sumitomo Forestry Group undertake activities based on environmental budgets they have formulated to match their particular responsibilities. Four years have passed since environmental budgets were introduced as a tool for environmental activity management. Fiscal 2007 environmental budgets were formulated in accordance with the Group's Medium-Term Environmental Management Policy, which was established in December 2005. Individual budgets were then aligned, with common targets being pursued by all Group companies, particularly for "reduction of CO₂ emissions" and "achievement of zero emissions."

Environmental activities were pursued through a total of 421 initiatives, including 141 initiatives by Sumitomo Forestry on its own (up 10 year-on-year), 195 by Group companies within Japan (up 14), and 85 by overseas Group companies (up 20). The success rate for fiscal 2007 activities was slightly lower than for the previous year due to various factors, including the effects of a decrease in earnings and lofty targets. Going forward, we will continue to put energy into initiatives linked to daily operations in order to ensure greater involvement in environmental budget initiatives within each division.

Reduction of CO₂ Emissions

☆☆☆ : Target achieved ☆ : Target almost achieved ✕ : Target not achieved

| Key Initiatives | FY2007 Plan | FY2007 Results | Evaluation | FY2008 Plan | Division |
|--|---|--|------------|---|-------------------------------|
| Reduction of CO ₂ emissions | Reduce CO ₂ emissions per sales unit by 3% compared to fiscal 2004 | Reset medium term CO₂ emissions reduction targets and established target for all offices combined | —* | Work together as a unified group on reducing CO ₂ emissions based on new CO ₂ emissions reduction targets | Entire Group |
| | Install biomass power generation facility to help reduce CO ₂ emissions | Completed construction of foundations; project 90% complete | ☆☆ | Start operation of biomass power generation facility and advance procedures for CDM recognition | RPI |
| Reduction of CO ₂ emissions during occupation | Obtain solar shading methods and acquire level 4 energy-saving housing performance evaluation | 82% acquisition ratio achieved, falling short of 90% target | ☆☆ | Investigate reasons for failure to obtain level 4 evaluation and continue efforts | Housing Business Headquarters |

* Evaluation has not been conducted due to recent resetting of target

Zero Emissions Initiatives

☆☆: Target achieved ☆: Target almost achieved ×: Target not achieved

| Key Initiatives | FY2007 Plan | FY2007 Results | Evaluation | FY2008 Plan | Division |
|------------------------------|--|--|------------|---|-----------------------------------|
| Attainment of zero emissions | Initiate efforts to reach zero emissions by March 2010 for plants, new housing construction sites, etc. | Initiated efforts for zero emissions at all divisions that produce industrial waste | ☆☆ | Continue efforts through individual divisions | Entire Group |
| | Hold Zero Emissions Working Group meetings to explore measures for achieving emission control targets | Developed specific measures and determined schedule for the following year | ☆☆ | Pursue zero emissions with a recycling ratio target; establish routes for treatment of difficult to recycle waste | Housing Business Headquarters |
| | Hold Zero Emissions Working Group meetings to set tasks (direction) | Developed specific measures and determined schedule for the following year | ☆☆ | Implement thorough sorting of waste, unification of material dimensions and a switch to waste treatment routes that enable a high recycling ratio | Real Estate Business Headquarters |
| | Engage in initiatives to achieve zero emissions, with recycling ratio of 84% targeted for all four plants as a whole | Achieved recycling ratio target by implementing efforts for sale of industrial waste a recyclable resource, etc. | ☆☆ | Advance efforts to raise the recycling ratio, curb waste generation and increase sales of waste with commercial value | Sumitomo Forestry Crest |
| Promotion of recycling | Reduce plastic pellet purchases to zero through effective utilization of particle board (PB) and medium density fiberboard (MDF) offcuts | Achieved target | ☆☆ | Continue to pursue effective utilization of offcuts | ASTI |

Sustainability of Timber Resources

☆☆: Target achieved ☆: Target almost achieved ×: Target not achieved

| Key Initiatives | FY2007 Plan | FY2007 Results | Evaluation | FY2008 Plan | Division |
|--|---|---|------------|--|---|
| Promotion of green procurement | Complete legal compliance confirmation for all suppliers | Promoted legal compliance confirmation for timber handled, and completed investigation for all 280 overseas suppliers | ☆☆ | Re-confirm legal compliance for all overseas suppliers and commence creation of sustainable forest standards | Timber & Building Materials Business Headquarters |
| | Ensure 97% of manufacturers comply with green procurement corporate evaluation requirements | Achieved target | ☆☆ | Ensure 97% of manufacturers comply with green procurement corporate evaluation requirements (continued) | Housing Business Headquarters |
| Initiatives relating to sustainable and certified timber | Increase handling of certified timber and increase volume of FSC-CoC timber sales | Sales enhanced with proposals made to customers | ☆ | Increase handling of certified timber and increase volume of FSC-CoC timber sales | Timber & Building Materials Business Headquarters |
| Sustainable forest management | Implement forest management according to the 8th Forest Management Plan | Implemented thinning and other sustainable forest management operations, based on the plan | ☆☆ | Commence supply of SGEC-certified timber to Housing Business Headquarters | Forest Management Division |
| | Promote "social forestry" | Promoted afforestation according to plan | ☆☆ | Plant 2.5 million trees (scheduled for wet season) | KTI |

Biodiversity Preservation

☆☆: Target achieved ☆: Target almost achieved ×: Target not achieved

| Key Initiatives | FY2007 Plan | FY2007 Results | Evaluation | FY2008 Plan | Division |
|---------------------------|---|---|------------|--|----------------------------|
| Biodiversity preservation | <ul style="list-style-type: none"> ● Improve biodiversity preservation methods for company-owned forests ● Formulate management policies for forests adjacent to rivers and lakes ● Formulate monitoring content from a biodiversity perspective | Completed formulation in conjunction with management policies for forests adjacent to rivers and lakes, as well as monitoring content | ☆☆ | Plan and implement biodiversity monitoring | Forest Management Division |

Management of Harmful Chemical Substances

☆☆: Target achieved ☆: Target almost achieved ×: Target not achieved

| Key Initiatives | FY2007 Plan | FY2007 Results | Evaluation | FY2008 Plan | Division |
|---|---|---|------------|---|-----------------------------------|
| Thorough soil contamination countermeasures | Conduct thorough soil contamination investigations and adhere to investigation procedures | All soil contamination investigations implemented in line with procedures | ☆☆ | Conduct thorough soil contamination investigations and adhere to investigation procedures (continued) | Real Estate Business Headquarters |
| Thorough management of harmful substances | Generate no irregularities in handling of chemicals and reagents | Zero defects achieved | ☆☆ | Generate no defects in chemicals and reagents handled (continued) | Tsukuba Research Institute |
| Reduction of harmful chemical substance emissions | Reduce emissions of chemical substances stipulated by the Pollutant Release and Transfer Register Law | One plant achieved targets; remaining two plants fell short | × | Reduce emissions of chemical substances stipulated by the Pollutant Release and Transfer Register Law (continued) | Toyo Plywood |

Environmental Management

☆☆: Target achieved ☆: Target almost achieved ×: Target not achieved

| Key Initiatives | FY2007 Plan | FY2007 Results | Evaluation | FY2008 Plan | Division |
|--|--|---|------------|---|-----------------------------------|
| Enhancement and promotion of environmental education | While implementing environmental education, explore and establish indicators for measuring benefits of education | Environmental education implemented (e.g. e-learning); will measure effects by analyzing results of survey performed at time of education | ☆ | Implement environmental education and look for more accurate indicators for measuring effects | Environmental Management Division |

Research and Development

☆☆: Target achieved ☆: Target almost achieved ×: Target not achieved

| Key Initiatives | FY2007 Plan | FY2007 Results | Evaluation | FY2008 Plan | Division |
|---|--|--|------------|---|-------------------------------|
| Energy conservation and reduction of environmental impact | Seek effective utilization of natural energy and devise solutions for reducing the environmental impact of housing | Issues identified and new solutions developed through verification experiments | ☆ | Continue verification through cooperation with model homes, etc. | Tsukuba Research Institute |
| Reduction of environmental impact of housing | Put forward proposals incorporating the <i>Ryounbou</i> concept | Proposals made with successfully tested products designated as special 60th Anniversary products | ☆☆ | Continue designation of items to become products; continue to put forward new product proposals | Housing Business Headquarters |

Promotion of Environmental Business

☆☆: Target achieved ☆: Target almost achieved ×: Target not achieved

| Key Initiatives | FY2007 Plan | FY2007 Results | Evaluation | FY2008 Plan | Division |
|-----------------------------------|--|--|------------|---|-------------------------------|
| Effective utilization of sediment | Increase sales volume of products made using sediment by 4% | Sales volume decreased by 3%, thereby falling short of target (4% increase) | × | Plan new products and new routes, aiming to increase sales by 2% from the previous year | Sumirin Agro-Products |
| Environmental differentiation | Increase sales of recycled and eco products by 2% from previous year | Sales increased by 5% due to various efforts, including participation in an environmentally-themed exhibition; target increase (2%) achieved | ☆☆ | Continue sales promotion of recycled and eco products | Sumitomo Forestry Landscaping |

Environmental Protection Activities by Non-Production Facilities

☆☆: Target achieved ☆: Target almost achieved ×: Target not achieved

| Key Initiatives | FY2007 Plan | FY2007 Results | Evaluation | FY2008 Plan | Division |
|---|--|--|------------|--|--------------|
| Reduction of environmental impact of offices (green purchasing, etc.) | Set 55% minimum green purchasing ratio target with individual divisions to pursue activities | Green purchasing increased but accurate figures could not be calculated due to the issue concerning copier paper falsely identified as environmentally considerate | —* | Advance green purchasing of stationery items, excluding copier paper until copier paper usage has been ascertained | Entire Group |

* Self evaluation was not conducted due to not being able to ascertain accurate data regarding the green purchasing rate

Initiatives at Group Companies—Sumitomo Forestry Landscaping

In fiscal 2007, Sumitomo Forestry Landscaping Co., Ltd. managed to implement initiatives more-or-less in line with the environmental targets and implementation plan established at the beginning of the year.

Although efforts were made regarding activities to reduce CO₂ emissions and achieve zero emissions, which are being pursued by the Sumitomo Forestry Group, the affiliate fell slightly short of the zero emissions target.

Targets were also established and pursued within the Residential Landscaping Division, Environmental Greenification Division, Greenery Materials Sales Division and the I-Green Project Division. Specific initiatives included promotion of the landscaping of housing exteriors (increase in number and value of projects); sales of recycled and eco products (2% increase from the previous year); and indoor greening (increase in plant leasing sales), for all of which targets were attained. In addition, environmental education was carried out in the form of training for environmental managers and seminars on appropriate treatment of industrial waste. Overall, Sumitomo Forestry Landscaping successfully implemented 26 out of 33 target initiatives during fiscal 2007.

Greater efforts are going to be made in fiscal 2008 as it will be a crucial year for the advancement of CO₂ reductions and zero emissions.



Akira Fukatsu
General Manager
Environmental Safety
Promotion Division
Sumitomo Forestry
Landscaping

Environmental Accounting for Fiscal 2007

In the interests of promoting environmentally-sound management, Sumitomo Forestry calculates and publicizes the costs and benefits of environmental conservation activities.

* The scope of calculation covers the Sumitomo Forestry parent company and certain Group companies

Environmental Conservation Costs

(Unit: Million yen)

| Cost category | | Main activities | Cost |
|--|--|--|-------|
| 1. Operations costs | Pollution prevention costs ¹ | Soil contamination countermeasures (consulting; surveys) | 1 |
| | Global environmental protection costs ² | Sustainable forestry cultivation | 528 |
| | | Overseas afforestation consultancy | 24 |
| | Resource recycling costs ³ | Promotion of appropriate treatment, reduction and recycling of industrial waste | 3,508 |
| | | Waste wood chip distribution operations | 161 |
| | | Environment-related business (potting mix using sediment from water purification plants, etc.) | 563 |
| 2. Management activity costs ⁴ | Operation and promotion of environmental management (ISO 14001 certification, etc.) | 43 | |
| | Disclosure and administration of environmental information (<i>Environmental and Social Report</i> , environmental advertising, exhibits, etc.) | 1,172 | |
| | Green procurement and green purchasing | 135 | |
| | Deliberation on methods for reducing CO ₂ emissions using LCA | 16 | |
| | Environmental education | 27 | |
| 3. Research and development costs ⁵ | R&D related to environmental conservation | 289 | |
| 4. Social contribution costs ⁶ | Management of Mt. Fuji Manabi no Mori natural forest restoration project | 40 | |
| | Forester House administration | 18 | |
| | Other social contribution activities | 5 | |
| | Grants to the Keidanren Nature Conservation Fund, etc. | 2 | |
| Total | | | 6,530 |

1. Pollution prevention costs: Consultancy fees for soil contamination countermeasures and expenditure on soil contamination inspections.
2. Global environmental protection costs: Expenditure on preservation and management of company-owned forests to foster sustainable forestry, and expenditure in Japan and overseas relating to Indonesian afforestation consultancy.
3. Resource recycling costs: Expenditure 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.
4. Management activity costs: Office expenses and auditing costs relating to maintenance of ISO 14001 certification, and expenditures relating to disclosure of environmental information, for example through advertising, environment-related exhibitions and *Environmental and Social Reports*, expenditures relating to lectures on environmental education and e-learning, as well as costs for lifecycle assessment inspections.
5. Research and development costs: Expenditures for environment-related research conducted at Tsukuba Research Institute and expenditures for outsourced research and development by each division.
6. Social contribution costs: Expenditures related to operating the Mt. Fuji Manabi no Mori natural forest restoration project; expenditures related to maintaining and operating Forester House; expenditures related to other social contribution activities; and grants to the Keidanren Nature Conservation Fund and other contributions.

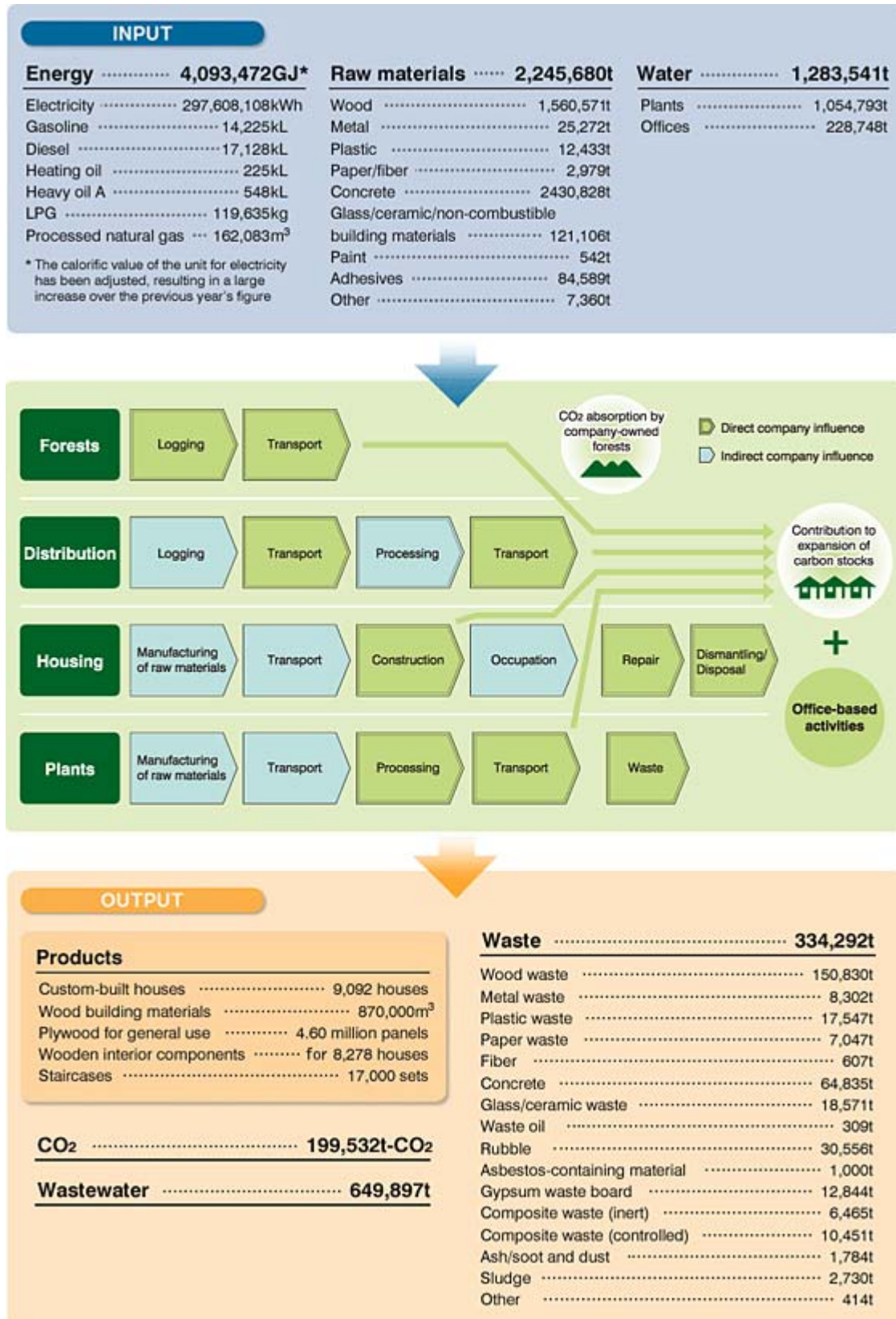
Environmental Benefits

| Category | Description | Benefit |
|--------------------------------------|---|-----------------------|
| 1. Operations benefits | CO ₂ sequestered by company-owned forests | 137,577 tons |
| | Volume of waste wood recycled by distribution business (chip conversion) | 899,000m ³ |
| | Sales volume of potting mix using sediment from water purification plant | 24,577 tons |
| 2. Management activity benefits | Employees designated internal environmental auditors | 93 people |
| 3. Research and development benefits | Launch of <i>MyForest-Tajju</i> home using Japanese timber for all principal structural members | - |
| | Development of scientifically proven traceability methods for timber products | - |
| | Omurozakura Research Project conducted soil investigation through boring tests | - |
| 4. Social contribution benefits | Volunteers who participated in Mt. Fuji Manabi no Mori project | 304 people |
| | Visitors to Forester House | 3,594 people |

Balance of Input & Output

In order to understand the environmental impact of business activities and to promote effective activities to reduce that impact, we calculate the input of resources and energy and the volume of emissions of CO₂ and waste according to the lifecycle of products in each business.

Environmental Impact of Business Activities



Data Calculation

Input

- Energy consumption values for office activities, production and other direct activities were tabulated for each energy category; values for on-site construction and other indirect activities were reached by multiplying the amount of energy consumed in a standard process by the number of construction projects.
- Raw material values for the housing business were calculated by tabulating the volume of each type of principal structural material used in a hermetically sound and well insulated house designed by Sumitomo Forestry for the Kanto region with a total floor area of 147m² and multiplying those figures by the number of houses completed.
- The volume of raw materials input at domestic and overseas plants was tabulated. Water consumption by offices was estimated from utilities expenses.

