



Environmental and Social Report

2008

March 2008

Four Material Issues

This edition mainly reports on material issues of
the *Environmental and Social Report 2008*



SUMITOMO FORESTRY CO., LTD.

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Editorial Policy for *Environmental and Social Report 2008*

Positioning of this Report

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

As Sumitomo Forestry moves forward with business activities towards achieving a sustainable society, we believe that it is necessary to clarify the material issues that we face and to formulate policies with respect to each of these issues, as well as take concrete action.

Accordingly, a survey was conducted of stakeholders to identify the most relevant material issues that need to be addressed, and this revealed the priority ranking of expectations held towards Sumitomo Forestry. Based on the survey results, four material issues were formulated for our company to work on specifically.

The *Environmental and Social Report 2008* is centered on these four material issues.

Note: Comments from stakeholders, appearing after Stakeholder comment, have been published on the condition of anonymity.

Reliability of Reporting Content

The respective divisions of the company have striven for accuracy by using appropriate methods for measurement and data collection with respect to initiatives and results reported herein. Where possible, these methods are also disclosed. In terms of identifying material issues and defining direction for our efforts, we have sought objective evaluation from specialist third parties.

Assurance of reliability by external institutions is an issue for consideration in the future, as is the current lack of appropriate verification procedures.

Reference Guidelines

We have referred to the *Sustainability Reporting Guidelines (Third Edition)* of the Global Reporting Initiative (GRI), and to the *Environmental Reporting Guidelines (2007 Edition)* of the Japanese Ministry of the Environment, seeking balance and reliability for the information presented.

Reporting Period

April 2007 to March 2008

(Includes some activities in or after April 2008 and future expectations.)

Organizations Covered

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

Sumitomo Forestry Two-By-Four Homes Co., Ltd., Sumitomo Forestry Crest Co., Ltd., Sumitomo Forestry Home Engineering Co., Ltd., Sumitomo Forestry Home Service Co., Ltd., Sumitomo Forestry Landscaping Co., Ltd., Sumitomo Forestry Timberland Management Co., Ltd., Sumitomo Forestry Home Tech Co., Ltd., Sumirin Agro-Products Co., Ltd., Sumirin Life Assist Co., Ltd., Sumirin Base Techno Co., Ltd., Sumirin Business Service Co., Ltd., Sun Step Co., Ltd., Kowa Lumber Co., Ltd., PT. Kutai Timber Indonesia (KTI), Toyo Plywood Co., Ltd., Alpine MDF Industries Pty Ltd., Nelson Pine Industries Ltd. (NPIL), Open Bay Timber Ltd. (OBT), Nichiha Fuji Tec Co., Ltd., Limited Partnership Agreement for Investment in Fund to Continue the Activities of Small and Medium-Scale Corporations in the Housing and Related Industries, PT. Rimba Partikel Indonesia (RPI), and PT. AST Indonesia (ASTI)

Publication Date

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The next report is scheduled for publication in October 2009

Publication Team

- CSR Group, General Administrative Division
- Environmental Management Group, Environmental Management Division, Forestry & Environment Headquarters
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What Is Sustainability?

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

Sumitomo Forestry’s business centers on trees, a renewable natural resource, and their planting, cultivation, utilization as building materials for housing, and re-planting—a truly sustainable cycle. Sumitomo Forestry will continue to contribute to the creation of a sustainable society through pursuits pertaining to forests and people, from forestry through to housing.



Relationship between Sumitomo Forestry's Business and Society

Starting with the growing of forests, Sumitomo Forestry's business includes the expansion of possibilities for use of wood as a raw material, support for the distribution of timber, and the provision of high quality housing for comfortable living. Our focus on wood involves us in the entire spectrum of business related to wood and housing.

Forestry & Environment Business

Company-owned forests: 40,567ha
(About one thousandth of Japan's land area)

Based on the ideal of "sustainable forestry," featuring a permanent cycle of planting and harvesting, the foundation of our business is the ongoing creation of forests for the stable supply of timber. We are also moving forward with environment-related businesses such as overseas afforestation and the utilization of currently unused timber stocks in Japan.



Expectations from Stakeholders*

- Proactive utilization of Japanese timber and revitalization of the forestry industry
- Implementation of global warming countermeasures in the context of business activities
- Preservation of forests both in Japan and overseas through sustainable timber procurement

Timber & Building Materials Business Number of countries with whom we deal: 25

Sumitomo Forestry imports and sells high quality timber through our global network, as well as distributes Japanese timber. We have also established ourselves as the number one trader of timber and building materials in Japan.



Expectations from Stakeholders

- Supply of timber products and materials from sustainable forests
- Proactive utilization of Japanese timber and revitalization of the forestry industry
- Preservation of forests throughout the world through sustainable timber procurement

Overseas Business

Plantation forest area in FY2007: 3,848ha
Overseas housing sales bases: 4 countries

Sumitomo Forestry engages in production, processing and distribution of wood-based board and building materials, centered on the Pacific Rim, together with forest planting throughout the region in order to secure renewable resources. We are also engaged in the sales of wooden housing in North America, Australia, South Korea and China.



Expectations from Stakeholders

- Supply of timber products and materials from sustainable forests
- Preservation of forests throughout the world through sustainable timber procurement
- Supply of safe and reliable timber products



Sumitomo Forestry, as the leading brand of custom-built detached wooden houses, is engaged in the provision of environmentally-symbiotic homes that incorporate the attraction of wood. We are also engaged in the provision of multi-unit residential buildings, including their architectural design and rental management.



Expectations from Stakeholders

- Provision of homes that will be enjoyed for generations to come
- Continuation of Sumitomo Forestry technology (wood construction, forestry management, etc.) into the future
- Provision of homes that are environmentally considerate

Real Estate Business

Number of houses sold in FY2007
Rental condominiums: 34 Spec homes: 54

Sumitomo Forestry is engaged in the design and sale of wooden spec homes, the effective utilization of land through the construction and management of rental condominiums, and the construction and operation of elderly care facilities. We are also involved in real-estate development, including condominiums for sale.

Expectations from Stakeholders

- Demonstrating leadership in town development characterized by safety and plenty of greenery, and of which residents will grow fond and proud
- Contribution to local economic development and co-prosperity with local communities through business activities
- Effective allocation of social assets through resale of pre-owned homes



* The top three responses are listed from a survey of stakeholders for each business area

Society at a Glance

Climate change and the depletion of forest resources have deep implications for Sumitomo Forestry. We will take note of such changes to natural and social environments and contribute to building a sustainable society through our business.

Species in Decline

Approximate pace of extinction¹:

Age of the dinosaurs ... 1 species every 1,000 years
1600-1900 1 species every 4 years
Early 1900s 1 species every year
By 1975 1 species every 9 hours

1975-2000 **1 species every 13 minutes**

CO₂ Emissions during Occupation

Percentage of total CO₂ emissions in Japan from households

13%²

CO₂ emissions from households in Japan for fiscal 2006 have increased by approximately 30% since fiscal 1990, but decreased roughly 5% compared to the fiscal 2005 level.

Ratio of Japanese Timber Utilization in Conventional Wooden Houses

30%³

Japan's Forestry Agency is targeting a rise from about 30% in 2005 to approximately 60% for the utilization of Japanese timber in conventional wooden houses by 2015.

The Function of a "Home"

"An environment in which my family can be happy and content"

64%⁴

Other common views: "A place to relax and rest in," "a place to strengthen familial bonds," and "a place where parents and children alike can grow."

Sources:

1. *Shizumiyuku Hakobune (The Sinking Ark)*; Norman Myers, 1981
2. *The GHGs Emissions Data of Japan (1990-2006)*; Greenhouse Gas Inventory Office of Japan, May 2008
3. *Basic Policy for Restructuring of the Timber Industry and Expanded Utilization of Japanese Timber*; Forestry Agency (Japan), February 2007
4. *Opinion Poll on Living Standards*; Cabinet Office, Government of Japan, February 2007



Process for Formulating the Material Issues

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

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

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



Four Material Issues

1 Providing Timber Products and Materials from Sustainable Forests ▶▶

2 Providing Environmentally-Friendly Homes ▶▶

3 Promoting Global Warming Counter-measures through Our Business ▶▶

4 Promoting Family-Centered Employee Lifestyles ▶▶

Formulating the Material Issues

1 Selection of candidate material issues

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



2 Understanding the issues that are important to our stakeholders

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



3 Consideration of importance from the perspective of business strategy

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

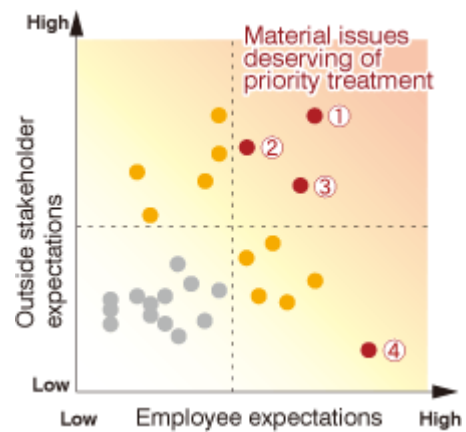


4 Determination of material issues

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

Four Material Issues

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





Top Management Commitment

Working Towards a Sustainable Society

Sumitomo Forestry's business is all about utilizing the renewable natural resource, wood. We take pride in the weight of our social mission and in living up to expectations regarding the direct contributions our primary business makes to the environment and society.

Formulation of the "Four Material Issues" for the Realization of a Sustainable Society

With environmental issues such as global warming becoming increasingly serious, we must squarely face the critically important question of, "How will humanity continue to live on Earth for thousands of years to come?" In order to help resolve this issue, Sumitomo Forestry, as it engages in forest management as well as housing and housing-related businesses, must first clarify what it should do. As such, we have gathered opinions from various stakeholders, enabling us to formulate four material issues on which to focus our attention: Providing timber products and materials from sustainable forests, providing environmentally-friendly homes, promoting global warming countermeasures through our business, and promoting family-centered employee lifestyles. These four issues will be at the core of our efforts as we move forward.

Legal Compliance by the End of Fiscal 2009 of All Timber Handled

In June 2007 we established our Timber Procurement Philosophy and Policy, stipulating not only legal compliance, but also the provision of timber from sustainable forests that are attuned to their respective ecologies and the lives of local people. In accordance with the Action Plan based on this approach, we are proceeding with the investigation of legal compliance, with scrutiny of all 280 of our overseas suppliers completed during fiscal 2007.

Depending on the country, the information necessary for confirming the legal compliance of timber is not always available. Confirmation of compliance is further complicated by the involvement of numerous middlemen during the distribution process. Nevertheless, procurement of forest resources associated with illegal logging or environmental destruction cannot be tolerated. We will thus reinforce our efforts in a bid to achieve our goal of "100% legally compliant timber" by the end of fiscal 2009.

Obligation as a Housing Builder to Build Environmentally-Friendly Homes

We believe that we have a responsibility as a housing builder to provide environmentally-friendly homes. Sumitomo Forestry has been working on this from three distinct angles: "Popularizing the *Ryouonbou* natural heating and cooling approach," "Raising the percentage of Japanese timber contained in our houses," and "Producing longer-lasting homes."

Longer-lasting homes are particularly important, since the environmental impact associated with rebuilding is reduced. Construction of longer-lasting residences is being encouraged by the Japanese government, as evidenced by a bill which has been under consideration by the Diet, known as the Proposed Law Concerning the Encouragement of Long-Lasting, High-Quality Housing Popularization. However, considering this from the perspective of homeowners, popularization seems unlikely unless tax and other incentives are provided. Sumitomo Forestry is actively making recommendations to the Japanese government with respect to such incentives.

Also, considering the long-term use of houses from generation to generation, wooden housing is advantageous in that layout modifications can be made relatively easily to accommodate changes in family composition.

The *MyForest-Taiju* brand, launched in February 2008 and using 100% Japanese timber for principal structural members, represents the integration of environmental technologies developed and promoted by Sumitomo Forestry. The structural frame has long-lasting strength so that the house can be occupied by numerous future generations. And with the *Ryouonbou* design approach, we believe that these residences offer the high asset value environmental performance that society will come to demand in the future.

Helping to Prevent Global Warming through Environmentally-Friendly Business Development

At present, global warming is the biggest environmental issue facing the world. Trees, which absorb and retain CO₂, are at the center of our business, and we recognize that we have a major role to play in helping prevent further global warming.

We will be putting even more effort into sustainable forest management, developing our businesses in environmentally friendly directions, while making efforts to prevent further global warming. Furthermore, not only does the *Ryouonbou* design concept help reduce environmental impact during the period of occupation in Sumitomo Forestry's houses, the adoption of renewable energy and various energy-saving technologies are also examples of how we are working to reduce CO₂ emissions.

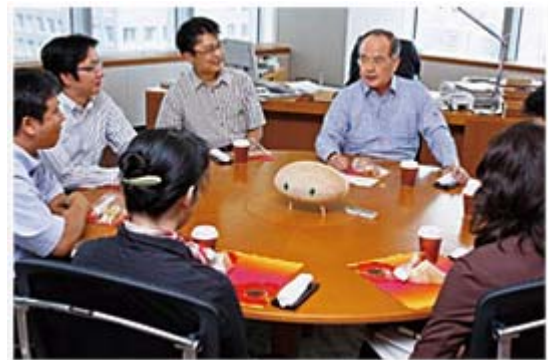
Building Quality Homes Requires Happy Employees

The people behind these efforts at Sumitomo Forestry are each and every one of our employees. Given that the company's success is the sum total of the efforts of all our employees, without happy employees we can't achieve our full potential. In a sense, home-building is dream-building. Without happy sales representatives and designers, how could we possibly provide the best quality homes? We believe that in order to take good care of our customers, we must first take good care of our employees. It's the same with the employees of our affiliates and their families as well; the happiness of our employees and those of our business partners is indispensable to Sumitomo Forestry's efforts to realize a sustainable society.

Affirmative action has been gaining strong momentum with respect to supporting the professional role of women at Sumitomo Forestry. Women comprised 66 of our 192 newly hired graduates in fiscal 2008, and we are looking to raise the overall ratio of women in the company to 30%. We want our female employees to be instilled with a work ethic of being able to make a real difference at the workplace, rather than adopting a passive attitude. We also want to introduce more flexible working arrangements in an effort to improve the overall happiness of employees, irrespective of gender. The more diverse the values that we integrate, the more energized our company will become.

Advocating the Sumitomo Spirit in Pursuit of Business that Benefits Individuals and Society in General

At the heart of the Sumitomo Forestry Group is the fundamental idea that our business activities should benefit the nation and society as a whole. This is prominently featured in Project SPEED*, our Long-Term Management Plan covering the next 10 years announced in May 2007. The scale of our business and our profits are of course imperative, but it is important that a company engaged in global expansion also benefits the local communities, and individuals of those communities, especially through its core businesses. I have repeatedly espoused the fundamental nature of this view internally at every opportunity, and the vast majority of our employees have inculcated this. This is reflected in "Our Values and Ideals," a statement centered on the shared values of Sumitomo Forestry employees presented in fiscal 2007.



The president holds regular open and frank discussions with young employees for the exchange of opinion

I am committed to establishing the Sumitomo Spirit at the center of all Sumitomo Forestry businesses, and to developing the company's businesses in such a way that they are able to contribute to the creation of a sustainable society, as well as to continuing to achieve ever higher corporate integrity.

* Project SPEED states that working on a detailed action plan with an extraordinary amount of passion will allow Sumitomo Forestry to grow into an "excellent company." SPEED: Strong Passion Enables us to become an Excellent company by implementing Detailed strategy.



President and Director
Sumitomo Forestry Co., Ltd.

Future Issues and Goals

- 100% adoption of legally compliant timber by the end of fiscal 2009
- Increase in the ratio of Japanese timber to 70% for principal structural members in Sumitomo Forestry Home houses
- Provision of housing characterized by high asset value and suitable for long-term use
- Active information dissemination to national government and society at large in order to promote longer-lasting homes
- Greater environmental symbiosis through sustainable forest management
- Taking even better care of our employees and their families
- Increase in the ratio of female employees to 30%



Comments from Executive Officers

Here, executive officers of each business area review fiscal 2007 and state the challenges they face and the goals they have set pertaining to future business and the role Sumitomo Forestry is expected to play in the creation of a sustainable society.