Output

- Waste management form values were used to calculate the waste volume. In the housing business, waste from demolition work and new housing construction was included.
- For timber and building material production activities, the volume of waste disposed of by domestic and overseas plants was tabulated according to waste type.

We will continue to review calculation procedures as we include other areas indirectly influenced besides those listed above, and other businesses. We are also aware that further improvements to accuracy need to be addressed.

Life Cycle Assessments

For a company to be able to contribute to the realization of a sustainable society through environmentally-friendly business activities, it first has to be well aware of the primary issues affecting its own business. Therefore, the Sumitomo Forestry Group carries out life cycle assessments (LCA) to ascertain the environmental impact of all its business activities. LCA is a method of evaluating the overall environmental impact of a product throughout its lifecycle, from raw material procurement, manufacturing and transportation, to sale, usage, re-use and disposal.

LCA of business activities undertaken by the LCA Technical Working Group set up in fiscal 2006 revealed that environmental impact was high during the transportation of raw materials used for timber products and during the occupation stage of housing.

In fiscal 2007, we focused on reducing the environmental impact of stages that had a large impact, though measures were pursued at other stages as well. To raise the accuracy of LCA conducted for a single house (one complete product), inventory

analysis¹ of structural plywood, staircases and countertops was also implemented. Structural plywood made from domestic timber was revealed to emit less CO₂ (LC-CO₂)² throughout the lifecycle of a house than structural plywood made from imported timber.

During fiscal 2008, we will clearly define the scope of LCA (especially LC-CO₂) conducted for single houses to advance inventory analysis of materials currently not covered.

1. Analysis of the input (energy, materials, etc.) and output (gas emissions, waste, etc.) involved in the lifecycle of a product from its manufacture to disposal
2. Assessments of materials such as structural members shall involve the calculation of CO₂ emissions for the portion of the lifecycle from construction and use through to demolition

Environmental Impact of Constructing a New House

INPUT

| | |
|-------------------------------------|---|
| Energy 20,780ML | Raw materials 76.18t |
| Electricity 550kWh | Timber 15.64t |
| Gasoline 317L | Metal 2.49t |
| Diesel 205L | Plastic 1.08t |
| | Paper/fiber 0.15t |
| | Concrete 44.75t |
| | Glass/ceramic/non-combustible building materials ... 12.07t |

OUTPUT

| | |
|---|--|
| CO₂ 1,504kg-CO₂ | Waste from new housing construction ... 4.49t* |
| | Plastic waste 0.43t |
| | Paper waste 0.54t |
| | Wood waste 1.18t |
| | Metal waste 0.11t |
| | Glass/ceramic waste 0.79t |
| | Rubble 0.25t |
| | Gypsum waste board 0.82t |
| | Composite waste (inert) 0.08t |
| | Composite waste (controlled) 0.28t |
| | Sludge 0.01t |

* The method for calculating the waste volume was adjusted to gain a more accurate understanding of the waste volume generated. This has resulted in an increase in the calculated waste volume

Contribution to the Expansion of Carbon Stocks

Carbon stocks refer to stocks of CO₂ stored within the atmosphere, forests and the ocean that play a major role in global warming prevention. As trees grow, they absorb and retain CO₂ from the atmosphere. When mature trees are harvested and used as building material, the CO₂ contained in the trees is stored for a long time, which is why wooden housing is likened to building forests in the city. The Sumitomo Forestry Group handled 271,000m³ of timber for housing construction in fiscal 2007. That is roughly equivalent to 224,000t-CO₂, or the amount of CO₂ emitted by approximately 40,000 regular households each year. CO₂ absorption by company-owned forests was 138,000t-CO₂.

Through the re-use and recycling of timber and by using timber procured from sustainably managed forests and promoting the construction of quality, long-lasting wooden houses and the use of wooden building materials, the Sumitomo Forestry Group will look to expand carbon stocks in the form of timber in the future, thereby helping to prevent global warming.

Reducing CO₂ Emissions

As global warming becomes an increasingly critical issue, we face the urgent task of reducing CO₂ emissions. Sumitomo Forestry will strive to reduce CO₂ emissions generated by business activities and customer households, and help to absorb atmospheric CO₂ through proper management of our forests.

Global Warming and the Role of Sumitomo Forestry

Global CO₂ emissions continue to rise. The Intergovernmental Panel on Climate Change (IPCC) *Fourth Assessment Report* states that the rise in greenhouse gases due to human activity has almost certainly led to global warming, and predicts that the Earth's average air temperature at the end of the 21st century will have risen by up to 6.4° C compared to the average for 1980–1999. Time is running out for countries to achieve CO₂ reduction targets as stipulated for the first commitment period under the Kyoto Protocol, which started in April 2008. Concrete action needs to be taken by companies in order for Japan to meet its reduction requirements.

In addition to efforts to reduce CO₂ emissions generated by business activities, Sumitomo Forestry is helping to absorb CO₂ through proper management of its forests. Sumitomo Forestry also believes it bears a major responsibility as a housing provider to promote reductions of CO₂ emissions from households, which account for around 13% of Japan's total CO₂ emissions and are increasing year after year.

Stakeholder comment I hope Sumitomo Forestry makes efforts during the course of its business to reduce the amount of greenhouse gases emitted. (NGO)

[▶ CO₂ Emissions, Absorption and Sequestration by the Sumitomo Forestry Group for Fiscal 2007](#)

Reducing the Global Warming Effect of Business Activities

Reductions of CO₂ emissions are being pursued by offices and plants as part of Group measures to combat global warming through business activities. Direct emissions reduction targets were revised in fiscal 2007 to incite further reduction efforts.

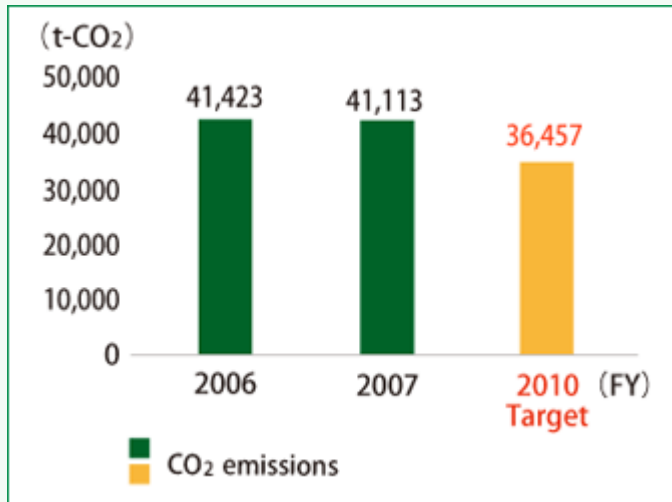
CO₂ Emissions Reduction Targets

| | |
|--------------------|--|
| Offices: | 12% reduction of total emissions by fiscal 2010 from fiscal 2006 levels |
| Plants (Japan): | 5% reduction of emissions per sales unit by fiscal 2010 from fiscal 2006 levels |
| Plants (overseas): | 20% reduction of emissions per sales unit by fiscal 2010 from fiscal 2006 levels |

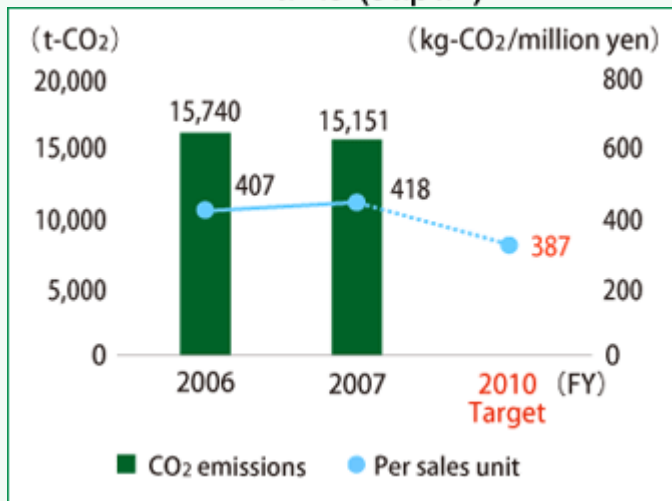
Action to Achieve Targets

- From fiscal 2008, intensify specific activities for attaining reduction targets
- Manage total CO₂ emissions volume for facilities in Japan

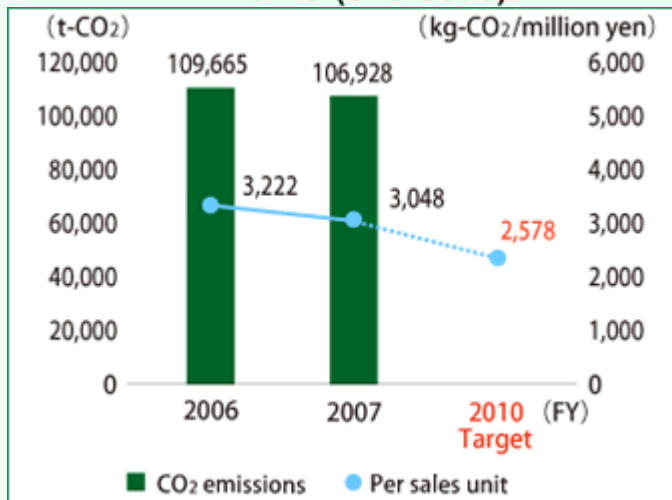
Offices



Plants (Japan)



Plants (overseas)



Reduction of CO₂ Emissions at Plants

Efforts to Reduce CO₂ Emissions by Sumirin Agro-Products

Sumirin Agro-Products Co., Ltd.'s Sakura Plant has to treat sediment from water purification plants before it is used as a component in the production of fertilizer. The sediment used to undergo a mixing and aeration process and steam sterilization, but chemical treatment techniques were introduced in fiscal 2007.

The switch to chemical treatment led to a reduction in the volume of heating oil used for steam sterilization. Accordingly, CO₂ emissions were reduced by 21t-CO₂ in fiscal 2007 compared to fiscal 2006 levels (a 24.6% year-on-year reduction).

■ CO₂ Emissions Reductions by Sumirin Agro-Products Sakura Plant

| | Before improvement (FY2006) | After improvement (FY2007) | Reduction |
|--|--------------------------------|-------------------------------|-----------|
| CO ₂ emissions (kg-CO ₂ /year) | 85,510 | 64,509 | 21,001 |
| CO ₂ emissions per sales unit (kg-CO ₂ /million yen) | 500 | 338 | 162 |
| CO ₂ emissions per production unit (kg-CO ₂ /t) | 12.9 | 9.3 | 3.6 |

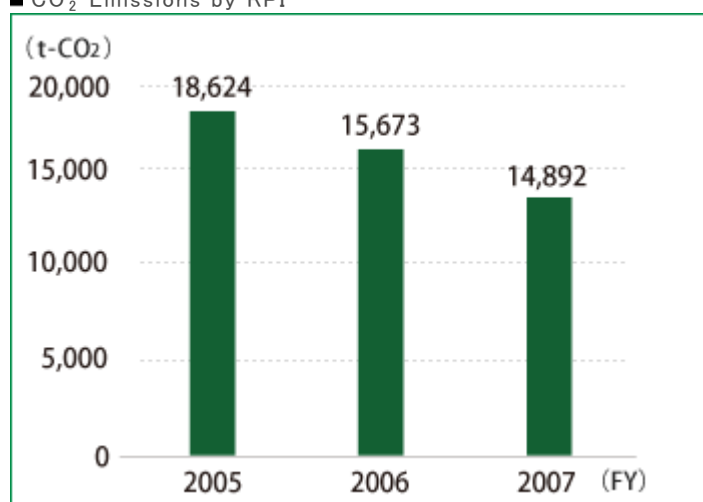
▶ [Recycled Materials Used in Tsuchitaro Garden Potting Mix](#)

Wood Biomass Power Facility Installed by RPI

PT. Rimba Partikel Indonesia (RPI) is a particle board plant located in central Java, Indonesia. The plant was established as a joint venture in 1990 with Sumitomo Forestry and local capital. RPI is attempting to reduce CO₂ emissions by switching from conventional power generation using diesel to generation using wood biomass.

The wood biomass fuel is made up of wood waste generated by the company's plant as well as offcuts and sawdust obtained from neighboring mills. The facility went online in March 2008 and is expected to reduce annual CO₂ emissions by an estimated 15,000 tons. The project has received certification as a Clean Development Mechanism (CDM) project by the United Nations' CDM Executive Board.

■ CO₂ Emissions by RPI



Reduction of CO₂ Emissions at Offices

Reductions of CO₂ emissions are also required in the day-to-day operation of offices as around 12% of Japan's total CO₂ emissions are generated by corporate premises and stores, not including manufacturing facilities. The Sumitomo Forestry Group is attempting to reduce emissions of CO₂ from its offices by setting common reduction targets that are to be pursued by the Group as a whole. Each Group company and division sets specific reduction targets that are pursued through appropriate measures within their respective office spaces.

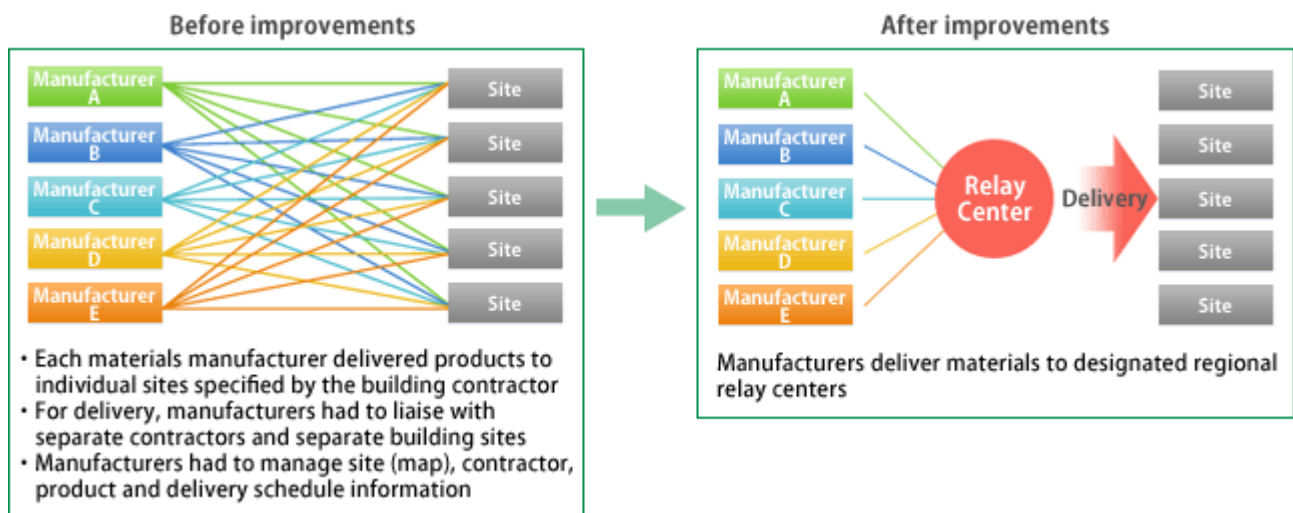
Energy Conservation Activities in Offices

Reduction of CO₂ Emissions Resulting from Transportation

Sumitomo Forestry upgraded its distribution systems in fiscal 2007 to improve the efficiency of material transportation from manufacturers to housing construction sites. Construction materials previously delivered directly to construction sites from the manufacturers' premises are now initially collected at regional relay centers. Mixed loads containing materials from a number of different manufacturers are then delivered to the construction sites. This format eliminates the wastefulness in delivery straight to construction sites, helping to reduce both transportation volume and CO₂ emissions.

Thirty-three relay centers have been established nationwide in Japan. Annual CO₂ emissions are expected to decrease by about 1,520t-CO₂ as a result.

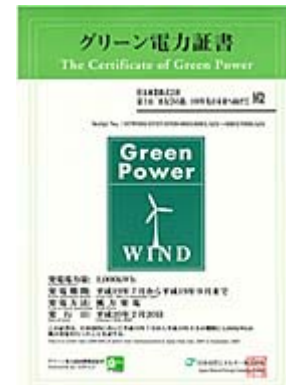
Streamlining Transportation



Utilizing Renewable Energy

Utilization of Green Power

Forest Ark is an activity center within Mt. Fuji Manabi no Mori, the natural forest restoration project run by Sumitomo Forestry as part of its contribution to society. Harmony with nature is the theme of the center, which is powered by the natural energies of sunlight and wind. In following with this concept, the 1,000kWh of electricity required to make and screen the Manabi no Mori introductory DVD created in March 2008 was supplied entirely via a wind power system that was recognized with a Green Power Certificate.



Manabi no Mori introductory DVD Green power was used to create the DVD

Certificate of Green Power

Solar Power Generation at the Utsunomiya Branch

The Utsunomiya Branch of the Housing Business Headquarters draws a portion of its electricity from solar battery modules (solar panels) installed on its roof. One hundred and fourteen panels were installed when the building was built in 2005 with the help of a New Energy and Industrial Technology Development Organization (NEDO) grant. The solar panels generate around 8%, or 19,000kWh, of the branch's annual power consumption, leading to a 7,000kg reduction in annual CO₂ emissions. An electronic panel displaying the electricity output in real time has been set up in the showroom for use in explaining the initiative to customers.



Rooftop solar panels



Power generation status board

Reducing the Environmental Impact of Households

Environmental Considerations for Reducing the Impact of Housing

We know from observing houses throughout their lifecycle, from materials production to dismantling, that the impact they have on the environment is greatest during the occupation stage, when up to 70–80% of the total energy consumed throughout their lifecycle takes place. Finding ways to reduce energy consumption during occupation will therefore be crucial for reducing the environmental impact of housing. Sumitomo Forestry's initiatives include the use of *Ryouonbou* natural heating and cooling design concept, insulation and hermetic properties conforming to next-generation energy conservation standards, and solar energy.

We are also working to reduce household energy consumption together with customers by recommending special equipment such as energy-efficient heat pump hot water systems and efficient air-conditioning systems.

Stakeholder comment → I hope that Sumitomo Forestry will incorporate environmental impact reducing mechanisms into its housing and facilities. (NGO)

Reducing Energy Usage Through *Ryouonbou* Design Concept

Sumitomo Forestry provides houses that offer comfortable living but manages to reduce energy consumption through its *Ryouonbou* design approach, which draws upon the wisdom and techniques used in traditional Japanese houses and cleverly takes advantage of nature's resources.

Ryouonbou is based upon the concepts of *Kaze no Sekkei*, for creating a cool environment in summer by blocking out the sun and alleviating heat by creating channels for airflow; and *Taiyo no Sekkei*, for providing warmth in winter by letting in sunlight and retaining heat. In February 2008 we added *Midori no Sekkei*, a concept that utilizes garden flora to help shade the house from the sun and function as a natural temperature control system.