Forestry & Environment Headquarters



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

Expansion of Sustainable Forest Management and New Environmental Businesses

Japan's plantations have been neglected due to their unprofitability, and abandoned forestland is on the increase. Using the expertise acquired through the management of our own forests, Sumitomo Forestry is working to prevent this problem from becoming even more serious, by expanding the forest acreage that we ourselves tend. While debate centered on the effectiveness of forestland to absorb CO₂ and limit global warming is currently proceeding, we believe that incentives are required to safeguard Japan's mountains, such as accrual to forest owners of trading rights for the CO₂ emissions absorbed by the forests in their possession. Sumitomo Forestry is accordingly taking on a leadership role, and will be active in trying to positively influence public policy in this area.

From fiscal 2008, we are also moving to integrate environmental businesses into our core operations. These include overseas industrial afforestation projects that will simultaneously protect the environment and produce timber as a renewable resource, as well as support for endeavors such as the Clean Development Mechanism (CDM) in Indonesia.

In terms of environmental management, CO₂ emissions reduction targets were revised in fiscal 2007. Cuts to be achieved by fiscal 2010 as compared to fiscal 2006 levels consist of 12% for offices, 5% for Japanese plants per sales unit and 20% for overseas plants, also per sales unit. Considering waste flows, Sumitomo Forestry is aiming to achieve zero emissions at plants and construction sites, etc. by March 2010.

Plan for Fiscal 2008

1. Further expansion of forest acreage under management
2. Consideration of total volume and long-term targets for CO₂ emissions reduction
3. Promotion of efforts for achievement of zero emissions by March 2010

Timber & Building Materials Business Headquarters

Business Partner Investigations Completed with Respect to Timber Procurement

Confirmations were initiated from fiscal 2006 regarding compliance of timber suppliers, and investigations were completed during fiscal 2007 for all 280 overseas suppliers. Of these, 200 were found to be compliant, while the remaining 80 companies are subject to further scrutiny due to ambiguities in specific country compliance standards, etc. By the end of fiscal 2009, compliance for all timber and timber products handled by Sumitomo Forestry is to be legally compliant.

In order to facilitate the use of Japanese timber, a new structure was established wherein all Japanese products previously handled by various departments are now managed under the aegis of Sumitomo Forestry Timber Management Co., Ltd. Converted to logs, the current level of 200,000m³ is to be raised to 300,000m³. In conjunction with this, we will also be seeking to raise general awareness of the fact that utilization of timber actually helps to absorb CO₂.

Among our business partners, many firms often face leadership succession issues, leading us in fiscal 2007 to start investing in a fund that supports the continued operations of small and medium-sized enterprises. Sumitomo Forestry has thus far invested ¥2 billion, seeking to support our partners from a neutral standpoint.

We are aware of our responsibility as a leading company in the timber and building materials distribution sector, and we look forward to setting new standards for ourselves and the industry as a whole.



Hideyuki Kamiyama
Director and
Managing Executive
Officer
Executive Manager
of Timber & Building
Materials Business
Headquarters

Plan for Fiscal 2008

1. Work towards 100% confirmed use of legally compliant timber by the end of fiscal 2009
2. Promotion of the use of certified, plantation, and Japanese timber
3. Promotion of environmentally-friendly equipment and systems designed for use in housing (Ecocute hot water system, solar panels, etc.)
4. Promotion of continued dialogue with stakeholders

Overseas Business Headquarters



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

Expanded Ratio of Plantation Timber among Raw Materials

Demand for sustainable timber from plantations continues to increase, and “utilization of plantation timber and scrap wood” is a basic tenet of forest conservation in our overseas operations. Plants in Australia and New Zealand use mainly plantation timber for medium density fiberboard (MDF), while Indonesian plants are manufacturing construction materials from plantation timber and particle board from waste wood. The Sumitomo Forestry Group is intent on expanded uses of plantation timber in the future, and as such PT. Kutai Timber Indonesia (KTI) is aiming to achieve 100% plantation timber content in its plywood. We are also actively engaged in tree planting efforts in Papua New Guinea for continued plantation timber expansion.

Another area that we are working in is the reduction of the environmental impact from our plants. We are already using wood biomass energy at two Indonesian plants, allowing us to cut annual crude oil consumption by 7 million liters (about 44,000 barrels) during fiscal 2007.

Sumitomo Forestry has been engaged in business activities overseas for over three decades, and during this time has come to realize the importance of giving back to the various local communities. In Indonesia, we have distributed seedlings to local residents, encouraging them to plant them, and then buying back the trees when sufficiently grown. We intend making further local contributions in the future by expanding on this example of “social forestry.”

Plan for Fiscal 2008

1. Afforestation employing 4.44 million seedlings in total, spread among Papua New Guinea (Open Bay Timber Ltd.), Indonesia (PT. Rimba Partikel Indonesia, PT. Kutai Timber Indonesia) and New Zealand (Nelson Pine Industries Ltd.)
2. Establishment of overseas plants accompanied by afforestation projects, for promotion of sustainable materials procurement

Housing Business Headquarters



Shigehiko Shiozaki
Director and
Managing Executive
Officer
Executive Manager
of Housing Business
Headquarters

Launch of *MyForest–Taiju* Brand, Integrating Environmental Technologies

Fiscal 2007 saw the launch of the *MyForest–Taiju* environmentally-friendly, long-lasting home brand, integrating a number of different environmental approaches, including the *Ryouonbou* natural heating and cooling concept and 100% Japanese timber for principal structural members.

The *Ryouonbou* design concept, which harnesses natural forces for comfortable living, integrates a new *Midori no Sekkei* approach developed to utilize garden vegetation to help shade the house from the sun, in combination with the existing *Taiyo no Sekkei*¹ and *Kaze no Sekkei*² concepts. Looking to the future, we will be utilizing advanced technologies together with visible features for energy savings and the *Ryouonbou* concept in a way that will be easy to appreciate for whoever sees the home.

Sumitomo Forestry has long been promoting the use of Japanese timber in residential construction, and in fiscal 2007 the ratio of Japanese timber content in the principal structural members according to design calculations for a hermetically sound and well insulated house designed by Sumitomo Forestry for the Kanto region with a total floor area of 147m² was approximately 51%. Raising this figure further involves a number of challenges such as increasing the strength of Japanese cedar³ components, but we are nevertheless targeting a level of 70% by the end of fiscal 2008.

Considering the longevity of our homes, and based on the Long-Term Support System, which provides support for 60 years after the sale of a home, that we have been integrating to date, Sumitomo Forestry plans to continue developing high value housing as social assets in

line with the ultra long-lasting house concept being advocated by the Japanese government.

1. Housing design that harnesses the sun's heat to warm the interior of the house during winter, reducing the need to rely on electrical, gas or other heating systems
2. Housing design that harnesses natural breezes to cool the interior of the house during summer, reducing the need to rely on air-conditioning systems
3. Japanese cedar (*Cryptomeria japonica*); *sugi*

Plan for Fiscal 2008

1. Fusion of passive and active technologies to reduce environmental impact
2. Achievement of 70% usage rate of Japanese timber for principal structural members in Sumitomo Forestry houses
3. Enhancement of support for ultra long-lasting houses

Real Estate Business Headquarters

Property Development to Foster Safe & Comfortable Living for All Ages

Based on the three keywords of wellbeing, elderly care, and healthcare, we are developing the Shizuoka Aoi-no-Mori Project in Shizuoka Prefecture. A gymnasium and a nursing home with special care facilities were completed in fiscal 2007, and future plans call for construction of a medical clinic and a residential type home for the elderly. Heeding suggestions from local residents, part of the land for the project was donated to Shizuoka City for the development of a park. Some special characteristics of the project are interiors with generous utilization of wood and gardens with an abundance of greenery, which meet the corporate image of Sumitomo Forestry. Taking this project as a model, we plan to expand our elderly care business nationwide.

In addition, with a focus on safety, we are offering townscape-oriented spec homes in some 10 locations throughout Japan. Various projects are currently under construction, and even as we pursue our elderly care business, we are also promoting the housing development where multiple generations from children to the elderly can live comfortably and peacefully.

Meanwhile, Sun Step Co., Ltd., an affiliate engaged in the



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

management of rental housing, has begun efforts to open apartment buildings especially for students from overseas, who often experience difficulty in renting rooms. Going forward, we will be proceeding with property development projects that will be of benefit to society.

Plan for Fiscal 2008

1. Property development for people of all ages
2. Community development in newly created towns

Administrative Departments



Akira Ichikawa
Director and
Managing Executive
Officer
Director of the
Corporate Planning,
General
Administrative,
Personnel,
Information Systems
and Internal Audit
divisions

Response to the Internal Control Report System

We continue to encourage a corporate culture permeated by awareness of legal compliance on the part of each and every employee, and fiscal 2007 saw the formulation and distribution of the action statement "Our Values and Ideals." The Compliance Committee was also initiated, composed of cross-sectional membership inclusive of affiliate companies, and serving as an implementation team for the clear delineation of responsibility for all tasks. This structure will contribute to further improvement in the general level of compliance awareness.

In response to the Internal Control Report System launched in April 2008 by the Japanese government's Financial Services Agency, the Corporate Planning Division organized a task follow-up system so as to better identify risks. Greater clarity regarding work procedures and risks has also resulted in work-related improvements and increased efficiency.

In terms of public relations and investor relations, IR guidelines were standardized in September 2007 in support of group-wide transparency and clear legal disclosure. We are striving to implement uniform group-wide information dissemination and public relations activities, with the aim of fostering deeper understanding of Sumitomo Forestry on the part of the general public.

Plan for Fiscal 2008

1. Further enforcement of legal compliance
2. Effective dissemination of corporate stance



The Thrust of Corporate Social Responsibility at Sumitomo Forestry

During fiscal 2007 the Sumitomo Forestry Group reorganized its various corporate policies from a corporate social responsibility (CSR) perspective, formulating both the action statement “Our Values and Ideals” and a statement on CSR management philosophy entitled “Our Work and CSR.” Along with Sumitomo Forestry’s philosophy of sustainability, the concepts embodied in these statements are shared among all of our employees, and are intended to contribute to the realization of a sustainable society.

Sumitomo Forestry History and DNA

The history of Sumitomo Forestry dates back about 300 years. In 1691, the Sumitomo family set up an operation at the Besshi Copper Mine on Shikoku Island for the mining, smelting, and export of copper. By the beginning of the Meiji era (1868–1912), however, the combination of the effects of the sulfur dioxide released during the smelting process and large quantities of timber felled for use as fuel and building materials devastated the surrounding hills and mountains. With the resolve to return the mountains of Besshi to their natural state, making them once again wild and vigorous, Teigo Iba, the manager of the mine at the time, decided on a large-scale reforestation plan. To resolve the problem of smoke pollution being emitted from the copper smelter, he relocated operations to an uninhabited island. He also employed forestry experts and set out to plant more than one million Japanese cedar and cypress¹ trees each year.

This Sumitomo Spirit and the notion of *Kokudo Ho'on*² are fundamental to the businesses of the Sumitomo Forestry Group, and as such we have a strong record pursuing “sustainable forestry.” In utilizing timber in businesses related to every facet of residential life, the philosophy of “sustainability” and its origins in sustainable forestry have been assimilated into our business as Sumitomo Forestry DNA.

1. Japanese cypress (*Chamaecyparis obtusa*); *hinoki*
2. *Kokudo Ho'on* refers to Sumitomo Forestry’s expression of gratitude, in the form of fulfilling our responsibilities towards achieving sustainable development of the environment and society in general, for the use of nature’s resources in the conduct of our business.

“While benefiting Sumitomo itself, our business activities must at the same time promote the welfare of the country and of mankind in general.”

Teigo Iba, Second Director General of Sumitomo, January 1900 Source: *Yūō*

Rules Governing the “House of Sumitomo”

Our Business Principles

Article 1. Sumitomo shall achieve strength and prosperity by placing prime importance on integrity and sound management in the conduct of its business.

Article 2. Sumitomo shall manage its activities with foresight and flexibility in order to cope effectively with the changing times. Under no circumstances, however, shall it pursue easy gains or act imprudently.

CSR Management Approach

The Corporate Philosophy of the Sumitomo Forestry Group has evolved in tandem with a spirit of enterprise stretching back in a tradition of over three centuries, and can be summed up as utilizing timber to contribute to a prosperous society through all types of housing-related services. In order to realize this philosophy and to develop corporate value deserving of the trust of society, it is imperative to achieve a balance among the three CSR aspects of economic, social contribution, and environmental activities.

In this context, so that each and every employee can consider the significance of their own tasks, behavior, and interaction with society from a CSR perspective, as well as respond to the expectations of society, we have formulated a statement entitled “Our Work and CSR.” No matter how lofty the goals that we may establish, we cannot maintain the trust of society in the face of inappropriate behavior on the part of our executive officers or employees. It is for this reason that we must align ourselves in this most essential area. As a point of reference for group employees in considering what should be held most important in relation to their actions, we formulated the statement, “Our Values and Ideals.”

Corporate Philosophy

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

Action Guidelines

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



“Our Work and CSR”

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

Joy in Utilizing Sustainable Resources

1. Utilize Timber

Make available an appropriate and stable supply of sustainable forest resources while placing importance on biodiversity in order to generate new value that will benefit society.

2. Utilize the Forests

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

3. Utilize Traditions

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

Joy in Development

1. Nurture Families

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

2. Develop Homes

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

3. Foster Communities

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

Joy in Bringing People Together

1. Bring Employees Together

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

2. Bring Society Together

Carry out spirited communication with people in society and willingly assimilate

their ideas to be able to offer society what it really needs.

3. **Bring the World Together**

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

Stakeholder comment

I believe that constructing environmentally-friendly housing is at the very center of CSR in Sumitomo Forestry's main business. (Financial expert)

“Our Values and Ideals”

1. **Inspire emotion**

Great ideas are born when employees enjoy their work. Bringing together diverse individuals will generate a new power. Just as each individual tree makes an abundant forest, bringing together our individual strengths allows us to perform our work in a way that will inspire our customers.

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

2. **Blaze a trail to the future**

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

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

3. **Act with dignity**

We approach our work every day with pride and integrity. Our work gives us something to be proud of as citizens of the broader society. The trust that we have earned from society forms the basis of our work. We will behave with dignity, allowing Sumitomo's Business Spirit to guide all of our actions.

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

Stakeholder comment

Sumitomo Forestry should continue to engage in its business activities conscientiously, making the most of its technology and history, and do so with a sense of pride. (Customer)

Sumitomo Forestry Stakeholders

In order to meet society's needs, Sumitomo Forestry is pursuing its business activities while communicating closely with customers, employees, business partners, people from local communities, and all other stakeholders.



Integrating Stakeholder Opinions in CSR Management

As we look to further develop our CSR management, it is vital to understand the expectations that stakeholders have of Sumitomo Forestry. In fiscal 2007 we conducted a survey of our stakeholders, and the results led us to formulate the four material issues for Sumitomo Forestry to focus upon.

We will be prioritizing our efforts in line with these four issues, while continuing to integrate stakeholder opinions and working to promote CSR management in support of the realization of a sustainable society.