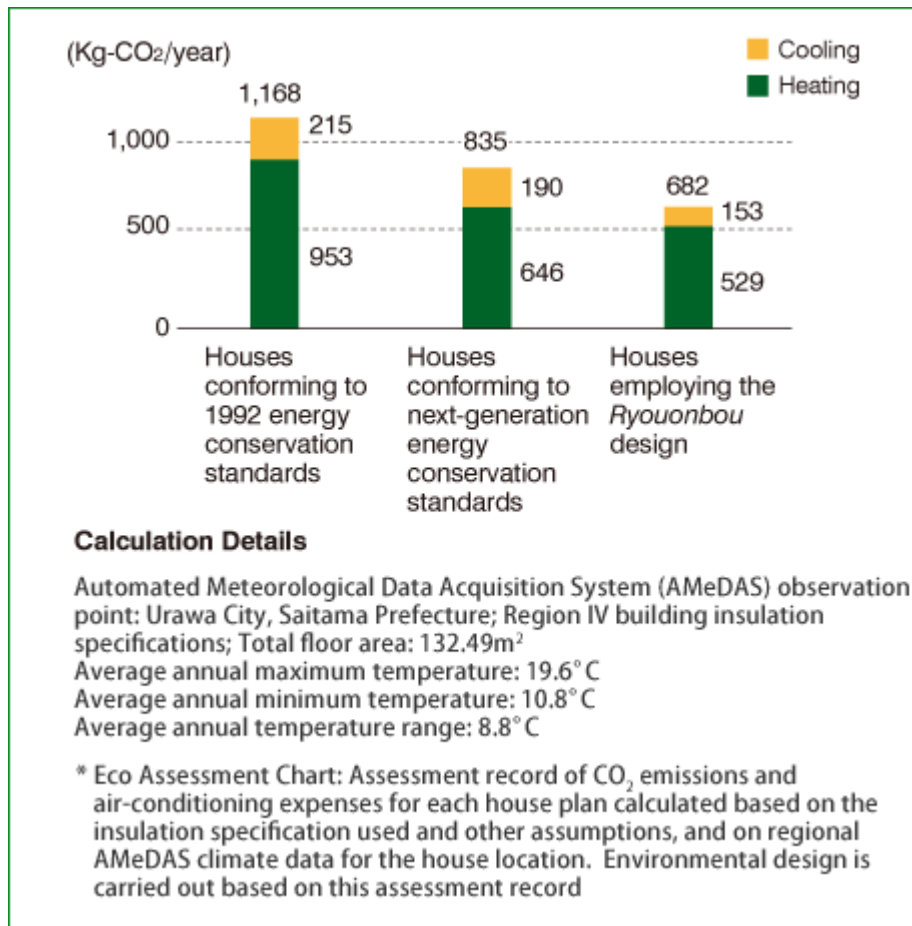
Calculations project that incorporating the *Ryouonbou* concept will help to reduce CO₂ emissions* during occupation by around 20% compared to a regular house with high insulation and hermetic properties conforming to next-generation energy conservation standards.

During fiscal 2007, we used occasions such as the "Sumai Haku" housing fair to introduce the merits of *Ryouonbou* through interactive means in order to let as many people as possible get a feel for the "cool" and "warm" environments we are able to provide.

* Refers only to emissions resulting from air-conditioning and heating

Stakeholder comment → In order to develop environmentally-symbiotic homes, I would recommend that Sumitomo Forestry work with relevant NGOs and NPOs. (Environmental expert)

■ Comparison of CO₂ Emissions during the Occupation Stage Using Eco Assessment Charts*



■ Midori no Sekkei

Case Study Plan for Placement of Greenery and Channels for the Airflow



A A green canopy to create a cool, shady area of foliage

Deciduous trees grow thick with leaves in summer, blocking out direct sunlight and creating a cool, shady area of foliage. In winter, the trees lose their leaves, allowing the sunlight into the rooms.

B A refreshing green area that produces cool air

By planting trees on the north side of the house it is possible to make it cooler in summer. This also has the effect of protecting the house from the northerly winds.

C A screen of greenery that blocks out heat

As well as blocking out sunlight during summer, leaf transpiration also cools the air. By using climbing plants such as bitter melon, one gets the added benefit of being able to enjoy fresh produce once it is ripe.

D Beautification with foliage that decorates the home

We recommend trees that suit the individual home and change appearance with the seasons. As well as bringing out the beauty of a home, greenery also helps blend the building in with its surroundings.

E A parking space with greenery that moderates temperature increases during summer

As well as allowing rainwater to be absorbed into the earth, a green parking space prevents the powerful rays of the summer sun from being reflected back into the atmosphere, thereby moderating increases in temperature in the area around the home.

F “Green blinds” that gently restrict the vision of passersby

By strategically placing foliage in front of windows and other open areas, it is possible to restrict vision from outside and enhance privacy.

G Green groundcover that reduces the reflection of heat in summer

A lawn is perfect for preventing the heat of the sun from being reflected back into the atmosphere. Leaf transpiration, whereby moisture evaporates from the grass, helps moderate increases in temperature.

H A partition of foliage that takes the edge off of the cold

By strategically placing trees according to prevailing wind direction, it is possible to obstruct the cold northerly wind in winter, reduce its force and chill, and divert its direction.



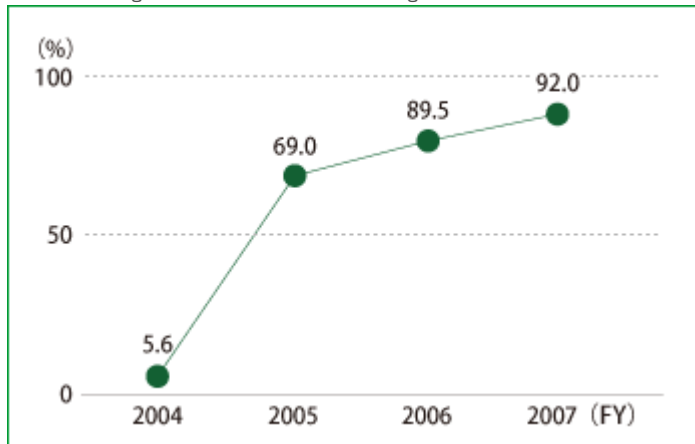
Event introducing the merits of *Ryouonbou*

Employing Next-Generation Energy Conservation Standards

The Japanese government has established energy conservation standards to help reduce energy usage in houses. Sumitomo Forestry has employed next-generation energy conservation standards* for housing specifications since fiscal 2005. In fiscal 2007, the standards were used in 92.0% of specifications, an improvement on 89.5% the previous year. These standards also correspond to the highest energy-saving capability (level 4) under the Japanese Housing Performance Indication System.

* Refers to "Standards and Owner Determination of Energy Usage Rationalization Pertaining to Houses" and "Guidelines for Design and Construction of Energy Usage Rationalization Systems for Houses" as amended in March 1999

■ Percentage of Houses Conforming to Next-Generation Energy Conservation Standards



Increasing Utilization of Solar Power Systems

In addition to the *Ryouonbou* design concept, Sumitomo Forestry is using solar power systems to reduce the environmental impact of housing further. In August 2007, the company launched the new *MyForest-Solabo* brand, which incorporates a solar power system as a standard feature. Compared to preceding home models without a solar power system, annual CO₂ emissions during occupation were reduced by 75% to 1,442kg-CO₂*.

* Employing a 4.28kW system, with annual generation of 4,580kWh, in a hermetically sound and well insulated house designed by Sumitomo Forestry for the Kanto region with a total floor area of 147m²

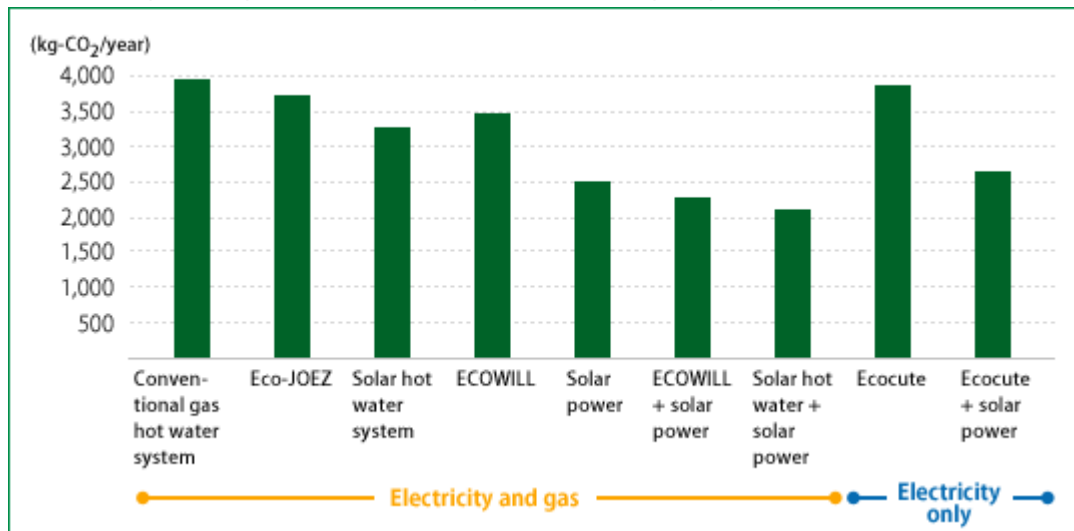
Solar Hot Water System Developed

Water heating accounts for around one third of an average household's energy consumption; therefore, hot water systems that efficiently employ solar thermal energy contribute enormously to reductions in energy consumption and CO₂ emissions. The development of products that employ solar thermal energy, which is more efficient than solar power, has progressed overseas, where application is widespread due to the environmental and economic advantages.

Although application in Japan has been slow to take off, Sumitomo Forestry believes the technology will be indispensable to society and has collaborated with an equipment manufacturer to develop a new solar hot water system. The system uses a roof-mounted solar thermal energy collector to heat water that is stored in a tank ready for supply. A gas water heater has been incorporated directly into the solar hot water system to ensure stable hot water supply—an industry first in Japan. Pipes are drawn down through the roof so as not to spoil the appearance of the housing exterior. Solar heat usage and cost savings can be viewed on a remote control device.

This system can be installed cheaper than solar power systems and, according to estimations*, will help to reduce gas charges for hot water systems by roughly ¥30,000 a year and CO₂ emissions by approximately 60%. Our target is to include the system in 200 houses during fiscal 2008.

■ Comparison of Annual CO₂ Emissions from Housing Using Combined Hot Water and Solar Power Systems (for heating, cooling, hot water, cooking, ventilation, lighting and power outlets)



* Assumptions:

Location: Tokyo; Persons in household: 4; 3kW solar power capacity

Zero Emissions Initiatives

Many resources go into building a house and we must therefore try to reduce the usage volume and carry out recycling of those resources. Sumitomo Forestry is taking steps towards using more and more materials that use recycled raw materials and materials that can be recycled after use in its houses and achieving zero emissions of industrial waste generated from plants, new housing construction sites, and other operations sites.

Policy on Resources

Building a house requires an enormous amount of resources. Around 76.2 tons of resources are used for the principal structural members and materials for a single hermetically sound and well insulated house designed by Sumitomo Forestry for the Kanto region with a total floor area of 147m². Sumitomo Forestry believes zero emissions initiatives involving the volume reduction, reuse and recycling of waste are essential for reducing environmental impact and realizing effective utilization of resources.

At the point of input, we try to reduce the volume of raw materials used. This includes eliminating any surplus of materials and employing materials that generate fewer offcuts. In terms of resource recycling, we believe it is important to employ resources made from recycled materials. The use of recyclable resources, careful sorting of waste from construction and demolition sites, and utilization of recycled crushed stone and other recycled products are the type of definitive initiatives we need to apply to all materials in order to complete the recycling cycle.

Stakeholder comment I think Sumitomo Forestry should make further efforts to reduce waste and enhance other aspects of environmental consideration in its core businesses. (NGO)

Zero Emissions Initiatives

To advance the recycling of resources, we have commenced initiatives targeting zero emissions of all industrial waste generated at production plants, new housing construction sites, and other operations sites. All divisions, including Group companies, have commenced initiatives based on the 3Rs—reduce, reuse and recycle. Our aim is to achieve a 98% recycling rate for industrial waste by the end of March 2010.

In fiscal 2007, we established the Sumitomo Forestry Group Road Map Toward Zero Emissions and commenced initiatives aimed at achieving targets set under a three-year plan. Zero Emissions Working Groups have been established within each Headquarters and affiliate, and they have ascertained the current status of waste generation (waste volume) and recycling. The working groups also discuss concrete resolutions to issues, such as suggesting ways to handle difficult to recycle materials, as well as engaging in activities to facilitate achieving specific goals. The Housing Business Headquarters and other divisions emitting relatively large volumes of industrial waste have also been assigned the following objectives.

- 1) Set targets for reduction of waste volume;
- 2) Explore ways to reuse waste;

3) Examine recycling routes.

Production plants are similarly setting relevant goals.

Stakeholder comment I believe that Sumitomo Forestry should work towards developing a situation where the industry as a whole does not generate any waste. (Architect)

Waste Reduction at New Housing Construction Sites

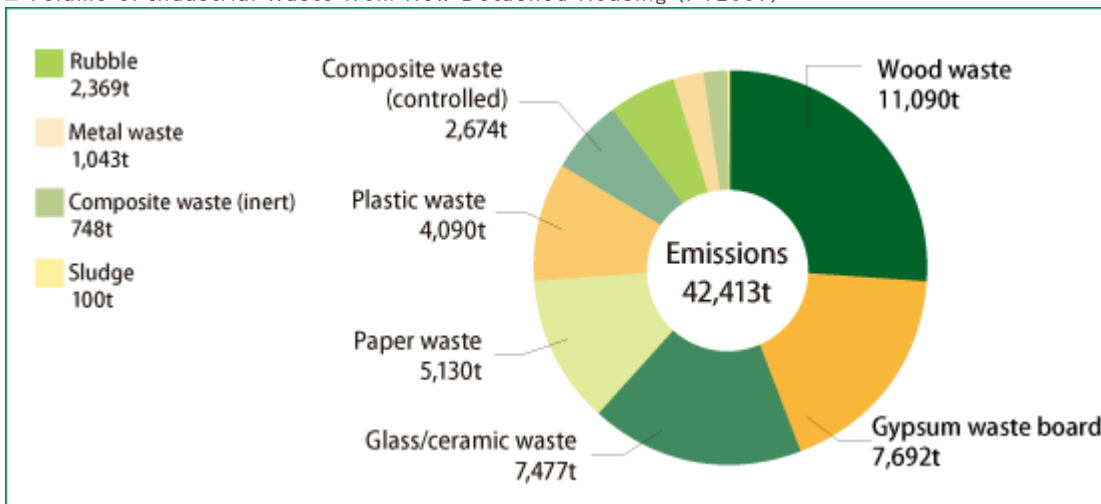
Sumitomo Forestry is pursuing zero emissions of waste at new housing construction sites through both recycling and reduction of volume. We aim to attain a 98% recycling rate for industrial waste generated at new housing construction sites by the end of March 2010. The recycling rate for fiscal 2007 was 72.9%.

Efforts toward achieving this target include deliberation on methods of treatment for difficult to recycle materials for which sending to landfill or simple incineration used to be the only methods. We are trying to establish recycling routes that make use of cement plants and are currently in talks with cement manufacturers and intermediate treatment contractors.

Waste volume reduction efforts include the precutting of materials for soffits (beneath the eaves) and gables, as well as the careful sorting of waste.

In the near future we plan to commence transportation of difficult to recycle materials to cement plants via intermediate treatment plants in Tokyo and eight prefectures in eastern Japan before gradually expanding the scope of the activity to the rest of the country. To reduce the volume of waste further, we will perform trial precutting of ceramic roof tiles. We also plan to introduce a waste traceability system that will make use of digital cameras with communication capability and IC tags. This will enable us to accurately ascertain the weight of waste.

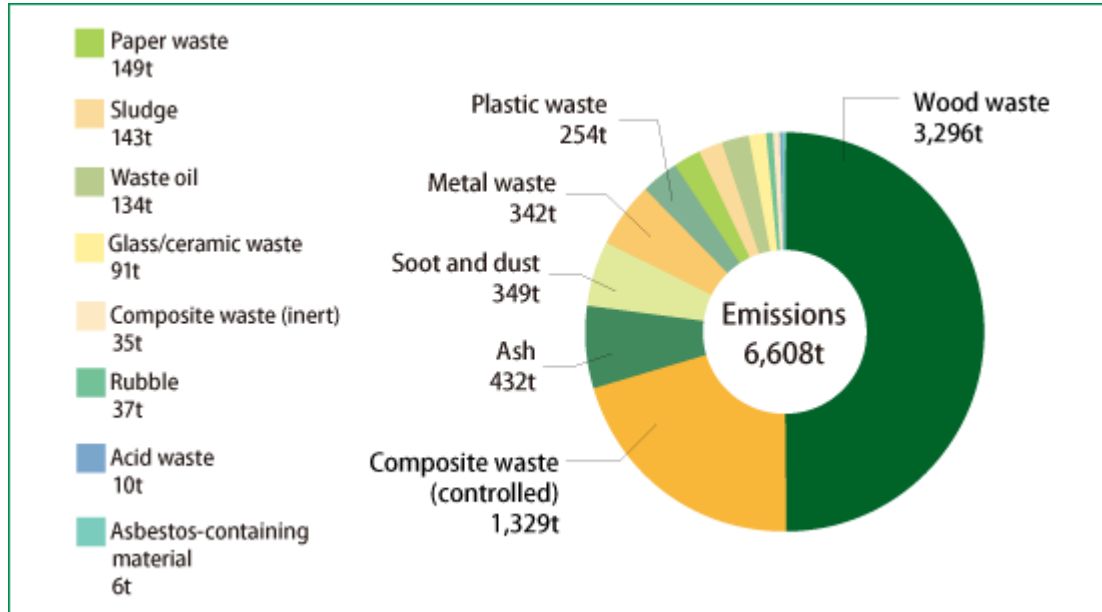
■ Volume of Industrial Waste from New Detached Housing (FY2007)



Waste Reductions at Plants

Production plants operated by Sumitomo Forestry Crest Co., Ltd., Toyo Plywood Co., Ltd., and Sumirin Agro-Products Co., Ltd., are also engaged in initiatives aimed at achieving zero emissions of waste by the end of March 2010. At present, the Kashima Plant of Sumitomo Forestry Crest is the only plant that has attained the zero emissions goal. In addition, two plants at Sumitomo Forestry Crest have attained zero emissions on an individual month basis and are now aiming to achieve zero emissions over an entire year.