Stakeholder comment

- We would recommend that Sumitomo Forestry create a 'sustainable community index' based on its own unique standpoint. (NGO)
- I hope that Sumitomo Forestry will integrate the "Our Values and Ideals" notion into the fabric of the Group and make it a fundamental part of employee thinking. (Management consultant)



Sumitomo Forestry's Material Issues

Sumitomo Forestry's Material Issues

Providing Timber Products and Materials from Sustainable Forests



Goals for Fiscal 2007

Initiatives

Fiscal 2007 Results

Future Goals

Goals for Fiscal 2007

Division	Goals for Fiscal 2007
Group-wide ¹	Finish confirming legality of timber from all suppliers
Forest Management Division, Forestry & Environment Headquarters	Use 2,000m ³ /year (log basis) of certified timber from company-owned forests ²
Sumitomo Forestry Timberland Management	Acquire group certification to establish systems for confirming legal compliance
Sumitomo Forestry Crest	Use 8,000m ³ /month of Japanese cedar for plywood (Komatsushima Plant)
	Acquire SGEC separation and labeling certification ³
Toyo Plywood	Develop and launch building materials made of Sakhalin fir
	Commence examination of SGEC separation and labeling certification acquisition
Housing Business Headquarters	Begin use of certified timber for housing

1. Excludes some handled products
2. Supply to the Housing Business Headquarters
3. 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

Toward a Sustainable Business Model Using Plantation Timber

- ▼ Major Shift in Policy toward Greater Use of Plantation Timber
- ▼ Overcoming Issues Related to Plantation Timber
- ▼ Procuring Plantation Timber from Overseas
- ▼ Indonesia's Disappearing Natural Forests
- ▼ Promoting "Social Forestry" Together with Local Residents
- ▼ Establishing a Sustainable Business Model as a Pattern for Others

Major Shift in Policy toward Greater Use of Plantation Timber

The town of Probolinggo, located on the eastern side of Java, Indonesia, hosts a plant of Sumitomo Forestry Group affiliate [PT. Kutai Timber Indonesia \(KTI\)](#). Various types of processed wood products are manufactured there, including plywood, particle board, engineered wood and interior products, with annual output having reached 270,000m³.



KTI particle board plant

In August 2007, KTI initiated a new policy with respect to the procurement of raw materials, aiming at 100% plantation grown timber for raw materials in the near future. KTI has depended on natural forest grown timber for approximately 52% of raw materials to date. Year by year, it has become more difficult to procure natural forest timber in Indonesia, so in order to convert to a sustainable business model, a complete switch to plantation timber was deemed necessary.

Indonesia's Disappearing Natural Forests

Indonesia has been home to considerable illegal logging in the past, and this has resulted in the rapid depletion of natural forests. From around 2003, the Indonesian Ministry of Forestry, army and police have moved to reinforce efforts to combat illegal logging in an effort to stem further loss of natural forests. Additional bureaucratic procedures have affected the ability of companies that use natural forest timber, including KTI, to obtain a stable supply of legally compliant natural materials. Availability of natural forest timber fell further in 2005 due to an extremely wet rainy season, leading to prices doubling in 2006. Accordingly, in order to continue in the plywood business, a shift to plantation timber, which suffers less price fluctuation, was necessitated. Toshio Yasuda, President Director of KTI, notes that, "We need to ensure stable procurement of raw materials, while giving due consideration to global environmental issues. This was a major policy change for us, facilitating the survival of our plywood business."

Plantation timber has less impact on the ecosystem compared to the logging of natural forest timber, and a repeated cycle of planting and harvesting can be maintained into

the future. On the other hand, there are also various special issues associated with the utilization of plantation timber as raw material.

Overcoming Issues Related to Plantation Timber

The biggest problem in utilizing plantation timber for raw material is the maintenance of product quality. Plantation tree species are faster growing than natural forest trees, meaning that deformation in shape is more common, board surfaces tend not to be as smooth, and cracking occurs more easily during the drying process. As things stand currently, it is difficult if not impossible to expect the same level of visible quality as for natural forest timber. In response, KTI moved to manufacture new products using plantation timber as raw material, teaming up with the Sumitomo Forestry Tsukuba Research Institute to develop such products. KTI is actively explaining the difficulties in procuring natural forest timber to buyers as well as suggesting alternative use of plantation timber plywood to them.



Plantation timber (raw material) ready for processing



Mending dried plantation timber veneer

In the future, 70% of raw material needs will be supplied from plantations in Indonesia, with the remaining 30% coming from plantations in New Zealand and Papua New Guinea. In order to secure the required amounts of plantation timber on an ongoing basis, the Sumitomo Forestry Group is expanding plantation forest operations in these countries.

Promoting "Social Forestry" Together with Local Residents



KTI employees engaged in afforestation planning

Afforestation projects in Indonesia are pursued based on the concept of "social forestry," in the form of public forestry companies and agricultural public companies together with local residents. KTI is distributing seedlings free of charge to local residents and teaching them how to care for the trees for the next five to seven years. KTI buys back the timber at harvesting, serving to boost the local

residents' living standards. This system was initiated in 2000, and has gradually expanded, with some 5,000 people having been contracted so far to plant



Trees that have grown under the care of local residents

approximately 7.7 million trees. The first trees planted in this program are now being harvested, with the resulting raw materials being used for production by KTI. Agus Setiawan, who is in charge of KTI's afforestation program, enthusiastically explains that, "Although there are issues with the tree survival rate, due to leaving most of the forestry management to the local

residents, we feel that it is a highly significant project in the sense of simultaneously securing a stable supply of raw materials and supporting the economic independence of the local people. We are planning on further expanding the program through close communication with the local communities."

In addition, the company is also making efforts to obtain forestry certification. In March 2007, based on support from KTI, a group of 259 farmers launched a cooperative aimed at the management of Forest Stewardship Council (FSC) certified forests. A total of 152 hectares was initially planted, which is expected to yield 3,000m³ of plantation timber after five years. Procedures to obtain FSC forestry certification are currently being undertaken.

Procuring Plantation Timber from Overseas

Sustainable afforestation projects are also being pursued in Papua New Guinea and New Zealand in order to secure supplies of raw materials.

In Papua New Guinea, Open Bay Timber Ltd. (a subsidiary of Kowa Lumber Co., Ltd., which is in turn a Sumitomo Forestry Group company) has been engaged in large-scale afforestation projects that take the environment into consideration for more than 20 years. These projects serve to regenerate Papua New Guinea's forest resources, provide employment opportunities which contribute to the local economy, and as such have been evaluated highly by the government of Papua New Guinea.



NPIL-owned forest

Some 3,500 hectares of plantation forest have been developed in New Zealand by Sumitomo Forestry Group company Nelson Pine Industries Ltd. (NPIL), in 30 specific blocks. Each year, one of these blocks is harvested and replanted. Here, too, sustainable forest management is being implemented.

Establishing a Sustainable Business Model as a Pattern for Others

KTI's business is inextricably connected with forest resources. Without forests, the company's business could not continue, and KTI would be unable to realize its social

mission. Demand is growing for products that use raw materials in harmony with the environment and society, and the shift to plantation timber is one that we believe can respond to the calls that we are hearing from both the market and society at large.

We will continue to explore mechanisms for systematic and stable procurement of plantation timber, while developing and supplying high quality products made from such timber, thus establishing a sustainable business model that other companies can also employ, and contributing to both the conservation of forest resources and the development of society.

Stakeholder comment

- We want to see globally advanced business models, oriented towards the realization of sustainable forest utilization. (NGO)
- Forest issues have a direct impact on native peoples and other local communities. We hope that Sumitomo Forestry takes into consideration social factors when conducting operations such as purchasing timber, not just environmental factors. (NGO)

Seeking Timber Procurement from Sustainable Forests

In pursuit of timber procurement from sustainable forests, Sumitomo Forestry formulated the Timber Procurement Philosophy and Policy in June 2007. The Japanese government is also calling for the procurement of timber which is legally compliant and certified as coming from forests under sustainable management, and for the creation of self-administered action criteria.



Discussion at the Timber Procurement Examination Subcommittee

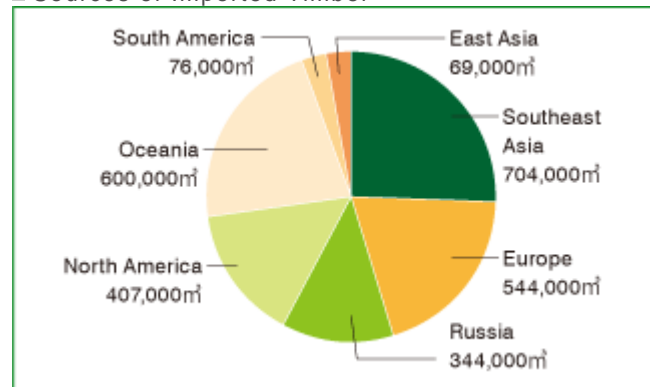
Sumitomo Forestry periodically convenes the Timber Procurement Examination Subcommittee, which reviews the legal compliance of timber handled, based on documentation such as logging permits submitted by logging companies.

At each division of Sumitomo Forestry and its Group companies, we are also working to establish systems to confirm legal compliance as well as implementing initiatives to promote usage of certified timber and Japanese timber, thereby promoting the procurement of sustainable timber resources.