■ Volume of Waste Generated at Plants (FY2007)

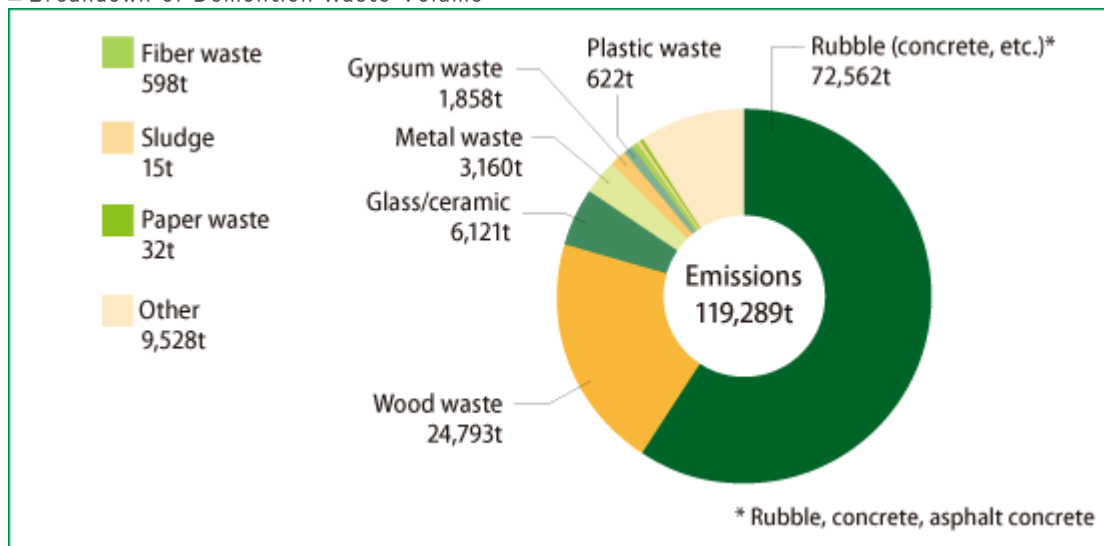


Proper Handling of Demolition Waste

During the process of new housing construction, Sumitomo Forestry carried out demolition of slightly more than 2,700 old houses in fiscal 2007, generating almost 119,300 tons of waste. We believe we should recycle this waste and have been trying to improve recycling processes since before the enactment of the Construction Materials Recycling Act through careful dismantling and sorting, and separate disposal of waste. Concrete and metals are almost 100% recycled, and so far wood waste is 97% recycled. However, we are still without effective methods for recycling tiles, glass, ceramics, gypsum board and composite materials, making the development of recycling routes one of our main challenges.

Stakeholder comment → Construction sites generate considerable amounts of waste. However, it would be good to see Sumitomo Forestry develop a mechanism for improving the rate of energy self-sufficiency through converting the waste generated from the construction of wooden houses into fuel for bio-energy. (Environmental expert)

■ Breakdown of Demolition Waste Volume

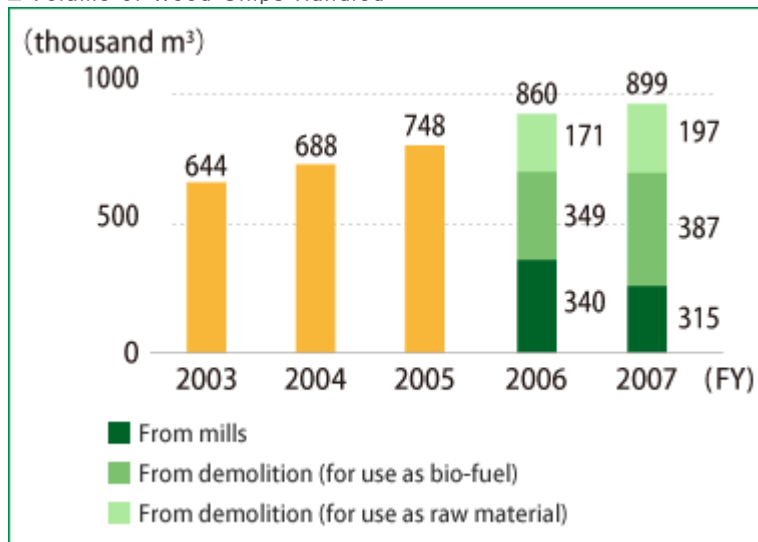


Resource Recycling

Recycling of Wood Waste

Offcuts from the timber milling process and waste wood from construction and demolition sites can be turned into wood chips for use in paper-making, particle board or as fuel. Sumitomo Forestry employs the networks it has developed through its timber distribution business, creating its own recycling routes to promote the use of wood chips.

■ Volume of Wood Chips Handled



Sustainability of Timber Resources

Sumitomo Forestry engages in sustainable forest management, proactive utilization of Japanese timber and overseas afforestation efforts to ensure access to timber resources in perpetuity.

Forests Today and the Role of Sumitomo Forestry

The depletion and devastation of forests has become a global issue. As a timber distributor and owner of approximately 40,000 hectares of forests, Sumitomo Forestry believes it has a major role to play in forest utilization and the realization of timber resource sustainability. We will continue to promote sustainable timber use through application of our forest management expertise and research and development we have carried out in relation to trees and wood.

Forest Conservation in Japan and Utilization of Japanese Timber

Management of Company-Owned Forests

Sumitomo Forestry's company-owned forests, which are located in Hokkaido, Shikoku, Kyushu and Wakayama, cover a total area of 40,567 hectares (about 1/1000 of Japan's land area; 1/530 of growing stock). These forests are managed in an environmentally-friendly and sustainable manner.

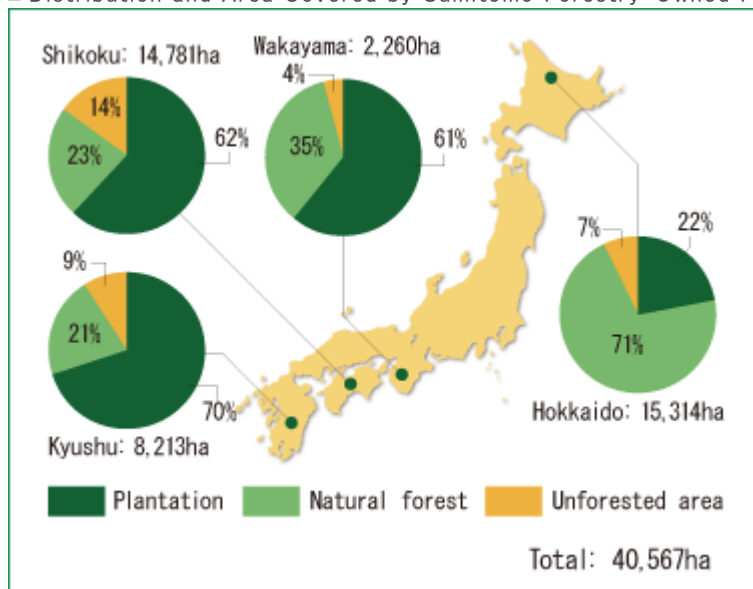
Forests perform a number of functions for the public good, including land conservation, cultivation of water resources (by providing nutrients), curbing of global warming through CO₂ absorption, and biodiversity preservation. Those benefits can be enhanced with proper forest management. In contrast to fossil fuels, forest resources are renewable, as made possible through a cycle from appropriate forest management, involving such activities as afforestation and thinning, to harvesting and then reforestation. Around 138,000 tons of CO₂ are absorbed each year due to proper management by Sumitomo Forestry of company-owned forests.

Forest certification from Japan's own Sustainable Green Ecosystem Council (SGEC*) was acquired for company-owned forests in September 2006, which means the forests have been verified by a third-party as being properly managed.

Specific management practices include the consideration of ecosystems and other surrounding environments and the introduction of small-area clearcutting methods, which enable efficient felling of trees ready for harvesting and allow forestry skills to be passed down to younger generations.

* Japan's own forestry certification system through which management of forests is verified as sustainable by third parties. Certification is based on seven standards, including the preservation of biodiversity and the conservation and maintenance of soil and water resources.

■ Distribution and Area Covered by Sumitomo Forestry-Owned Forests



Stakeholder comment I hope Sumitomo Forestry will continue in its efforts to revitalize the forestry industry in Japan through good maintenance of its forests. (Management-related CSR expert)

- 📍 [Ensuring Traceability of Timber](#)
- 📍 [Policy on Biodiversity Preservation](#)

Promoting Utilization of Japanese Timber

After World War II, hills across Japan were planted with Japanese cedar and cypress trees during intense reforestation efforts. Forestry continued to be an unprofitable business, however, as timber prices were gradually undermined by the lifting of trade controls on low-priced imported timber. As a result, many plantations were left without proper care, which in turn led to the decline of Japanese forests and forestry in general.

In order for Japan’s forests to continue providing quality timber well into the future, Japanese forestry needs to be able to operate as a sound business. A major challenge will be to increase utilization of Japanese timber.

Working with Government on Japanese Timber Promotion

Group company Sumitomo Forestry Timberland Management Co., Ltd. applied to become a participant in a “new production system” being organized by the Forestry Agency to promote the utilization and stable supply of Japanese timber. The company was selected as a participant in April 2006. The purpose of the system, pursued over five years beginning in fiscal 2006, is to build up timber supply chains, find ways to cut costs in production, distribution and processing, and develop a steady timber supply.

Most forestry and timber operations used to be run on small forest holdings, meaning production, distribution and processing were undertaken on a small scale, highly dispersed and involving multiple stages. The industry was unable to offer housing manufacturers a stable supply of the products they needed. Demand slumped, triggering a vicious spiral of declining forestry revenues and slack forest maintenance.

Under the “new production system,” designated model areas are pursuing consolidation of operations and management, conclusion of business pacts, and cost reductions in

production, distribution and processing based on agreements linking upstream and downstream businesses. The aims are to increase demand for Japanese timber by ensuring stable supply of the products that housing manufacturers need, to increase the revenue of forestry businesses and to promote forest maintenance.

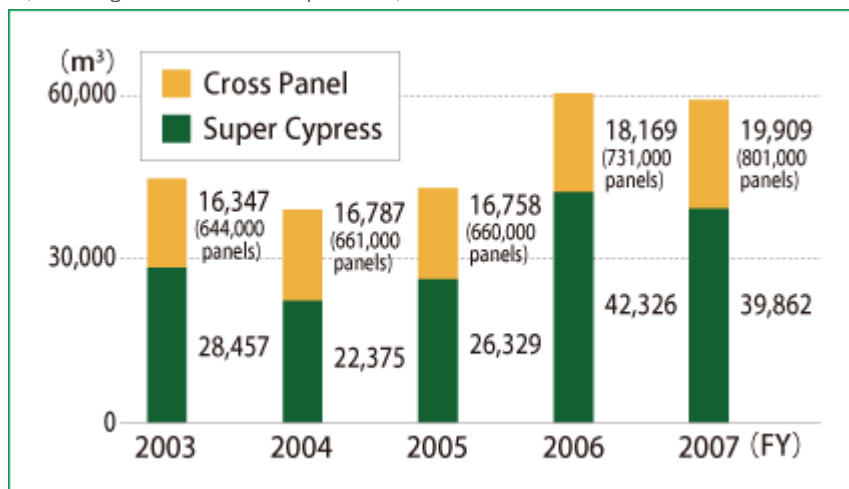
Eleven areas around the country were designated as model areas. Sumitomo Forestry Timberland Management is helping to boost distribution of Japanese timber by providing consulting services to operations in the Shikoku area. Specifically, the company helps forest owners realize stable production through the introduction of simplified classification methods to enable low-cost collection and the advance offering of purchase price quotations.

Stakeholder comment I hope Sumitomo Forestry will also put effort into increasing the value of forest resources. (Investor)

Utilization of Japanese Timber in Houses

Sumitomo Forestry maintains a policy of actively using Japanese timber in housing and is undertaking initiatives to promote use of the laminated engineered wood *Super Cypress*, made from Japanese cypress (*Chamaecyparis obtusa*), and the load-bearing wall panel product *Cross Panels* made from Japanese cedar (*Cryptomeria japonica*) and Japanese larch (*Larix leptolepis*). Our goal is to raise the Japanese timber percentage of principal structural members for Sumitomo Forestry Home houses to 70% during fiscal 2008. The *MyForest—Waraku Miyabi* home launched in November 2006 has achieved 100% usage of Japanese timber for all principal structural members, including *Super Cypress* (100% Japanese cypress laminate) for foundations and posts and Japanese larch for beams. The *MyForest—Taiju* home launched in February 2008 makes further inroads. In addition to using Japanese timber for all principal structural members, with *Super Cypress* being used in posts, foundations and sleepers, and cypress also being used in original load-bearing *Cross Panels*, we also make recommendations for employing Japanese cedar in interior materials.

■ *Super Cypress* and *Cross Panel* Usage
(Housing Business Headquarters)



Development of Efficient Timber Drying Technology

Cedar and cypress timber is often used in posts. Cracking used to occur often during the drying process especially in cedar timber due to its high moisture content, meaning Sumitomo Forestry had to find a solution to ensure stable supply.

Sumitomo Forestry has developed and promoted the MIZDAS[®] system, which is incorporated into timber drying equipment to automatically control temperature and humidity via a computer. Sensors are attached to a portion of the timber to be dried to measure the moisture content and temperature of the wood inside the drying kiln. Conditions are adjusted accordingly to appropriate temperature and humidity levels. This system reduces cracking, distortion and other damage to the timber, making it possible to deliver highly competitive structural materials (*MIZDAS[®] Cedar posts* and *MIZDAS[®] Cypress posts*) at low cost and to a high level of quality.

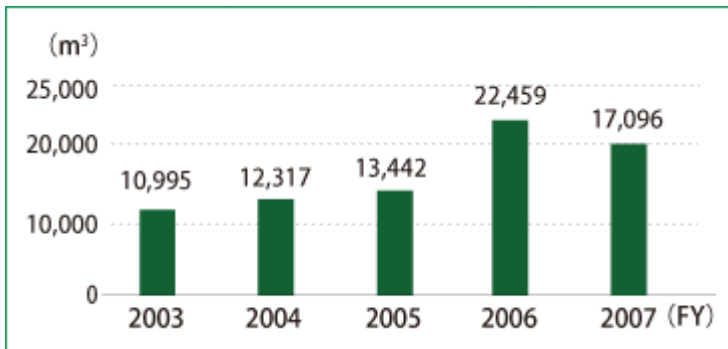


Cypress posts are removed after drying from a kiln equipped with a MIZDAS[®] system



A shipment of *MIZDAS[®] Cedar posts*

■ Volume of *MIZDAS[®] Cedar Posts* and *MIZDAS[®] Cypress Posts* (Timber & Building Materials Business Headquarters)

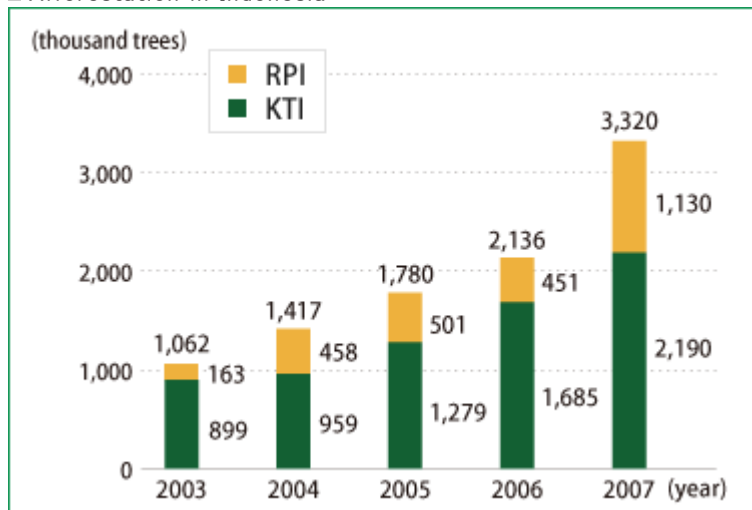


👉 [Timber Drying System Helps Promote Domestic Timber Use \(R&D\)](#)

Overseas Forest Preservation

As part of forest preservation efforts, overseas Group companies are pursuing afforestation activities so that logs used for timber products can be procured as much as possible without harvesting natural forests. [PT. Kutai Timber Indonesia \(KTI\)](#) planted 1,930 hectares, PT. Rimba Partikel Indonesia (RPI) 475 hectares, [Nelson Pine Industries Ltd. \(NPIL; New Zealand\)](#) 116 hectares, and Open Bay Timber Ltd. (OBT; Papua New Guinea) 556 hectares in 2007. At KTI, a producer of plywood and other timber products, about 75% of logs used in production now come from plantations. KTI aims to achieve a 100% plantation timber ratio in the near future.

■ Afforestation in Indonesia



Considerations Toward Local Communities in Overseas Operations

Overseas, Sumitomo Forestry carries out afforestation activities and manufacturing of timber products. Whenever we commence new operations or expand a plant, we consider the environmental impact and try to stimulate the local economy and local employment. Through our businesses, we aim to contribute to the sustainable development of local communities.

Stakeholder comment — As Sumitomo Forestry expands operations overseas, I believe it is extremely important to bear in mind how we can contribute to the economic and social development of the local communities where we are present. (Employee)

Contribution to Development of Local Communities

Sumitomo Forestry pursues afforestation activities with the cooperation of residents living in the vicinity of our projects so that residents themselves benefit from those efforts. In 2000, we commenced a form of "social forestry" in Indonesia. Under the program, KTI distributes seedlings to local residents free of charge for them to plant. KTI promises to buy them back six to seven years later when the trees are ready for harvesting. By supporting the independence of residents in this way, with reasonable benefits expected, and by fostering communication, a favorable relationship has been forged. Currently almost 5,000 local residents are participating in the projects with 5,000 hectares of forest having been planted over seven years.

Promoting Use of Timber from Sustainable Forests

Sumitomo Forestry procures timber from forests all over the world and therefore has a major obligation to preserve the world's forests. To promote the use of timber from sustainable forests, the Timber & Building Materials Business Headquarters' Wood Products Trading Division has acquired Forest Stewardship Council (FSC) Chain-of-Custody (CoC) certification*. We have also completed the groundwork to put in place systems for surveying timber suppliers to ensure that only timber verified as legally compliant is used. Furthermore, in June 2007, we established the Sumitomo Forestry Group Timber Procurement Philosophy and Policy, and are currently implementing a specific action plan to promote the procurement of timber grown by sustainably managed forests.

* A system for certifying appropriate management during production, log transport and processing

Sumitomo Forestry uses timber as a raw material and as end products, and owns vast tracts of forest. Biodiversity is therefore an area we must consider as we go about our business.

Policy on Biodiversity Preservation

Biodiversity is necessary for the maintenance of healthy eco-systems, and as such is indispensable to human beings, particularly in regard to food, shelter and clothing. However, biodiversity has been rapidly declining in recent years, triggering growing debate both at home and abroad regarding the protection of rare flora and fauna and the preservation of ecosystems, among other topics. In Japan, the Third National Biodiversity Strategy of Japan formulated in November 2007 has increased pressure on corporations to fulfill their social responsibilities in connection to the biodiversity issue.

Ever since its founding, Sumitomo Forestry's business activities have revolved around trees—the ultimate biological resource. Our ownership of forests equivalent to around one thousandth of Japan's land area makes biodiversity highly relevant to our business, meaning we must afford greater consideration toward biodiversity than other companies.

The basic policy on biodiversity preservation below was established in September 2006 for application to company-owned forest management. Biodiversity preservation was also incorporated into the Group's Timber Procurement Philosophy and Policy established in June 2007.

Policy on Biodiversity Preservation in Company-Owned Forests

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 clearcutting 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 *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.

■ Land Owned by Sumitomo Forestry

| | |
|-----------------|-------------|
| Plantation | 19,693.60ha |
| Natural forest | 16,815.96ha |
| Unforested area | 4,057.73ha |
| Total (Japan) | 40567.29ha |

Initiatives for Biodiversity Preservation in Company-Owned Forests

Sumitomo Forestry has compiled and is continually updating its *Red Data Book* of rare flora and fauna potentially dwelling in company-owned forests managed in four regions across Japan. The book is distributed to representatives and workers engaged in management of the forests, and education on rare species is also provided. In addition, in fiscal 2007 a manual was created for preservation of forests adjacent to rivers and lakes.

From a biodiversity viewpoint, future initiatives will include the monitoring of animal species diversity in company-owned forests as part of studies of species habitation and protection methods. In our Shikoku forests, we are working with local government and other organizations to protect the alpine plant *tsugazakura* (*Phyllodoce nipponica*)*, which grows there.

Furthermore, we conduct training at each forestry office for employees and subcontractors in order to raise environmental awareness. We also believe in the importance of protecting wildlife species designated as endangered and hold regular study meetings on this issue.

* Designated as a protected species by Ehime Prefecture. Shikoku's Akaishi Range is said to be their southernmost limit in Japan.

Stakeholder comment I look forward to seeing Sumitomo Forestry's contributions to conserving biodiversity through sustainable management of its forests. (Environmental CSR expert)



The Sumitomo Forestry Red Data Book (Monbetsu Forestry Office Edition)



The Sumitomo Forestry Red Data Book (Niihama Forestry Office Edition)

Proper Management of Harmful Chemical Substances

Sumitomo Forestry is working to ascertain the extent of harmful substance usage and emissions in its operations and to conduct proper management of those substances. This is consistent with the Medium-Term Environmental Management Policy, which puts forward the strict control of harmful substances as a principal initiative.

Chemical Substance Management at Research Institute and Plants

Chemicals are used by the [Tsukuba Research Institute](#) and plants operated by Sumitomo Forestry Crest Co., Ltd. and Toyo Plywood Co., Ltd. in experiments and production activities. The Tsukuba Research Institute has created a *Chemical Substance Management Manual* in line with a pollution control agreement entered into with the city of Tsukuba. The institute established an organizational structure for chemical management in accordance with the manual and has prescribed methods for receiving, storing, using and disposing of chemical substances.

Sumitomo Forestry Crest and Toyo Plywood produce structural lining and interior materials for use in housing construction. The companies' seven plants work hard to prevent chemical leaks and other environmental accidents and have created environment-related operations manuals. They have also determined methods for waste and water treatment and the handling of organic solvents, and are measuring air and water pollutants and organic solvent densities.

■ Emissions and Transfers of PRTR Substances* (The Tsukuba Research Institute, Sumitomo Forestry Crest and Toyo Plywood)

* PRTR substances: substances controlled under the Pollutant Release and Transfer Register Law

Unit: kg (except dioxins: mg-TEQ)

| Substance No. (PRTR Law) | Chemical Substance | Volume Used | Emissions | | | | Total Emissions | Transfers as Waste | Transfers to Sewage | Total Transfers | Consumed |
|--------------------------|------------------------------|--------------|------------------|-----------------------------------|-------------------|------------------|-----------------|--------------------|---------------------|-----------------|--------------|
| | | | Emissions to Air | Emissions to Public Sewage System | Emissions to Soil | On-Site Landfill | | | | | |
| 179 | Dioxins | 44,305.24 | 65.09 | 0.00 | 0 | 0 | 65.09 | 32,670.15 | 0 | 32,670.15 | 0.00 |
| 145 | Dichloromethane | 71,536.00 | 63,470.00 | 0.00 | 0 | 0 | 63,470.00 | 8,066.00 | 0 | 8,066.00 | 26,736.00 |
| 227 | Toluene | 1,273.60 | 665.60 | 0.00 | 0 | 0 | 665.60 | 334.00 | 0 | 334.00 | 0.00 |
| 63 | Xylene | 152.40 | 147.84 | 0.00 | 0 | 0 | 147.84 | 0.00 | 0 | 0.00 | 4.56 |
| 3 | Acrylic acid | 3,459.00 | 0.00 | 12.00 | 0 | 0 | 12.00 | 0.00 | 0 | 0.00 | 3,471.00 |
| 30 | Bisphenol A type epoxy resin | 29,600.00 | 0.00 | 0.00 | 0 | 0 | 0.00 | 160.00 | 0 | 160.00 | 29,600.00 |
| 43 | Ethylene glycol | 1,440.00 | 0.00 | 10.00 | 0 | 0 | 10.00 | 6.40 | 0 | 6.40 | 1,442.00 |
| 65 | Glyoxal | 1,432.00 | 0.00 | 0.00 | 0 | 0 | 0.00 | 2.90 | 0 | 2.90 | 1,436.00 |
| 102 | Vinyl acetate | 2,207,299.00 | 3,500.00 | 1.80 | 0 | 0 | 3,501.80 | 0.00 | 0 | 0.00 | 2,209,309.00 |
| 266 | Phenol | 19,800.00 | 0.00 | 0.40 | 0 | 0 | 0.40 | 300.00 | 0 | 300.00 | 19,800.00 |
| 310 | Formaldehyde | 282,035.00 | 86.00 | 150.00 | 0 | 0 | 236.00 | 0.12 | 0 | 0.12 | 275,828.12 |
| 314 | Methacrylic acid | 1,449.00 | 0.00 | 1.70 | 0 | 0 | 1.70 | 0.00 | 0 | 0.00 | 1,447.00 |
| 12 | Acetonitrile | 9.26 | 0.00 | 0.00 | 0 | 0 | 0.00 | 9.26 | | 9.26 | 9.26 |

■ NOx/SOx Emissions

| Substance | Emissions (Unit: kg) |
|-----------------------|----------------------|
| Sulfur oxides (SOx) | 9,039.53 |
| Nitrogen oxides (NOx) | 45,288.83 |
| Soot and dust | 14,644.73 |

* Plants operated by Sumitomo Forestry Crest and Toyo Plywood subject to the Air Pollution Control Law

🔗 [Initiatives at Branch Offices & Plants \(Tsukuba Research Institute\)](#)

Proper Treatment of Asbestos-Containing Building Materials

Revisions made in July 2006 to the Waste Management and Public Cleansing Law required changes to asbestos management methods and how information is recorded in industrial waste management forms. Sumitomo Forestry has secured appropriate treatment systems in order to comply with the revisions. With regard to asbestos, the Housing Business Headquarters already had in place "Procedures for the Demolition of Buildings Containing Asbestos" and has implemented measures to prevent the dispersal of asbestos during demolition work. The Housing Business Headquarters and Sumitomo Forestry Two-By-Four Homes Co., Ltd. disclose asbestos usage and countermeasures via their websites.

Storage of Polychlorinated Biphenyls

Sumitomo Forestry carries out appropriate management of polychlorinated biphenyl (PCB) waste. Measures include marking and locking metal storage locations to prevent leakage into the surrounding soil for example. Each plant is formulating implementation plans for proper treatment of PCBs, with disposal to be implemented in stages.

Volatile Organic Compound Countermeasures

To reduce emissions of volatile organic compounds (VOCs), which have been singled out as a cause of "sick house" syndrome, only F☆☆☆☆ building materials, which ensure the lowest level of formaldehyde emissions, are employed for Sumitomo Forestry Home houses.

Use of Chromium-Free Materials

Following the enforcement of the WEEE¹ and RoHS² directives in Europe, companies are facing growing requirements to reduce the amount of hexavalent chromium, lead, cadmium and other harmful chemical substances contained in their products. Sumitomo Forestry is working to reduce its usage of harmful substances in structural metals by switching to "chromium-free" materials. Chromium-free surface treated metals accounted for 90% of all metals used following continued efforts in fiscal 2007.

1. Waste Electrical and Electronic Equipment
2. Restriction of the Use of Certain Hazardous Substances in Electrical and Electronic Equipment

Survey of Heavy Metals in Raw Materials and Products

Group company Sumirin Agro-Products Co., Ltd. produces *Tsuchitaro* and other potting mix as well as agriculture materials such as fertilizer. The company conducts thorough quality checks in three stages—raw materials, processing and final product. Potting mix suitability is determined by checking characteristics that include chemical properties (pH, electrical conductivity, manure content, etc.) and physical properties (permeability, water retention, etc.), as well as the presence or absence of pathogens. Besides testing with actual plants, the final product is checked by a manager in manufacturing who examines characteristics such as the color, smell and texture of the ingredients as well as their ability to blend. Shipped products are also managed in lots so that which ingredients are used, and when, can be traced. To offer consumers greater peace of mind, in fiscal 2006 the company formulated quality management standards based on *Environmental Quality Standards for Soil Pollution* prescribed by the Ministry of the Environment in 2006, and carries out surveys of heavy metals and pesticides.

■ Test Results for Sumirin Agro-Products Potting Mix
based on Government's Environmental Quality Standards

(Unit: mg/L)

| Substance | Result | Standard* |
|-------------------|-----------------------|-----------------------|
| Cadmium | 0.001 or less | 0.01 |
| Total cyanogen | No detectable amounts | No detectable amounts |
| Organophosphorous | No detectable amounts | No detectable amounts |
| Lead | 0.005 or less | 0.01 |
| Chromium (VI) | 0.02 or less | 0.05 |
| Arsenic | 0.001 or less | 0.01 |
| Total mercury | 0.0005 or less | 0.0005 |

* Based on the *Environmental Quality Standards for Soil Pollution* (Ministry of the Environment, Japan)

Environmental Management

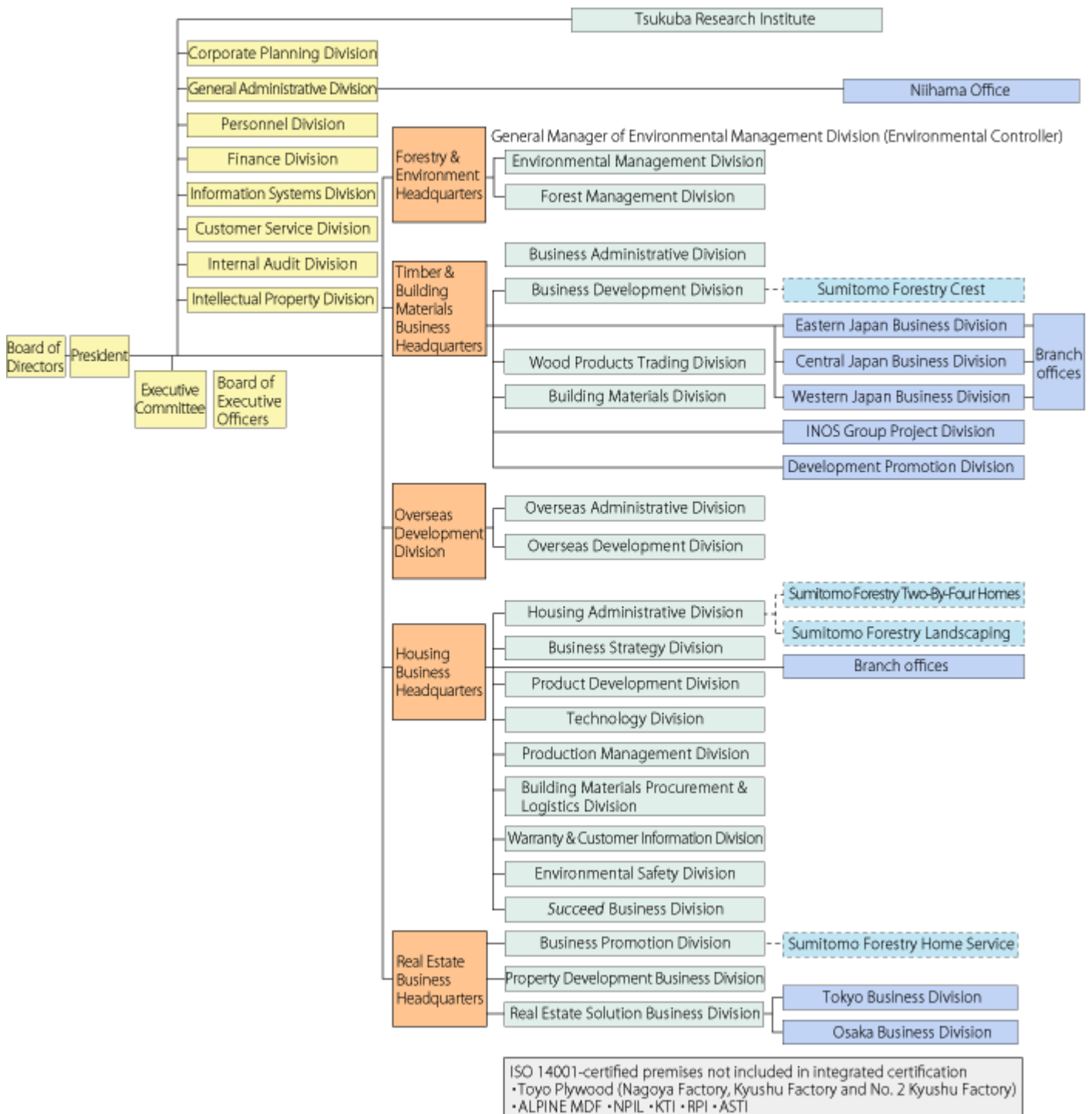
Among the first in the housing industry to acquire ISO 14001 certification for its environmental management system, Sumitomo Forestry is trying to reduce environmental impact through a management system that covers the entire company. We also provide environmental education to encourage greater awareness among employees.

Promoting Environmental Management

Environmental Management System

■ Environmental Management Structure

Organizations pursuing environmental considerations in business based on activities carried out by the respective divisions and in keeping with the company's Environmental Policy of contributing to the realization of a sustainable society



Sumitomo Forestry introduced an environmental management system (EMS) in fiscal 1995, and its housing business acquired ISO 14001 certification in fiscal 1997, before anyone else in the housing industry. The certification was upgraded in fiscal 2002 to encompass the whole company. Certification at Group companies was also pursued with four companies—Sumitomo Forestry Landscaping Co., Ltd., Sumitomo Forestry Home Service Co., Ltd., Sumitomo Forestry Crest Co., Ltd. and Sumitomo Forestry Two-By-Four Homes Co., Ltd.—being included in an ISO 14001 group certification as of fiscal 2007.

Companies with ISO 14001 certification but not included in the group certification are Toyo Plywood Co., Ltd., (Nagoya Factory, Kyushu Factory and No. 2 Kyushu Factory), Alpine MDF Industries Pty Ltd., Nelson Pine Industries Ltd. (NPIL), PT. Kutai Timber Indonesia (KTI), PT. Rimba Partikel Indonesia (RPI) and PT. AST Indonesia (ASTI).

In an attempt to integrate environmental management into day-to-day operations, environmental budgets were introduced in fiscal 2004 to major departments in Japan and extended in fiscal 2006 to also include all departments and affiliated companies overseas.

Internal Environmental Audits

To ensure our environmental conservation activities are implemented efficiently and reliably, departments conduct audits of one another. In fiscal 2007, in an effort to expand the scope of this initiative, 88 divisions took part in the audits in which internal environmental auditors checked initiative evaluations and plans for improvement, as well as the status of compliance systems. Findings from the internal audits are reported to management who then prescribe improvements as required. Employees can become designated internal environmental auditors by passing an examination upon completion of a training course that is held twice a year. As of the end of fiscal 2007, 922 employees (including 320 from Group companies) have been designated as such auditors.

Audits by External Certification Bodies

ISO 14001 annual surveillance assessments and reassessment audits (once every three years) are carried out by external certification bodies. The fiscal 2007 annual surveillance assessment listed 14 suggested improvements. Measures were investigated by the relevant divisions and the implementation details of such measures were verified as appropriate or otherwise through internal environmental audits or other means.

Promoting Environmental Education and Training

The Medium-Term Environmental Management Policy identifies the strengthening and promotion of environmental education as a central theme for environmental management. Sumitomo Forestry conducts environmental education programs to encourage employees to possess an awareness of environmental issues and take action of their own accord.

Environmental Training for Middle Management

Middle managers are required to be familiar with environmental management policies and plans in order to communicate the importance of environmental activities to employees under their supervision. To raise the environmental awareness of middle managers, the Eco-Nation Game: Environmental Education Simulation Game was implemented as an environmental training exercise. Participants form workshops that set out to attain the status of an "eco-nation" by considering the balance between economic growth and environmental conservation. Around 100 middle managers participated in the program and went away with knowledge about the importance of striking a balance between economic and environmental activities in business.



Environmental training

Environmental Education at Construction Technology College

An environmental seminar was held at the Sumitomo Forestry Construction Technology College with 36 students of the college taking part. After an introduction to global environmental issues and initiatives pursued by Sumitomo Forestry, students announced their own "global warming prevention declarations" and made presentations on the CO₂ emissions reductions they would expect from implementation of related measures by individuals and companies. Students who participated commented on how the exercise made it easier for them to relate to global environmental issues.

Environmental Risk Management

Sumitomo Forestry identifies such risks relating to its business activities as inadequate waste treatment, soil contamination and illegal logging, and develops appropriate countermeasures.

Proper Treatment of Industrial Waste

Around 70% of illegally dumped industrial waste in Japan is said to be construction waste. It is therefore essential that Sumitomo Forestry acts responsibly to promote appropriate methods of waste treatment.

In fiscal 2007, Sumitomo Forestry sought to cultivate knowledge about proper industrial waste treatment through 21 study sessions held around the country, attended by 834 people. Furthermore, Group companies that dispose of industrial waste formulated their industrial waste management regulations and made improvements to their management

systems, and clarified the roles and responsibilities of related personnel.

To improve compliance, we commenced a Group-wide switch to electronic waste management forms in fiscal 2006. We are also trying to outsource waste treatment to only the best contractors. Sumitomo Forestry will continue to ensure proper treatment of industrial waste by implementing internal audits of industrial waste management and inspections of landfill sites conducted by individual divisions and companies.

Countermeasures for Soil Contamination

A Soil Contamination Countermeasures Panel has been set up within the Compliance Committee to ensure safer and more reliable land transactions. The *Guidebook on Soil Contamination Countermeasures* was created in September 2005 and is applied to alleviate soil contamination risk when purchasing land or when selling housing sites on behalf of others. Land is purchased only after confirmation that the land is safe, following a land history examination. The Property Development Business Division, which is involved in the subdivision business, has standardized the implementation of soil contamination inspections prior to the purchase of new land and has put in place systems for stopping utilization of contaminated land.