Survey of Suppliers to Support 100% Handling of Legally Compliant Timber

Sumitomo Forestry is proceeding with confirmation of legal compliance in order to prevent the handling of illegally-logged timber, and has completed an investigation of all 280 overseas suppliers with whom we deal. The results of this investigation were considered by the Timber Procurement Examination Subcommittee, and 200 of these companies were confirmed as being compliant. The remaining 80 are being further scrutinized due to incomplete confirmation of legal systems in the respective suppliers' countries, and missing information in submitted documentation.

■ Sources of Imported Timber



There are a number of challenges in working towards this objective, including cases where the legal compliance cannot be discerned from a paper trail that stretches from logging permits to importation, and other cases in which traceability is difficult due to complicated distribution routes where, for example, suppliers import logs from a third country before processing. Sumitomo Forestry plans to work with NGOs and relevant authorities to resolve these issues in an effort to achieve our goal of 100% handling of legally compliant timber.

In addition, to prevent use of illegally-logged timber, Sumitomo Forestry Landscaping Co., Ltd. updated its list in fiscal 2007 of tree species that have been prohibited for use in timber products.

Establishment of Systems for Confirmation of Legal Compliance

In October 2007, Sumitomo Forestry Timberland Management Co., Ltd., which concentrates on distribution of Japanese timber, obtained operator certification from the All Japan Confederation of Lumber Markets for its Shikoku Branch and Tokyo Branch. New locations established in fiscal 2008 are aiming to acquire operator certification by the end of the fiscal year. Other locations received local operator certification during fiscal 2006. These certifications allow Sumitomo Forestry Timberland Management to issue compliance certificates for all timber handled.

Promotion of Use of Certified Timber

· Maintaining Certification of Timber and Continual Improvements

In fiscal 2006, Sumitomo Forestry acquired Sustainable Green Ecosystem Council (SGEC)* forestry certification for all company-owned forests. In order to maintain this certification and further improve sustainable forest management, the Riparian Forest Management Manual was created in fiscal 2007. In addition, so as to grasp the impact our forestry management has on biodiversity, indices for monitoring birds and mammals have been formulated, and these are to be successively implemented from fiscal 2008, starting with company-owned forests in Shikoku.

* 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.

· Expanded Shipments of Certified Timber from Company-Owned Forests

In order to promote the utilization of timber from certified forests, the Forest Management Division of the Forestry & Environment Headquarters established the goal of using 2,000m³ each year (log conversion) of certified timber from company-owned forests* during fiscal 2007; however, this goal was not achieved. Fiscal 2008 saw the commencement of timber supply to Sumitomo Forestry's Housing Business Headquarters.



* Supply to the Housing Business Headquarters

· Acquisition of SGEC Separation and Labeling Certification* by Plants in Japan

Sumitomo Forestry Crest Co., Ltd. is engaged in manufacturing and processing of housing materials made from wood and obtained SGEC separation and labeling certification (CoC certification) in December 2007. Plans call for the use of certified timber for interior materials and plywood.

Another group company, Toyo Plywood Co., Ltd., obtained SGEC separation and labeling certification in March 2008, achieving its goal for fiscal 2007.

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

- Promoting Certified Timber for Housing

The Housing Business Headquarters established an objective of initiating the use of certified timber in fiscal 2007. SGEC separation and labeling certification was then acquired both internally and at 30 designated precut production facilities around the country. In Hokkaido, the Housing Business Headquarters now anticipates being able to procure certified timber as required for the standard studs of all housing units to be sold, with the accompanying launch in February 2008 of homes that employ such certified timber.

In areas other than Hokkaido, the utilization of certified timber for specific brand products is an issue for future consideration.

■ Status of Major Forestry Certification Acquisition

	Certifying Bodies	Types of Certification	Certification Acquisition Dates
Timber & Building Materials Business Headquarters	FSC	CoC certification	Sep. 2006
Company-owned forests in Japan	SGEC	Forestry certification	Sep. 2006
Sumitomo Forestry Timberland Management	SGEC	Separation and labeling certification	Sep. 2006
Housing Business Headquarters	SGEC	Separation and labeling certification	Oct. 2007
Sumitomo Forestry Crest	SGEC	Separation and labeling certification	Dec. 2007
Toyo Plywood	SGEC	Separation and labeling certification	Mar. 2008

Promoting Utilization of Japanese Timber

The Housing Business Headquarters has also set itself the goal of reaching a 70% ratio of Japanese timber for principal structural members by the end of fiscal 2008, and is currently working to achieve this ratio. The figure for fiscal 2007 was approximately 51%, and preparations are underway to change to Japanese timber for floor panels, sleepers, etc., in order to reach the 70% target.

The use of Japanese-produced cedar for plywood is being pursued by Sumitomo Forestry Crest. Compared to the goal for fiscal 2007 of using 8,000m³ per month of cedar logs for plywood (Komatsushima Plant), 7,448m³ per month was achieved, corresponding to approximately 53% of the raw materials used. The Komatsushima Plant is now reinforcing production systems to further increase the amount of Japanese-produced cedar that can be used.

At Toyo Plywood Co., Ltd., in order to encourage the use of Japanese-produced Sakhalin fir, a goal was formulated for fiscal 2007 to develop and market Sakhalin fir timber building materials, and as a result flooring, wainscoting, counters, interior doors and closet fittings have been developed. The next step will be to integrate certified Sakhalin fir timber.

Stakeholder comment

- Timber is a renewable resource, and can be used in sustainable ways. I hope Sumitomo Forestry will help build the foundation for a sustainable society by establishing methods for the sustainable utilization of resources, and thoroughly demonstrating these methods to the world at large. (Environmental CSR expert)
- I hope that Sumitomo Forestry will lead the industry as one of the major forestland owners in Japan, engaging in sustainable forest management that will protect the country's forests, including the distribution system for a safe, reliable and stable supply of Japanese timber. (Architect)

Future Goals

Division	Target Fiscal Year	Future Goals
Group-wide ¹	2008	Formulate standards for sustainable forests
	2009	Confirm legality of all timber handled
Sumitomo Forestry Timberland Management	2010	Handle 1,000,000m ³ of Japanese timber annually ²
Building Materials Division, Timber & Building Materials Business Headquarters	2008	Finish survey of corporate initiatives of all suppliers
	2009	Handle only legal imported solid wood building materials
Housing Business Headquarters	2008	Raise usage rate of Japanese timber for principal structural members to 70%

1. Excludes some handled products
2. Includes timber supplied to the Housing Business Headquarters

Providing Environmentally-Friendly Homes



Goals for Fiscal 2007

Initiatives

Fiscal 2007 Results

Future Goals

Goals for Fiscal 2007

- Increase percentage of Japanese timber used in housing
- Increase number of environmentally-symbiotic homes through the *Ryouonbou* design concept

Initiatives

Realizing Environmentally-Friendly "Local Production for Local Consumption" Type Housing

- ▼ Building Homes from Hokkaido-Grown Wood
- ▼ Capturing Sunlight for a Warmer House
- ▼ Preparation for Acquiring "Hokkaido Wood-Constructed House" Certification
- ▼ Working to Expand Environmentally-Friendly Housing

Building Homes from Hokkaido-Grown Wood

In May 2008, a home employing timber harvested in Hokkaido was under construction amidst the vibrant green of spring enveloping the city of Sapporo. The owner is involved in forest preservation and timber utilization efforts in Hokkaido as part of his work, and had previously decided that he wanted to use Hokkaido-grown timber when he had a home built. He recalled that, "After visiting a number of different homebuilders, I felt that Sumitomo Forestry was the one that could actually create the kind of house that I wanted." He notes that two of the deciding factors for him in choosing Sumitomo Forestry were that the principal structural members of Sumitomo Forestry Home houses are of Hokkaido-produced timber, and that the company is actively engaged in the sustainable management of a forest it owns in Monbetsu.



The residence under construction

The main posts as well as the wall and floor panels of the house are made of Japanese larch, while the beams are of Sakhalin fir and Japanese larch. All standard studs are of SGEC certified Hokkaido-grown timber. The homeowner talks about some of the advantages of using Hokkaido timber: "Using Hokkaido-grown timber harvested from properly managed forests promotes the cycle of cutting and replanting, which both invigorates the forestry industry and helps preserve Hokkaido forests. At the same time, the energy needed for transport is less than for imported timber, and that helps reduce the CO₂ emissions that are causing global warming."



All standard studs feature the SGEC certification symbol, demonstrating the use of certified timber

The interior design is also special. "We recently had our second child, and I want the kids to grow up with an appreciation for wood. So we've decided to use solid maple for the floors, which has a really nice feel to it, and oak for the partition in the kitchen, and we are also planning to use wood finishes in key places in the interior."

Preparation for Acquiring "Hokkaido Wood-Constructed House" Certification



The homeowner talks about "Hokkaido Wood-Constructed House" certification with Hiroki Miyata, a sales representative from the Sapporo Branch (front, left), production control manager Masahiro Iguchi (rear, left) and designer Takahiro Kumaoka (front, right)

As construction progressed, the homeowner decided that he wanted to obtain "Hokkaido Wood-Constructed House" certification* for his new home. This certification requires proof of the utilization of Hokkaido-grown, legally harvested timber, and Japan Agricultural Standards (JAS) approved, high-quality structural timber. SGEC certification of the timber used by Sumitomo Forestry means that the timber origin and harvesting conditions are known, and this makes it quite straightforward to demonstrate that the timber was Hokkaido-grown and legally cut, as per the requirements. In April 2008, the house became the 11th residential unit in Hokkaido to be certified as a

"Hokkaido Wood-Constructed House."

* System recognized by the Hokkaido Timber Industry Cooperative Federation. Certification is given to houses with a certain minimum usage (0.1m³ for every 1m² of floor space) of timber which is certified as being of Hokkaido origin and of being legally harvested.

Capturing Sunlight for a Warmer House

In addition to the use of Hokkaido-grown timber, the house also incorporates elements for environmentally-considerate living. According to the lead designer, Takahiro Kumaoka, "The larger windows on the southern side of the house are intended to let in

as much sunlight as possible. That's important in Hokkaido, where the winters are fairly harsh. Even in Hokkaido, though, the summers are getting warmer, and we wanted to be able to let a breeze flow through the house. At Sumitomo Forestry we use the *Ryouonbou* natural heating and cooling design approach to avoid over-reliance on air-conditioning and heating, and this was employed in this house as well."

Working to Expand Environmentally-Friendly Housing

Hiroki Miyata, a Sumitomo Forestry sales representative, is enthusiastic about expanding environmentally-friendly housing. "After building this residence, we decided that all homes built by Sumitomo Forestry in Hokkaido should employ 100% certified timber for the standard studs. As a housing builder, it is our responsibility to inform customers of how using certified timber can help preserve forests, and to help them gain a better understanding of forests and the environment in general."



Homeowner (right), Masahiro Iguchi, Manager, Production Control Group (left)

Stakeholder comment

We want to see the realization of the sustainable management of company-owned forests, and the stable supply of Japanese timber. We would also like to see the establishment of systems for procurement and utilization of local materials. (NGO)

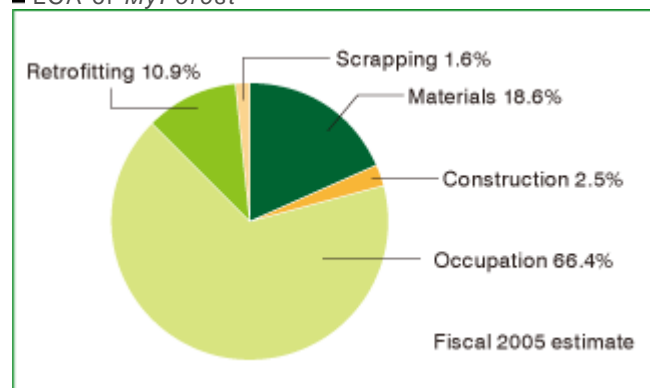
Fiscal 2007 Results

Life Cycle Assessment (LCA) for Housing

Considering the environmental impact of houses through their entire lifecycle, the greatest impact takes the form of energy consumption while the house is occupied, accounting for up to 70-80% of the total energy expended. Thus, it is important to leverage design and harness natural energy in order to limit energy consumption during the occupation stage, and as such Sumitomo Forestry

recommends the *Ryouonbou* design concept, solar power systems, and various other measures to reduce the environmental impact of housing.

■ LCA of MyForest

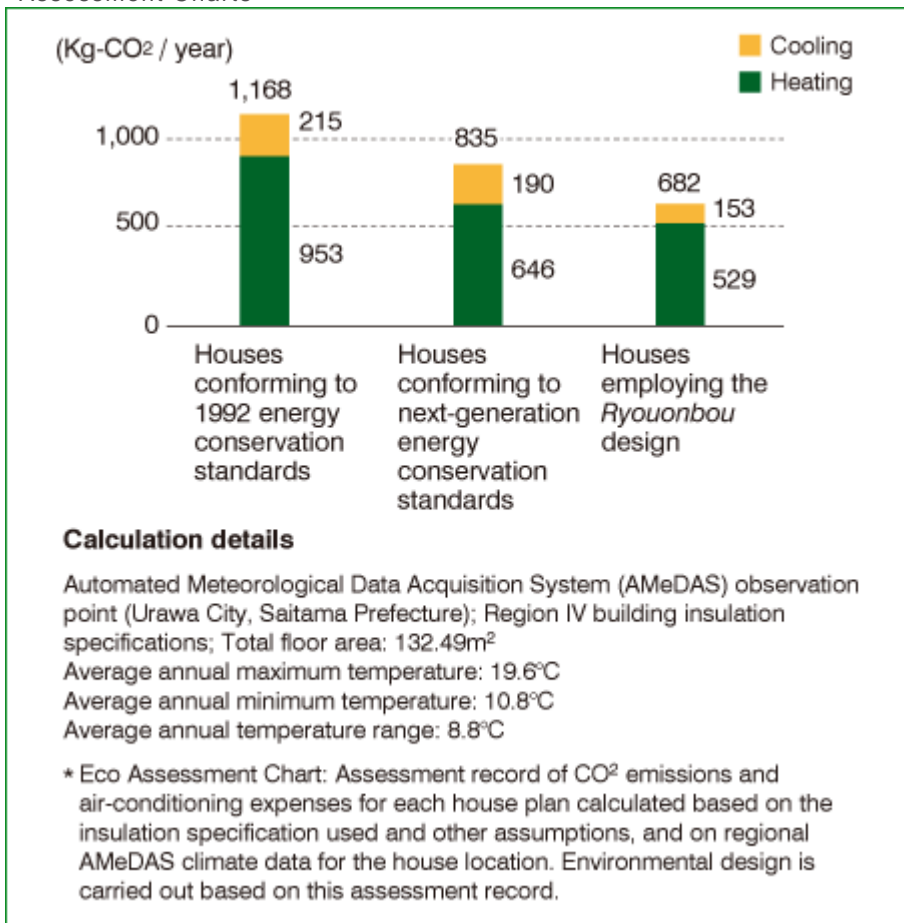


Effectiveness of *Ryouonbou* in Reducing Environmental Impact

The *Ryouonbou* design concept draws upon the wisdom and techniques used in traditional Japanese houses and skillfully leverages the forces of nature for comfortable living. The *Kaze no Sekkei* design blocks out strong sunlight in summer and channels airflow through the house. For winter, the *Taiyo no Sekkei* design is employed to maximize sunlight and retain heat indoors. From February 2008, the new *Midori no Sekkei* design has been introduced, and utilizes garden vegetation to help shade the house from the sun and function as a natural temperature control system.

According to design calculations for a hermetically sound and well insulated house designed by Sumitomo Forestry for the Kanto region with a total floor area of 147m², a Sumitomo Forestry house incorporating the *Ryouonbou* concept generates approximately 20% less CO₂ emissions during the occupation stage than a regular house conforming to next-generation energy conservation standards.

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



Utilization of Solar Energy

August 2007 saw the launch of the *MyForest—Solabo* brand, which incorporates a solar power system as a standard feature. Compared to preceding home models without a solar power system, the *Solabo* brand reduces annual CO₂ emissions in houses at the occupation stage by up to 75%*.