In May 2006, we formulated the *Guidelines on Soil Contamination Countermeasures for Land Owned or Administered by the Sumitomo Forestry Group*. Application of the guidelines aids Group-wide efforts to ascertain the presence of soil contamination.

No infringements against laws or regulations relating to soil contamination were reported during fiscal 2007.

Prevention of Handling and Use of Illegally-Logged Timber

Illegal logging is now a major issue of public concern because it has led to excessive deforestation. Sumitomo Forestry performs checks of all suppliers of timber and timber products to confirm legal compliance and to ensure we do not handle or use any illegally logged timber. We are working to improve the reliability of checks with local Sumitomo Forestry representatives or inspectors visiting logging sites as required to confirm compliance. Confirmation of legal compliance by overseas suppliers was completed during fiscal 2007.

[Considerations in raw material procurement](#)

Proper Management and Reduction of Harmful Substances

Sumitomo Forestry is working to ascertain the extent of harmful substance usage and emissions in its operations and to conduct proper management of those substances. This is consistent with the Medium-Term Environmental Management Policy, which puts forward the strict control of harmful substances as a principal initiative.

[Proper Management of Harmful Chemical Substances](#)

Prevention of Air Pollution

Facilities equipped with boilers compliant with the Air Pollution Control Law maintain strict compliance with standard density values, regularly measuring the emissions and density of NO_x, SO_x and soot and dust.

[Emissions of air pollutants](#)

Reducing Inconvenience to Local Residents (Noise, Vibration, Odors, Etc.)

Efforts are being made to prevent generation of noise and vibration during construction of houses to reduce inconvenience to local residents.

Sumitomo Forestry seeks to contribute to the realization of a sustainable society by actively utilizing the company's advanced scientific expertise and broad knowledge of trees and wood to advance technological development.

R&D Policy

In accordance with long-term management strategy, research groups work together on research and technological development, taking advantage of the company's comprehensive strengths from the forest to the finished product—namely resources, materials and housing. Sumitomo Forestry continues to undertake R&D in order to create a diverse range of homes that are in harmony with the natural environment by using sustainable and proven materials.

Biological Resources Group: Development of breeding and cultivation technologies for fast-growing foreign tree species and DNA recognition technologies for timber product raw materials.

Building Materials Group: Development of technologies for expanding utilization of fast-growing plantation tree species from overseas, etc. (plywood, MDF, particle board, etc.).

Housing Group: Technological development pursued in consideration of residents, including development of technologies for enhancing basic performance such as foundation improvement and sound insulation; environmental symbiosis technologies incorporating exterior landscaping; universal design technologies for responding to lifestyle diversity; durability improvement technologies and retrofitting technologies for realizing longer-lasting homes; and technologies for effective utilization of wood.

Testing and experimentation services are also conducted to support the provision of materials of certifiable quality.

Timber Drying System Helps Promote Domestic Timber Use

Sumitomo Forestry has developed and promoted its MIZDAS[®] system, which is incorporated into timber drying equipment to automatically control temperature and humidity via a computer. Sensors are attached to a portion of the timber to be dried to measure the moisture content and temperature of the wood inside the drying kiln. Conditions are adjusted accordingly to appropriate temperature and humidity levels. This system reduces cracking, distortion and other damage to the timber, making it possible to deliver highly competitive structural materials at low cost and to a high level of quality. The moisture content is particularly high and variable in Japanese cedar, making it difficult to dry without causing cracks. Seven years on from the development of MIZDAS[®] we still cannot claim to have resolved all problems related to the drying of cedar, and so our research continues. We have developed a drying method for preventing cracks that involves measuring the surface of timber for distortion and monitoring shrinkage of segments of timber during the drying process. Efforts are now underway to realize a new

drying system that integrates the moisture content and temperature sensor with the newly developed distortion sensor.



Post timber dried using MIZDAS®

Development of Scientific Method for Verifying Timber History

Moves to promote legal timber use have gained momentum due to growing interest in natural forest protection and determent of illegal logging. Until now, the only method we had to trace timber from the logging site to the finished product was human observation of actual logging sites, for example. This meant there was still a chance that improper practices, such as mixing legal and illegal timber and falsification of documents, would occur.

Sumitomo Forestry set out to find a solution in 2003, with the [Tsukuba Research Institute](#) commencing development of scientific methods for achieving traceability of timber, in other words verification of timber legality, from the tree-grower to the final consumer. In October 2007, the institute became the first organization in the world to develop basic technology for individual tree recognition and scientific tracing of materials to be used in timber products. This success will enable us to use timber with a transparent history.

The new technology involves recognition of individual trees based on DNA sequence characteristics, thereby enabling scientific recognition throughout the timber cycle from seedling to tree, to log, and to processed timber. Combined with conventional methods involving human observation, we will be able to establish a high-precision traceability system.

Development of *Midori no Sekkei* Design Approach for Integrating Buildings and Environments

The Tsukuba Research Institute has been pursuing research into *Ryouonbou* design, which makes full use of the natural external environment in the creation of houses with a low environmental impact. Benefits are verified using an experimental environmentally-symbiotic home that was constructed on institute premises in fiscal 2004. Special training giving first-hand experience in the *Ryouonbou* design approach is also held at the facility. Based on the findings of our research, we have come up with proposals for removing the over-reliance on air-conditioning and heating based on the concepts of *Taiyo no Sekkei*, for letting in sunlight during winter, and *Kaze no Sekkei*, for alleviating heat in summer by creating channels for airflow.

From fiscal 2006, we commenced development of *Midori no Sekkei*, which relates to exterior landscaping and the integration of buildings into their surrounding environments. In fiscal 2007, we tested the benefits of planting garden vegetation at experimental facilities. In front of the east aspect, we planted a bitter melon vine to create a veil of greenery that blocks out the sun. The bitter melon can also be picked and eaten. Meanwhile, evergreen trees create a cool spot on the north side of the house.

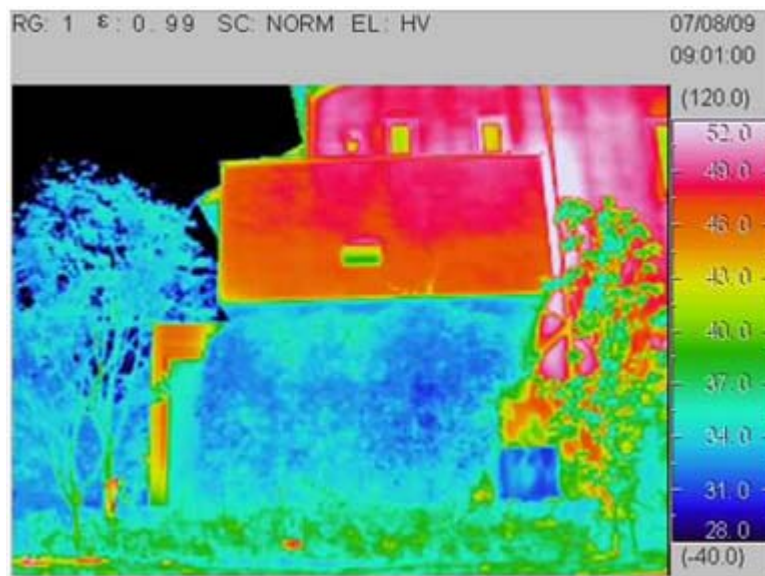
We will continue research so that we can make proposals for housing with even less of an impact on the environment.



Before planting



After planting



Thermographic image

Seismic Reinforcement Technology for Remodeled Houses Recognized

Concern about the ability of existing houses to withstand earthquakes is increasing due to degradation of structural members from age and the fact that houses were constructed during times of lenient standards. Of the 24.5 million detached wooden houses in Japan, around 10 million houses built prior to 1981 are believed to have insufficient earthquake resistance. Improving the earthquake resistance of those houses to avoid damage during earthquakes is a pressing issue.

However, seismic retrofitting of those houses has not progressed due to reasons such as the duration of the work period and cost.

Sumitomo Forestry and the Group's remodeling company, Sumitomo Forestry Home Tech Co., Ltd., have pursued research and development of seismic reinforcement technology in order to improve earthquake resistance as well as reduce the time required for the work to keep down costs. Portal frame shear wall and glass block shear wall technologies, which were developed to meet customer needs, passed technical assessments conducted by The Japan Building Disaster Prevention Association in August 2007. The companies have now had three wooden housing seismic reinforcement technologies pass the association's assessment, the third being the Sumirin ARC Construction Method.

Portal frame shear wall technology is used to increase strength around a wall opening by attaching reinforcement posts to the pillars on both sides and a beam on top, with plywood or fiber sheets as reinforcement. Glass block shear wall technology enables an extra load-bearing wall to be inserted without having to remove any window openings, which would ordinarily result in loss of light. Both technologies improve earthquake resistance while keeping costs down and construction time short. We therefore believe the technologies will aid the progression of seismic retrofitting, thereby contributing to the development of a housing infrastructure that can withstand earthquakes.

Promotion of Environmental Business

Sumitomo Forestry is employing the technology and experience it has amassed over the years in relation to trees and forests to develop the company's environmental business, believing the expertise should be employed broadly in the public domain.

Eco-Asset Service—Consultation on Using Corporate Green Zones in CSR Activity

Since 2004, Sumitomo Forestry Landscaping Co., Ltd., together with InterRisk Research Institute & Consulting and Kajima Corporation, has been operating the Eco-Asset consulting business, which offers advice on the use of corporate green zones as a means to fulfill corporate social responsibility (CSR). The business involves making recommendations to companies on how to make the best use of green zones at plants and on rooftops or walls of office buildings, as well as recreational facilities and other company-owned green spaces or forests.

In fiscal 2007, consulting services to Daido Steel Co., Ltd. were continued. The consultation was in connection to Daido Steel's plan to utilize the company-owned "Daido Forest" in Hamatonbetsu, Hokkaido, for environmental education and local revitalization projects. A tree-planting ceremony was held in October 2007, attended by around 50 local residents and NPO workers. Based on the results of eco-monitoring and natural resource potential surveys, it was decided the initial focus would be on biodiversity. Measures commenced in fiscal 2007 included extensive tree-planting and the use of soil seed banks. In February 2008, Daido Steel hosted an environmental forum in Hamatonbetsu. An environmental forum for students is scheduled for September 2008.

Eco-Asset has also provided consultancy for Mitsui Sumitomo Insurance Co., Ltd.'s project to redevelop the Surugadai Building annex. Recommendations made include the transplanting of large trees, the use of rooftop greening and the establishment of an extensive biotope network. The plan received praise and was approved as an "urban redevelopment project" in May 2008 by the Tokyo Metropolitan Government.

Stakeholder comment I would like to see Sumitomo Forestry actively involved in regional environmental planning with various stakeholders. (Environmental CSR expert)

Ninna-ji Temple Omurozakura Research Project

In April 2007, the Ninna-ji Temple, Chiba University and the Sumitomo Forestry Group (Sumitomo Forestry, Sumitomo Forestry Landscaping and Sumirin Base Techno Co., Ltd.) launched a joint research project to shed light on the ecological background of the *Omurozakura* cherry blossoms. The *Omurozakura* are a cluster of *Satozakura* cherry trees measuring only 2-3 meters high growing inside the Ninna-ji Temple compound (the former Omuro Imperial Palace) in Ukyo-ku, Kyoto. This is the first time the trees have undergone scientific examination in the 300 years since they were planted during the rule of the third Tokugawa shogun, Tokugawa Iemitsu.

As the trees' growth has been waning in recent years, with prominent dead branches and late blossoming, studies are being conducted over a period of three to five years to survey and analyze soil and root conditions and devise recovery methods. The project is

investigating propagation of cloned seedlings using plant tissue culture techniques as a way to preserve the species for future generations and also plans to develop DNA analysis technology for use in species identification. In January 2008, boring was undertaken to retrieve soil samples in preparation for a full-scale survey to be carried out at the end of the year. Soil was collected after drilling four meters into the ground in six locations within the area in which the cherry trees are clustered. A layer of cobbled clay discovered about 1.5–2.5 meters down is thought to be affecting tree growth. The plan from here is to analyze the physical and chemical properties of the soil, develop DNA analysis technologies and commence clone propagation.



Omurozakura soil investigation

Overseas Afforestation Consultancy

Sumitomo Forestry has been asked to provide consulting services, from planning to planting, for the environmental afforestation project being pursued by Mitsui Sumitomo Insurance Co., Ltd. over the six years commencing 2005. Drawing upon the know-how we have so far developed through tropical forest regeneration, we are helping to regenerate forest within the Paliyan Wildlife Sanctuary, located in the Yogyakarta Special Region on the island of Java, Indonesia, which has been devastated by illegal logging. Through the planting of tree species native to Java Island, as well as fruit trees that will be of economic assistance to local residents, the project aims to regenerate tropical forests that will be high in biodiversity and contribute to the local economy.

In the three years from the beginning of fiscal 2005 to the end of fiscal 2007, we planted approximately 300,000 trees over an area of roughly 350 hectares. We intend to monitor various aspects of the planted forest, including the amount of CO₂ it absorbs.

Stakeholder comment Sumitomo Forestry should establish sustainable methods of resource utilization and show them to the world. (Environmental CSR expert)

Recycled Materials Used in *Tsuchitaro* Garden Potting Mix

Sumirin Agro-Products Co., Ltd. produces *Tsuchitaro*, a high-grade potting mix. The process involves fermentation of sediment (water purification cake) discharged from drinking and industrial water purification plants. This is mixed with bark compost made with waste bark generated in timber processing. The potting mix is sold for garden use with vegetables, trees and lawns.

Water purification cake contains large amounts of minerals, which are present in the water source (rivers and lakes), and organic substances that originate in diatoms and micro-organisms. Recycling the cake as agricultural and garden potting mix, or for soil

amelioration for greening projects, is a way to tap a previously-unused resource, and therefore contributes to the creation of a recycling-oriented society.

In Chiba Prefecture, for example, Sumirin Agro-Products operates a potting mix project together with the prefecture's Public Enterprises Agency. The project promotes sales of the agricultural potting mix, *Chiba Tsuchitaro*, and a potting mix for public greening, *Fusatato*, thereby contributing to local consumption of local produce. In recent years, the range of potting mix applications has increased, with a special mix for growing strawberries and a mix for Japanese morning glory cultivation at elementary schools. Inquiries from environmentally-conscious consumers are also on the rise.



A project in Makuhari New City



Plant tour by local elementary school students

Environmental Protection Activities by Non-Production Facilities

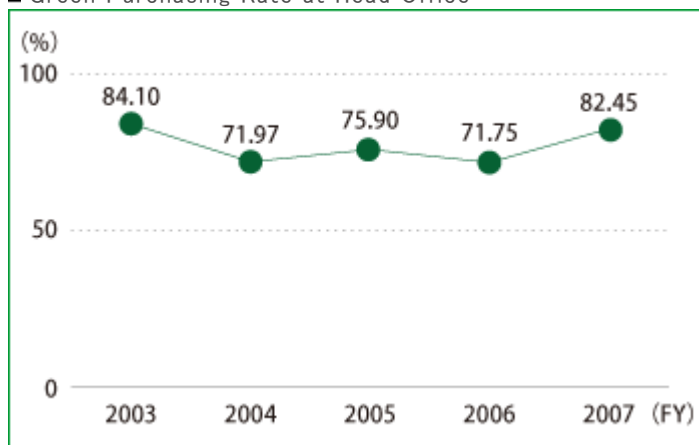
Sumitomo Forestry is trying to reduce the environmental impact by non-production facilities through initiatives centering on green purchasing, reduction of paper usage and reduction of power consumption.

Promotion of Green Purchasing

Sumitomo Forestry has been promoting greater use of green purchasing for some time in order to prioritize products with a low environmental impact. Office Product and Company Vehicle Purchasing Guidelines were established in 2006 as a clear set of standards.

In January 2008, we revised our company vehicle purchasing (leasing) standards to promote reductions in CO₂ emissions from vehicle usage. Only fuel-efficient cars conforming to company standards can now be selected. The Sumitomo Forestry Group currently employs around 2,700 vehicles on lease. Annual CO₂ emissions are expected to fall by almost 1,280 tons as a result of switching to high fuel-efficient vehicles.

■ Green Purchasing Rate at Head Office



Energy Conservation Activities in Offices

We promote energy conservation activities in the office that each and every employee can pursue individually. Sumitomo Forestry is also a participant in the Japanese government-led greenhouse gas reduction campaign, "Team Minus 6%."

These activities, which can be implemented by employees as they go about their jobs, include adherence to "Cool Biz" and "Warm Biz" dress codes, power-saving through lighting adjustments, activation of power-saving modes on PCs, and the practice of idling stop when using vehicles.

To encourage such energy conservation activities, a newsletter is e-mailed to all employees as a means of sharing relevant information. It introduces energy conservation methods as well as activities being implemented at various business locations of the Group.



Initiatives at Branch Offices & Plants

Tsukuba Research Institute



Address: 3-2, Midorigahara, Tsukuba, Ibaraki Prefecture

Employees: 53

Business: Research and development in the areas of housing, building materials and resources

Resources:

Development of technologies relating to breeding and cultivation of plantation trees, traceability, and regeneration of landmark trees

Materials:

Development of advanced technologies for utilization of timber and wood building materials

Housing:

Development of comfortable next-generation houses that employ universal design and are in harmony with the environment

Techno Center:

Inspection and verification of house building materials and living spaces

Wood and Housing Technical Data Center:

Collection, management and provision of technical data on wood and homes

Pollution Control Agreement with Tsukuba City

The [Tsukuba Research Institute](#) has entered into a pollution control agreement with the city of Tsukuba. The agreement aims to prevent pollution from business activities and to protect the health and preserve the living environments of local residents. The agreement specifies the establishment of frameworks, facilities and equipment for pollution prevention as well as standards for emissions. The institute also conforms strictly to requirements to submit documentation, which includes pollution prevention plans, self-monitoring reports (relating to wastewater, etc.), industrial waste treatment and disposal plans, and performance reports.

Handling and Management of Chemicals

The agreement specifies the need to “identify chemical substances held and establish related manuals.” The Tsukuba Research Institute has accordingly created a manual for handling chemical substances and conducts stocktaking of reagents twice yearly in order to ascertain the chemicals held to enable identification and proper disposal of unnecessary substances.

The chemical supervisor is also required to ensure that chemical storage facilities are locked and that chemical usage is properly logged. Safety is also a consideration. For example, partitions have been installed within storage facilities to prevent tipping over and spillage.



Storage cabinets for poisonous chemicals

Proper Treatment of Waste Fluid and Reagents

All waste fluid and waste reagents undergo treatment as industrial waste, a task which is outsourced.

Voluminous amounts of waste adhesive solution are delivered to a tank in the basement of the experimental facilities, while easily-carried amounts of waste fluid and reagents are delivered to a lockable industrial waste warehouse. The waste chemicals are stored until collection by the contractor. Poisonous and other hazardous substances are stored under tight control in the main experimental facility and delivered to the industrial waste warehouse on the day of collection.

After collection, the waste fluids and reagents undergo neutralization, oil-water separation or other treatment depending on their respective constituents and properties. We have established recycling routes so that the chemicals can be reused, as an ingredient in cement for example.

Niigata Branch Housing Business Headquarters



Address: 3rd Floor, Dai-ichi Seimei Toda Kensetsu Kyodo Building, 1-30, Higashi Bandai-cho, Chuo-ku, Niigata, Niigata Prefecture

Employees: 55

Business: Construction and sales of custom-built housing; purchase and sales of spec homes and housing lots, purchase and sales of interior products

"Kikorin House" Set Up in Quake Area

On July 16, 2007, a powerful earthquake struck Niigata and surrounding prefectures. To support the recovery efforts of people affected by the earthquake, the Housing Business Headquarters' Niigata Branch established an earthquake reconstruction assistance center (known as "Kikorin House") on September 15 in Kashiwazaki, an area in which damage was particularly severe. The center offers consultation services relating to housing and is expected to be open for a total of one year. In addition to consultation on housing, Kikorin House also fields inquiries about government financial assistance and disaster insurance to help ease the concerns of quake victims and resolve their problems, and holds seasonal events to promote communication within the community.



Kikorin House



Hiroshi Minemoto
General Manager

Message from the General Manager

The Chuetsu Offshore Earthquake hit on July 16, 2007. We immediately rushed to check the safety of all Sumitomo Forestry Home houses in the afflicted area and to deliver water to those customers. On seeing the devastation, the entire branch staff felt a strong need to do what we could to help recovery efforts. We immediately decided we had to actually go into the afflicted area, listen to what the victims had to say and respond to their needs as quickly as possible. Kikorin House was established to achieve this.

We tried various means to notify earthquake victims living in temporary housing about the facility and were prepared to field inquiries from a large number. However, the response was thin. We decided to work on building relations with these residents from scratch through a monthly fair meant as a symbolic recognition of the efforts people were making. These persistent activities encouraged people to come forward with specific inquiries, with some residents turning up because they enjoy talking to Sumitomo Forestry staff.

Through our Kikorin House efforts, we have realized that disaster relief is not about doing anything special or novel, but about maintaining a high level of transparency in our efforts, which must be pursued with sincerity. We have also learned from the experience that until we go out and engage in communication with local residents, we cannot form the necessary ties. These lessons are great assets for the Niigata Branch.



Consultation in progress

Comment from a Participating Employee

Junior sales staff of the Niigata Branch commenced what we call “U-30” group activities in fiscal 2007. The Chuetsu Offshore Earthquake struck just as we were planning a variety of grassroots activities for the region. After considering how Sumitomo Forestry could respond, we believed that we would be able to help the recovery effort by going into the area and talking with the people and offering them expeditious advice on reconstruction work. Kikorin House was set up as a result. We had never set up a reconstruction assistance center before, so we had a hard time with the arrangements, including securing a site and compiling information on victim relief programs, financial assistance and special loan programs. But branch employees bonded as a team to get the center up and running.

The focus of Kikorin House activities is not business, but reconstruction assistance. We conduct activities aimed to raise the spirits of people living in temporary housing. Local residents living in temporary housing come by to relax and make new friends. We have experienced something that is not possible through sales activities. The initiative has been pursued with the cooperation of building contractors and the assistance of all groups of the Niigata Branch. Everyone involved legitimately feels that Sumitomo Forestry is assisting the recovery effort.

Kumamoto Branch Housing Business Headquarters



Address: 1-9-8, Mawatari, Kumamoto, Kumamoto Prefecture

Employees: 36

Business: Construction and sales of custom-built housing; purchase and sales of spec homes and housing lots, purchase and sales of interior products

Message from the General Manager



Risaburo Tsurui
General Manager

I only took up my position in April 2008 but I would still like to thank all the people involved with Sumitomo Forestry Home over the years—the construction supervisors and managers, building contractors, and other contractors—who have consistently embraced orderliness and cleanliness and other practices expected within the industry to help maintain the branch's record of no accidents or disasters since its establishment.

“Persistence is power” is a phrase we often hear. All of us here at the Kumamoto Branch would like to dedicate ourselves completely to maintaining our no accidents or disasters record. The Sumitomo Forestry Home construction site is a perfect advertisement for the quality and safety offered by our products, and as such we would like to arrange more opportunities for customers to visit the sites in order to convey to them the outstanding merits of a Sumitomo Forestry Home.

No Accidents/No Disasters

As of March 31, 2008, the Kumamoto Branch had maintained its no accidents and no disasters record for a total of 5,138 consecutive days. As an example of safety management undertaken at construction sites, scaffolding is assembled only on sites that are thoroughly clean and tidy. A representative of the scaffolding contractor always patrols sites to check the scaffolding safety. That person then submits a report to the manager in charge of production and, if areas for improvement are discovered during patrols, instructs that sound improvements be undertaken. We naturally do everything that should be done to maintain our no accidents and disasters record.



Niihama Plant Sumitomo Forestry Crest Co., Ltd.



Address: 16-1, Isoura-cho, Niihama, Ehime Prefecture

Employees: 121

Business: Production and sale of staircase materials, countertops, fixtures, and other items employing imported and Japanese engineered wood



Masayuki Abematsu
General Manager

Comment from General Manager Abematsu

We remind ourselves constantly that we do business within the city of Niihama and therefore we place high priority on activities that promote visible contributions by the plant, employees and employees' families to the residents of Niihama and the surrounding region and to the local environment. The work environment is also a top issue and we successfully maintain safe and healthy conditions.



Yusuke Ozaki
Environmental Representative

Comment from the Environmental Representative

I was appointed as the company's environmental representative in June 2007. Sumitomo Forestry Crest's Niihama Plant is currently working on waste sorting and reduction and effective utilization of resources. This year we will be putting effort into achieving "zero emissions" of waste.

"Crest Forest"

Tree planting is underway in the green zone adjacent to the plant. All employees participated in the exercise, planting one tree each. In the near future, we plan to develop the "Crest Forest" into a place that attracts small birds and other wildlife and where employees can relax.



The green zone as it looks today

Volunteering to Clean Up the Kokuryo River

The plant engaged in a volunteer cleanup exercise on April 19, 2008 as part of its involvement in local community activities. More than 60 people turned up on the day to take part. They included four new employees, employees of business partners and children of employees.

The city of Niihama provided rubbish bags for sorting the litter gathered during the cleanup. In just an hour and a half, the 60-strong team managed to retrieve one four-ton truck's worth of litter.

As a company operating in Niihama, we will continue such cleaning exercises and other activities for the good of the local community.



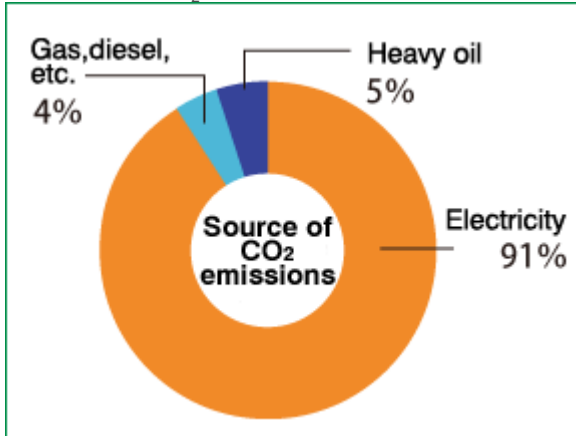
Energy Conservation Initiatives

Electricity consumption accounts for more than 90% of the CO₂ emissions generated by the production activities of the Niihama Plant. The plant is working, therefore, to reduce electricity consumption in order to curb CO₂ emissions.

Specific initiatives pursued on premises include switching the plant's 700W mercury lamps to 170W fluorescent lighting of the same brightness; using suitable temperature settings for heating and cooling systems inside the offices and meeting

rooms; and ensuring that machines are switched off when not in use. Energy conservation activities managed to cut power consumption by approximately 7% in fiscal 2007 compared to the previous year.

■ Source of CO₂ emissions from the Niihama Plant

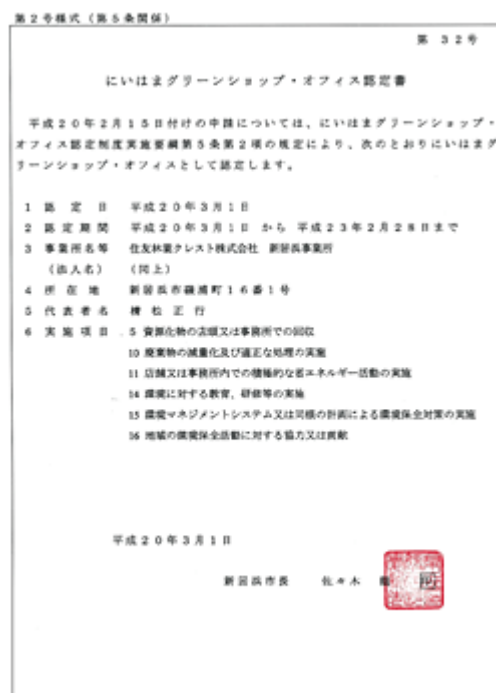


Niihama Green Shop/Office Certification

In March 2008, the Niihama Plant was certified as a Niihama green shop/office. This is a certification program run independently by Niihama City. Companies are certified under the program if they are actively pursuing environmental activities, which might include waste reductions or initiatives to recycle materials such as corrugated fiberboard, iron or plastics as resources.

The Niihama Plant met the certification criteria thanks to the full participation by employees in sorting waste, not wasting resources, and implementing 3S activities—*seiri* (sorting), *seiton* (tidying) and *seiso* (cleaning).

We aim to continue our environmental initiatives so that we are looked fondly upon by the majority of the local community as a local Niihama company.



Niihama green shop/office certificate

Komatsushima Plant Sumitomo Forestry Crest Co., Ltd.



Address: 5-38, Yokosu-cho, Komatsushima,
Tokushima Prefecture

Employees: 160

Business: Manufacture and sales of structural plywood
and post-processed plywood



Takaaki Ohno
General Manager

Comment from General Manager Ohno

In 2008, we will be fully implementing the 3Rs (reduce, reuse and recycle) in the spirit of "*Mottainai**."

*"*Mottainai*": A phrase based on respect for nature and resources used to express regret at wastefulness



Nobuaki Morishita
Environmental Representative

Comment from the Environmental Representative

In fiscal 2008, we will be focusing on energy conservation as a way to reduce CO₂ emissions. For example, we will re-examine the lighting we use and plant bitter melon vines to create veils of greenery that block out the summer sun so that it doesn't get so hot inside.

Takamaruyama Millennium Forest

The Komatsushima Plant has been participating in the "Takamaruyama Millennium Forest" afforestation program in Kamikatsu-cho, Tokushima Prefecture, since April 2004.

The term "millennium forest" refers not to the age of the trees but to an indefinite length of time over which humans and forests exist side-by-side.

Our plant is one of around 30 organizations taking part in the Millennium Forest

program and has planted some 800 trees, including *Akashide* (*Carpinus laxiflora*) and Japanese zelkova species. About four times a year, a group of 8-10 employees spend their free time to undertake volunteer work such as clearing away underbrush.



Bronze Award in the 1st Takamaruyama Millennium Forest Contest

The inaugural Takamaruyama Millennium Forest Contest took place four years after the program began in 2004. The Komatsushima Plant won the Bronze Award.



Bronze Award Certificate made from Japanese beech

Installation of Drum Dryer

In December 2007, the plant installed a drum dryer to be used in the treatment of waste liquids such as adhesives and water-based coatings.

A drum dryer consists of a steam-containing drum that rotates. As it rotates, waste liquid inside attaches to the superheated surface of the drum as a thin film and dries in the time it takes for the drum to make one rotation. The dried product is continually scraped off the drum surface with a scraper knife. Installation of the drum dryer has led to a 60-ton reduction in annual waste.



ISO 14001 Bulletin Issued

The *ISO 14001 Bulletin* has been issued monthly since June 2007 as a way to raise employee awareness of environmental and safety matters.



Shizuoka Plant Sumitomo Forestry Crest Co., Ltd.



Address: 2266, Yokouchi, Fujieda, Shizuoka Prefecture

Employees: 144

Business: Manufacture of wall storage, entrance hall storage, bathroom vanity units, and interior materials, as well as housing materials; manufacture of post-processed items such as high-grade laminated plywood using medium density fiberboard (MDF) made from New Zealand radiata pine plantation timber.



From rear, left: General Manager Akio Tsujita, Toshikazu Fujii (industrial waste officer), Takahiko Masuda (industrial waste officer), Kazumasa Kikuchi (engineering officer)

From front, left: Tomoko Oyaizu, Yoichi Takizawa (environmental representatives), Shin Hsiung Lu (post-processing officer), Mitsuyuki Kajiyama (industrial waste officer)

Comment from General Manager Tsujita

The plant moved to the city of Fujieda two years ago and environmental initiatives are gradually being put in place. Besides the initiatives introduced here, continual improvements to reduce the number of defective items produced and improve yield have led to beneficial results such as a reduction in the amount of waste generated. We now aim to incorporate initiatives into the activities of business partners' plants.

Comment from the Environmental Representative

I was appointed as the company's environmental representative this fiscal year. I intend to work to raise the environmental awareness of all employees through close communication with managers of the various sections.

Sorting of Waste by Employees

All employees participate in the sorting of waste generated by the plant. The aims are to lessen environmental impact, reduce waste disposal costs, achieve zero emissions and improve the recycling rate.

Although sorting waste can be tiring, employees are beginning to acknowledge the importance of not generating waste as well as the potential economic value of waste. Compared to two years ago, we have managed to reduce disposal costs by 25% and waste generated by 4%. Our recycling rate is now 96%.

Cleaning of the Plant Vicinity by Employees

As part of our involvement in the local community, employees carried out cleaning exercises in the vicinity of the plant on two occasions. Jobs undertaken included picking up litter and cutting grass on the river bank.



Employees cleaning around the plant

Installation of Power Monitoring System

A power monitoring system (with a demand monitoring function) has been operating at the plant since March 2008. The system monitors power demand and the rate of facility and equipment usage and will facilitate reducing CO₂ emissions (through reduced power usage).

Under the current electricity pricing system, the basic charge is based on contract demand, which is determined by the maximum power demand.

Reducing contract demand is therefore a valid method of reducing energy costs. By monitoring demand, we will also be able to reduce power usage, thereby helping to conserve energy.



Power demand monitor

Study Sessions on Industrial Waste for Business Partners' Plants

The Shizuoka Plant offers advice and study sessions to business partners' plants, covering areas such as recognition of environmental issues, environmental laws and regulations, and application of waste management forms.

In the first study session, held in December 2007, case examples were used to provide insight into the handling of industrial waste, and the participants also learned about the importance of compliance with waste-related laws and regulations. In the second study session, in March 2008, we presented waste management form application examples and offered individual consultation, the objective being to promote a sense of responsibility, crisis awareness and action among waste-generating businesses.

We also visited business partners' plants individually to give advice on contracts and waste management form creation, check incinerators, conduct surveys of sorting practices and offer advice and consultation on industrial waste management.



Study session in progress

Fujieda Municipal Environmental Conservation Association Membership

The Shizuoka Plant became a member of the Fujieda Municipal Environmental Conservation Association following its move to the city of Fujieda.

The association comprises the Fujieda City Office and 18 member companies that operate within the city. The objectives of the association are to survey and research environmental issues, promote information exchange and conduct studies to enhance pollution prevention technologies in the pursuit of environmental conservation in the region.

The association is leading the region in environmental matters. Activities offered include environmental seminars, tours of plants to study environmental initiatives, presentations on environmental measures, tours for elementary and junior high school students, and riverside beautification projects.



Plant tour

Kashima Plant Sumitomo Forestry Crest Co., Ltd.



Address: 2276-6, Nada, Hiraiaza, Oaza, Kashima-shi, Ibaraki Prefecture

Employees: 222

Business: Manufacture and sales of internal doors, furniture and fixtures, solid wood flooring and other interior materials (with plastic film/coating)



Shojiro Nishida
General Manager

Comment from General Manager Nishida

The Kashima Plant is a highly energetic workplace, perhaps because we have many young employees. Management works constantly together with these employees to eradicate accidents and try to create a plant that is friendly to both the environment and people.



Tomohiro Ohwaki
Environmental Representative

Comment from the Environmental Representative

I am working together with my colleagues on a broad range of initiatives, which include reduction of CO₂ emissions, reduction of waste and implementation of timber procurement initiatives, as well as maintenance of our zero emissions status and further enhancement of our initiatives. None of these tasks is easy, but I am always encouraged by the sight of my colleagues incorporating the environment into their activities.

Completion of New Office and Plant

In March 2008, construction of a new office building and a new plant wing was completed at the Kashima Plant.

The facilities have been designed with energy conservation in mind and feature, for example, lights triggered by movement sensors, heat-insulating glass and high-efficiency lighting. We are also striving to lessen environmental impact in our daily

activities. Initiatives include reducing waste by discontinuing use of disposable paper cups and chopsticks and introducing reusable cups and chopsticks, as well as further waste sorting to make sure we retain our zero emissions status.



New office building



New plant



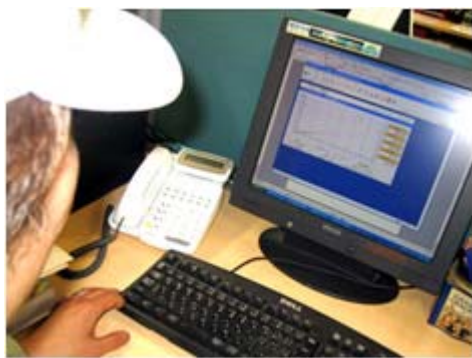
Waste sorting



Disposable paper cups and chopsticks are no longer used

Demand-Based Electricity Management

Efforts are being made to reduce CO₂ emissions through real-time monitoring via a power demand monitor to check appropriateness of electricity usage, reducing usage at peak times, and improving the overall efficiency of power usage.



Demand-based electricity management



Power demand monitor

First Aid Training to Help Save Lives

Emergency medical personnel from the Kashima Fire Department were invited to hold a training session to teach employees first-aid. This is so that in the case family, friends or even people nearby collapse, employees will be able to take appropriate action in the brief amount of time before the ambulance arrives.



Reuse of Unused MDF

Unused medium density fiberboard (MDF) planks and offcuts used to be discharged as waste to treatment contractors rather than be reused. From December 2007, however, these items have been sold to make pallets and packing materials.



Complete Switch to Electronic Waste Management Forms

When disposing of industrial waste, waste management forms are exchanged with treatment contractors as proof that treatment has been completed. In April 2008, with the cooperation of business partners and treatment contractors, we digitized all tasks relating to such forms exchanged with all contractors (abolished paper waste management forms). As a result, waste management form creation and confirmation with contractors can now be performed very quickly.



G3 Content Index

| G3 Disclosure | Description | Location |
|--------------------------|--|---|
| 1 Strategy and Analysis | | |
| 1.1 | Statement from the most senior decisionmaker of the organization (e.g., CEO, chair, or equivalent senior position) about the relevance of sustainability to the organization and its strategy. | ▶ Top Management Commitment ▶ Comments from Executive Officers |
| 1.2 | Description of key impacts, risks, and opportunities. | ▶ Relationship between Sumitomo Forestry's Business and Society ▶ Annual Report (PDF:872KB) |
| 2 Organizational Profile | | |
| 2.1 | Name of the organization. | ▶ Corporate Profile |
| 2.2 | Primary brands, products, and/or services. | ▶ Corporate Profile |
| 2.3 | Operational structure of the organization, including main divisions, operating companies, subsidiaries, and joint ventures. | ▶ Relationship between Sumitomo Forestry's Business and Society |
| 2.4 | Location of organization's headquarters. | ▶ Corporate Profile |
| 2.5 | Number of countries where the organization operates, and names of countries with either major operations or that are specifically relevant to the sustainability issues covered in the report. | ▶ Relationship between Sumitomo Forestry's Business and Society |
| 2.6 | Nature of ownership and legal form. | ▶ Corporate Profile |
| 2.7 | Markets served (including geographic breakdown, sectors served, and types of customers/beneficiaries). | ▶ Corporate Profile |
| 2.8 | Scale of the reporting organization, including: <ul style="list-style-type: none"> · Number of employees; · Net sales (for private sector organizations) or net revenues (for public sector organizations); · Total capitalization broken down in terms of debt and equity (for private sector organizations); and · Quantity of products or services provided. | ▶ Corporate Profile ▶ Financial Factbook |
| 2.9 | Significant changes during the reporting period regarding size, structure, or ownership including: <ul style="list-style-type: none"> · The location of, or changes in operations, including facility openings, closings, and expansions; and · Changes in the share capital structure and other capital formation, maintenance, and alteration operations (for private sector organizations). | - |
| 2.10 | Awards received in the reporting period. | ▶ Promotion of Remodeling Projects ▶ Evaluation by Society ▶ Continuation of Skills |

| 3 Report Parameters | | |
|---------------------------|---|---|
| Report Profile | | |
| 3.1 | Reporting period (e.g., fiscal/calendar year) for information provided. | ▶ Editorial Policy |
| 3.2 | Date of most recent previous report (if any). | ▶ Editorial Policy |
| 3.3 | Reporting cycle (annual, biennial, etc.) | ▶ Editorial Policy |
| 3.4 | Contact point for questions regarding the report or its contents. | ▶ Editorial Policy |
| Report Scope and Boundary | | |
| 3.5 | Process for defining report content, including: <ul style="list-style-type: none"> · Determining materiality; · Prioritizing topics within the report; and · Identifying stakeholders the organization expects to use the report. | ▶ Process of Formulating the Material Issues |
| 3.6 | Boundary of the report (e.g., countries, divisions, subsidiaries, leased facilities, joint ventures, suppliers). | ▶ Editorial Policy |
| 3.7 | State any specific limitations on the scope or boundary of the report. | – |
| 3.8 | Basis for reporting on joint ventures, subsidiaries, leased facilities, outsourced operations, and other entities that can significantly affect comparability from period to period and/or between organizations. | – |
| 3.9 | Data measurement techniques and the bases of calculations, including assumptions and techniques underlying estimations applied to the compilation of the Indicators and other information in the report. | ▶ Environmental Accounting for Fiscal 2007 ▶ Environmental Impact of Business Activities |
| 3.10 | Explanation of the effect of any re-statements of information provided in earlier reports, and the reasons for such re-statement (e.g., mergers/acquisitions, change of base years/periods, nature of business, measurement methods). | ▶ Improved Quality and Workplace Safety at Housing Construction Sites |
| 3.11 | Significant changes from previous reporting periods in the scope, boundary, or measurement methods applied in the report. | ▶ Organizations Covered |
| G3 Content index | | |
| 3.12 | Table identifying the location of the Standard Disclosures in the report. | ▶ G3 Content Index |
| Assurance | | |
| 3.13 | Policy and current practice with regard to seeking external assurance for the report. If not included in the assurance report accompanying the sustainability report, explain the scope and basis of any external assurance provided. Also explain the relationship between the reporting organization and the assurance provider(s). | ▶ Editorial Policy |

| 4 Governance, Commitments, and Engagement | | |
|---|---|--|
| Governance | | |
| 4.1 | Governance structure of the organization, including committees under the highest governance body responsible for specific tasks, such as setting strategy or organizational oversight. | ▶ Corporate Governance Annual Report (PDF:872KB) |
| 4.2 | Indicate whether the Chair of the highest governance body is also an executive officer (and, if so, their function within the organization's management and the reasons for this arrangement). | ▶ Annual Report (PDF:872KB) |
| 4.3 | For organizations that have a unitary board structure, state the number of members of the highest governance body that are independent and/or non-executive members. | ▶ Corporate Governance |
| 4.4 | Mechanisms for shareholders and employees to provide recommendations or direction to the highest governance body. | ▶ Corporate Governance |
| 4.5 | Linkage between compensation for members of the highest governance body, senior managers, and executives (including departure arrangements), and the organization's performance (including social and environmental performance). | ▶ Corporate Governance |
| 4.6 | Processes in place for the highest governance body to ensure conflicts of interest are avoided. | - |
| 4.7 | Process for determining the qualifications and expertise of the members of the highest governance body for guiding the organization's strategy on economic, environmental, and social topics. | - |
| 4.8 | Internally developed statements of mission or values, codes of conduct, and principles relevant to economic, environmental, and social performance and the status of their implementation. | ▶ The Thrust of Corporate Social Responsibility at Sumitomo Forestry |
| 4.9 | Procedures of the highest governance body for overseeing the organization's identification and management of economic, environmental, and social performance, including relevant risks and opportunities, and adherence or compliance with internationally agreed standards, codes of conduct, and principles. | ▶ Environmental Management |
| 4.10 | Processes for evaluating the highest governance body's own performance, particularly with respect to economic, environmental, and social performance. | - |
| Commitments to External Initiatives | | |
| 4.11 | Explanation of whether and how the precautionary approach or principle is addressed by the organization. | ▶ Risk Management ▶ Environmental Management |
| 4.12 | Externally developed economic, environmental, and social charters, principles, or other initiatives to which the organization subscribes or endorses. | - |
| 4.13 | Memberships in associations (such as industry associations) and/or national/international advocacy organizations in which the organization: <ul style="list-style-type: none"> · Has positions in governance bodies; · Participates in projects or committees; · Provides substantive funding beyond routine membership dues; or · Views membership as strategic. | ▶ Contributions to Public Policy |

| Stakeholder Engagement | | |
|--|---|---|
| 4.14 | List of stakeholder groups engaged by the organization. | ▶ The Thrust of Corporate Social Responsibility at Sumitomo Forestry |
| 4.15 | Basis for identification and selection of stakeholders with whom to engage. | - |
| 4.16 | Approaches to stakeholder engagement, including frequency of engagement by type and by stakeholder group. | ▶ Process of Formulating the Material Issues |
| 4.17 | 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. | ▶ Providing Timber Products and Materials from Sustainable Forests ▶ Providing Environmentally-Friendly Homes ▶ Promoting Global Warming Countermeasures through Our Business |
| 5 Management Approach and Performance Indicators | | |
| Economic | | |
| | Disclosure on Management Approach | ▶ Economic Report |
| aspect: Economic Performance | | |
| EC1 | Direct economic value generated and distributed, including revenues, operating costs, employee compensation, donations and other community investments, retained earnings, and payments to capital providers and governments. | ▶ Financial Performance |
| EC2 | Financial implications and other risks and opportunities for the organization's activities due to climate change. | - |
| EC3 | Coverage of the organization's defined benefit plan obligations. | ▶ Annual Report (PDF:872KB) |
| EC4 | Significant financial assistance received from government. | - |
| aspect: Market Presence | | |
| EC5 | Range of ratios of standard entry level wage compared to local minimum wage at significant locations of operation. | - |
| EC6 | Policy, practices, and proportion of spending on locally-based suppliers at significant locations of operation. | - |
| EC7 | Procedures for local hiring and proportion of senior management hired from the local community at locations of significant operation. | ▶ Hiring Policies at Overseas Group Companies |
| aspect: Indirect Economic Impacts | | |
| EC8 | Development and impact of infrastructure investments and services provided primarily for public benefit through commercial, in-kind, or pro bono engagement. | ▶ Local Contributions to the Development of Social Infrastructure |
| EC9 | Understanding and describing significant indirect economic impacts, including the extent of impacts. | - |
| Environmental | | |
| | Disclosure on Management Approach | ▶ Environmental Report |
| aspect: Materials | | |
| EN1 | Materials used by weight or volume. | ▶ Balance of Input & Output |
| EN2 | Percentage of materials used that are recycled input materials. | - |

| aspect: Energy | | |
|----------------------|---|--|
| EN3 | Direct energy consumption by primary energy source. | ▶ Balance of Input & Output |
| EN4 | Indirect energy consumption by primary source. | ▶ Balance of Input & Output |
| EN5 | Energy saved due to conservation and efficiency improvements. | - |
| EN6 | Initiatives to provide energy-efficient or renewable energy based products and services, and reductions in energy requirements as a result of these initiatives. | ▶ Reducing the Global Warming Effect of Business Activities |
| EN7 | Initiatives to reduce indirect energy consumption and reductions achieved. | - |
| aspect: Water | | |
| EN8 | Total water withdrawal by source. | ▶ Balance of Input & Output |
| EN9 | Water sources significantly affected by withdrawal of water. | - |
| EN10 | Percentage and total volume of water recycled and reused. | - |
| aspect: Biodiversity | | |
| EN11 | Location and size of land owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas. | ▶ Policy on Biodiversity Preservation ▶ Management of Company-Owned Forests |
| EN12 | Description of significant impacts of activities, products, and services on biodiversity in protected areas and areas of high biodiversity value outside protected areas. | ▶ Initiatives for Biodiversity Preservation in Company-Owned Forests |
| EN13 | Habitats protected or restored. | ▶ Mt. Fuji Manabi no Mori Project ▶ Overseas Afforestation Consultancy |
| EN14 | Strategies, current actions, and future plans for managing impacts on biodiversity. | ▶ Biodiversity Preservation |
| EN15 | Number of IUCN Red List species and national conservation list species with habitats in areas affected by operations, by level of extinction risk. | - |

| aspect: Emissions, Effluents, and Waste | | |
|---|---|---|
| EN16 | Total direct and indirect greenhouse gas emissions by weight. | ▶ Promoting Global Warming Countermeasures through Our Business |
| EN17 | Other relevant indirect greenhouse gas emissions by weight. | ▶ Promoting Global Warming Countermeasures through Our Business |
| EN18 | Initiatives to reduce greenhouse gas emissions and reductions achieved. | ▶ Promoting Global Warming Countermeasures through Our Business ▶ Reducing CO₂ Emissions |
| EN19 | Emissions of ozone-depleting substances by weight. | - |
| EN20 | NO, SO, and other significant air emissions by type and weight. | ▶ Chemical Substance Management at Research Institute and Plants |
| EN21 | Total water discharge by quality and destination. | ▶ Balance of Input & Output |
| EN22 | Total weight of waste by type and disposal method. | ▶ Zero Emissions Initiatives |
| EN23 | Total number and volume of significant spills. | - |
| EN24 | Weight of transported, imported, exported, or treated waste deemed hazardous under the terms of the Basel Convention Annex I, II, III, and VIII, and percentage of transported waste shipped internationally. | - |
| EN25 | Identity, size, protected status, and biodiversity value of water bodies and related habitats significantly affected by the reporting organization's discharges of water and runoff. | - |
| aspect: Products and Services | | |
| EN26 | Initiatives to mitigate environmental impacts of products and services, and extent of impact mitigation. | ▶ Providing Timber Products and Materials from Sustainable Forests ▶ Providing Environmentally-Friendly Homes ▶ Reducing the Environmental Impact of Households ▶ Procurement of Sustainable Raw Materials |
| EN27 | Percentage of products sold and their packaging materials that are reclaimed by category. | - |
| aspect: Compliance | | |
| EN28 | Monetary value of significant fines and total number of non-monetary sanctions for noncompliance with environmental laws and regulations. | Not applicable |
| aspect: Transport | | |
| EN29 | Significant environmental impacts of transporting products and other goods and materials used for the organization's operations, and transporting members of the workforce. | - |
| aspect: Overall | | |
| EN30 | Total environmental protection expenditures and investments by type. | ▶ Environmental Accounting |
| Labor Practices and Decent Work | | |
| | Disclosure on Management Approach | ▶ Together with Our Employees ▶ Together with Our Business Partners |

| aspect: Employment | | |
|---|---|--|
| LA1 | Total workforce by employment type, employment contract, and region. | ▶ Basic Personnel Policy |
| LA2 | Total number and rate of employee turnover by age group, gender, and region. | - |
| LA3 | Benefits provided to full-time employees that are not provided to temporary or part-time employees, by major operations. | ▶ Fostering a Workplace Environment where a Diverse Range of Employees Can Work Enthusiastically |
| aspect: Labor/Management Relations | | |
| LA4 | Percentage of employees covered by collective bargaining agreements. | ▶ Relations with the Labor Union |
| LA5 | Minimum notice period(s) regarding operational changes, including whether it is specified in collective agreements. | - |
| aspect: Occupational Health and Safety | | |
| LA6 | 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. | - |
| LA7 | Rates of injury, occupational diseases, lost days, and absenteeism, and number of workrelated fatalities by region. | ▶ Improved Quality and Workplace Safety at Housing Construction Sites |
| LA8 | Education, training, counseling, prevention, and risk-control programs in place to assist workforce members, their families, or community members regarding serious diseases. | ▶ Creating a Safe and Healthy Workplace Environment |
| LA9 | Health and safety topics covered in formal agreements with trade unions. | ▶ Relations with the Labor Union |
| aspect: Training and Education | | |
| LA10 | Average hours of training per year per employee by employee category. | ▶ Multifaceted Training |
| LA11 | Programs for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings. | ▶ Helping People Grow at Sumitomo Forestry |
| LA12 | Percentage of employees receiving regular performance and career development reviews. | ▶ Helping People Grow at Sumitomo Forestry |
| aspect: Diversity and Equal Opportunity | | |
| LA13 | Composition of governance bodies and breakdown of employees per category according to gender, age group, minority group membership, and other indicators of diversity. | ▶ Employee Hiring and Promotion Policies ▶ Affirmative Action |
| LA14 | Ratio of basic salary of men to women by employee category. | - |
| Human Rights | | |
| | Disclosure on Management Approach | ▶ "Our Values and Ideals" |

| aspect: Investment and Procurement Practices | | |
|--|--|--|
| HR1 | Percentage and total number of significant investment agreements that include human rights clauses or that have undergone human rights screening. | - |
| HR2 | Percentage of significant suppliers and contractors that have undergone screening on human rights and actions taken. | - |
| HR3 | Total hours of employee training on policies and procedures concerning aspects of human rights that are relevant to operations, including the percentage of employees trained. | ▶ Human Rights Initiatives |
| aspect: Non-Discrimination | | |
| HR4 | Total number of incidents of discrimination and actions taken. | - |
| aspect: Freedom of Association and Collective Bargaining | | |
| HR5 | Operations identified in which the right to exercise freedom of association and collective bargaining may be at significant risk, and actions taken to support these rights. | - |
| aspect: Child Labor | | |
| HR6 | Operations identified as having significant risk for incidents of child labor, and measures taken to contribute to the elimination of child labor. | - |
| aspect: Forced and Compulsory Labor | | |
| HR7 | Operations identified as having significant risk for incidents of forced or compulsory labor, and measures taken to contribute to the elimination of forced or compulsory labor. | - |
| aspect: Security Practices | | |
| HR8 | Percentage of security personnel trained in the organization's policies or procedures concerning aspects of human rights that are relevant to operations. | - |
| aspect: Indigenous Rights | | |
| HR9 | Total number of incidents of violations involving rights of indigenous people and actions taken. | - |
| Society | | |
| | Disclosure on Management Approach | ▶ "Our Values and Ideals" ▶ Together with Society ▶ Overseas Forest Preservation |
| aspect: Community | | |
| SO1 | Nature, scope, and effectiveness of any programs and practices that assess and manage the impacts of operations on communities, including entering, operating, and exiting. | ▶ Overseas Forest Preservation |
| aspect: Corruption | | |
| SO2 | Percentage and total number of business units analyzed for risks related to corruption. | - |
| SO3 | Percentage of employees trained in organization's anti-corruption policies and procedures. | - |
| SO4 | Actions taken in response to incidents of corruption. | - |

| | | |
|--------------------------------------|--|--|
| aspect: Public Policy | | |
| SO5 | Public policy positions and participation in public policy development and lobbying. | ▶ Contributions to Public Policy |
| SO6 | Total value of financial and in-kind contributions to political parties, politicians, and related institutions by country. | - |
| aspect: Anti-Competitive Behavior | | |
| SO7 | Total number of legal actions for anticompetitive behavior, anti-trust, and monopoly practices and their outcomes. | Not applicable |
| aspect: Compliance | | |
| SO8 | Monetary value of significant fines and total number of non-monetary sanctions for noncompliance with laws and regulations. | - |
| Product Responsibility | | |
| | Disclosure on Management Approach | ▶ Together with Our Customers ▶ Together with Our Business Partners |
| aspect: Customer Health and Safety | | |
| PR1 | Life cycle stages in which health and safety impacts of products and services are assessed for improvement, and percentage of significant products and services categories subject to such procedures. | ▶ High-Quality Houses with Excellent All-Round Balance ▶ Providing High Quality Timber and Building Materials |
| PR2 | Total number of incidents of non-compliance with regulations and voluntary codes concerning health and safety impacts of products and services during their life cycle, by type of outcomes. | ▶ Response to Improper Acquisition of Certification for Fire Prevention and Resistant Materials by Nichias Corporation |
| aspect: Product and Service Labeling | | |
| PR3 | Type of product and service information required by procedures, and percentage of significant products and services subject to such information requirements. | ▶ Providing High Quality Timber and Building Materials ▶ Response to Housing Performance Indication System ▶ Timber Used for Housing |
| PR4 | Total number of incidents of non-compliance with regulations and voluntary codes concerning product and service information and labeling, by type of outcomes. | - |
| PR5 | Practices related to customer satisfaction, including results of surveys measuring customer satisfaction. | ▶ Communication with Customers |
| aspect: Marketing Communications | | |
| PR6 | Programs for adherence to laws, standards, and voluntary codes related to marketing communications, including advertising, promotion, and sponsorship. | ▶ Standards for Advertising |
| 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. | ▶ Standards for Advertising |
| aspect: Customer Privacy | | |
| PR8 | Total number of substantiated complaints regarding breaches of customer privacy and losses of customer data. | ▶ Compliance |

aspect: Compliance

PR9

Monetary value of significant fines for noncompliance with laws and regulations concerning the provision and use of products and services.

Not applicable