Sumitomo Forestry has also jointly developed a new solar hot water system to make efficient use of solar energy. 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.

* 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

Initiatives for Environmentally-Symbiotic Homes

• Launch of the *MyForest—Taiju* Brand

With interest growing in reducing the environmental impact of housing, Sumitomo Forestry has launched the new *MyForest—Taiju* brand, integrating various environmental technologies, and featuring 100% use of Japanese timber for principal structural members. In conjunction with the *Ryouonbou* design concept, *MyForest—Taiju* homes reduce energy consumption during occupancy through measures such as employing a high efficiency water heater and insulated bathtub, and ultra water-saving toilets. Furthermore, the finishes on the outer surfaces and inner walls are made primarily from naturally-based building materials.



MyForest—Taiju

High asset value, sustainable, environmentally-considerate housing is being pursued with an eye to "comfortable living" and "environmental consideration."

Increasing Percentage of Japanese Timber Used in Housing

Sumitomo Forestry is also promoting increased usage of Japanese timber in all of its products.

P34: [Promoting Utilization of Japanese Timber](#)

Stakeholder comment

It's better to build homes that last a long time, thereby treating resources with respect and avoiding large amounts of waste associated with tearing down and rebuilding houses.

One area for future research should be designing housing that emphasizes long-lasting, durable frames, but interiors without too many rooms and that can be readily remodeled to accommodate changing occupant needs.

(Management-related CSR expert)

Future Goals

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

Promoting Global Warming Countermeasures through Our Business



Goals for Fiscal 2007

Initiatives

Fiscal 2007 Results

Future Goals

Goals for Fiscal 2007

Fiscal 2010 CO₂ emissions (direct emissions), compared to fiscal 2006 levels

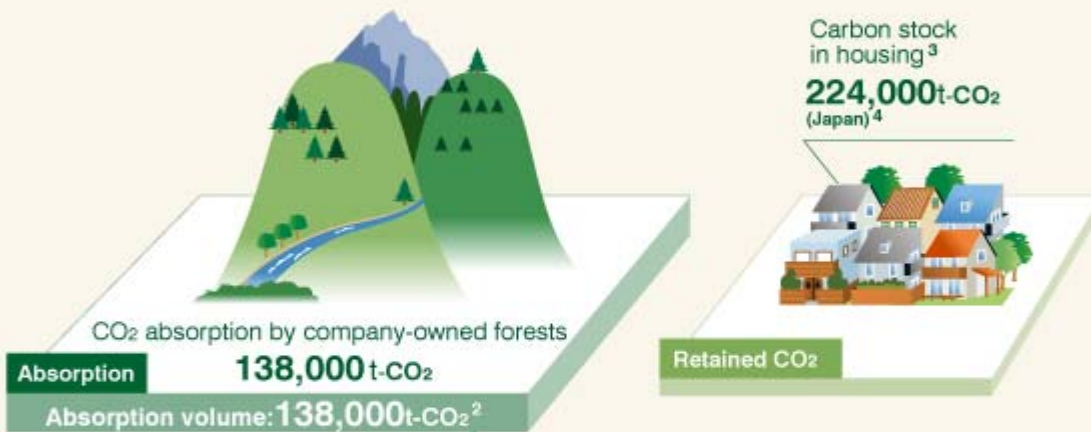
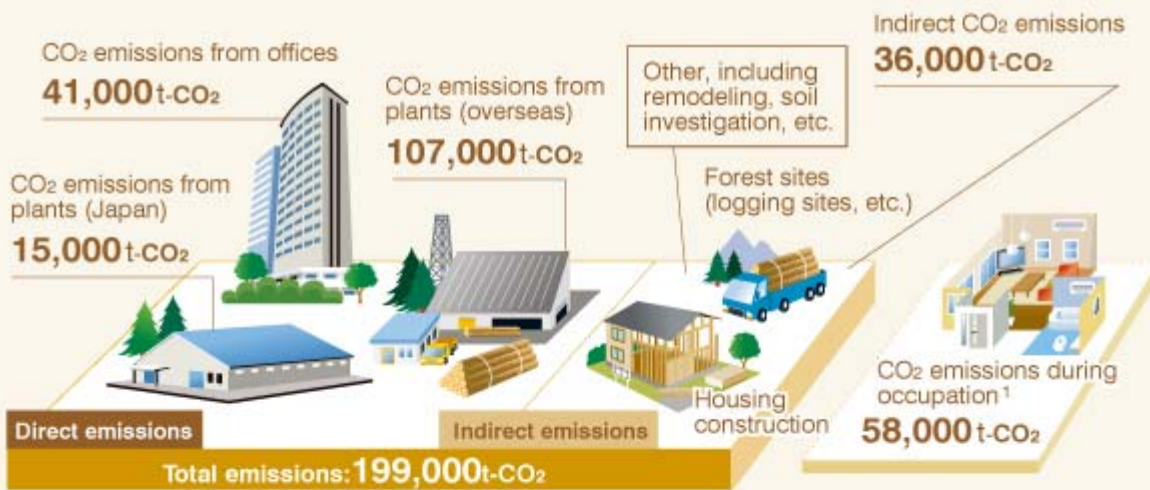
- Offices: 12% reduction in total emissions
- Plants (Japan): 5% reduction per sales unit
- Plants (overseas): 20% reduction per sales unit

Sumitomo Forestry has revised its reduction target for CO₂ emissions per sales unit for the entire Group to 6% less than the fiscal 2004 level by the end of fiscal 2010

Initiatives

CO₂ Emissions, Absorption and Sequestration by the Sumitomo Forestry Group

Along with reducing CO₂ emissions from our plants and offices, we are also offering homes that serve to reduce CO₂ emissions during the occupation stage. Furthermore, proper management of our forests is also helping to prevent global warming as the forests absorb and retain CO₂.



1. Determined by estimating the annual CO₂ emissions of a hermetically sound and well insulated house designed by Sumitomo Forestry for the Kanto region with a total floor area of 147m², and multiplying that figure by the number of completed houses for fiscal 2007
2. CO₂ absorption was calculated based on the Report on Japan's Supplementary Information on Land Use, Land Use Change and Forestry (LULUCF) Activities under Article 3, Paragraphs 3 and 4 of the Kyoto Protocol
3. Carbon stock: CO₂ retained in the atmosphere, forests, oceans, etc.
4. Carbon stock based on the amount of timber used in housing construction for fiscal 2007
5. Carbon stock at the beginning of the fiscal year

Trees in forests owned by Sumitomo Forestry absorb CO₂ from the atmosphere and store it as carbon. The carbon stock at the beginning of fiscal 2007 was equivalent to 9.541 million t-CO₂.

Sumitomo Forestry observes a philosophy of sustainable forestry and never harvests a volume exceeding forest growth, which means the total growing stock of company-owned forests is always increasing, as is the carbon stock. Forests are also replanted after harvesting, ensuring there is a foundation for future CO₂ absorption and sequestration.

Forests are better at absorbing CO₂ the younger they are and that ability gradually wanes as they age. To make the most of forests and wooden houses, or timber products, as two forms of carbon stock, trees must be harvested at the right age with new forests properly raised in their place, while the felled trees must be used in wooden houses so the carbon is retained.

Correction of Figure Regarding CO₂ Absorption by Company-Owned Forests in Japan in the *Environmental and Social Report 2007*

An inaccurate figure was released in our *Environmental and Social Report 2007* regarding the volume of CO₂ absorbed by company-owned forests in Japan. We have corrected the error and would like to apologize for the oversight. The fiscal 2006 figure for CO₂ absorption should have read 170,647t-CO₂. The calculation error was due to a failure to subtract the volume harvested in fiscal 2006 before calculating the annual growth of company-owned forests, which is the base value for CO₂ absorption.

Sumitomo Forestry's Global Warming Countermeasures

Direct emissions of CO₂ from Sumitomo Forestry Group offices and plants in Japan total some 56,000 tons per year, with an additional 107,000 tons of direct emissions associated with overseas Group operations. Counting 36,000 tons in indirect emissions linked to on-site construction of houses and forestry site operations, our total CO₂ emissions come to about 200,000 tons annually. On the other hand, proper management of the 40,000 hectares of company-owned forests in Japan plays an important role in CO₂ absorption.

In order to establish practical reduction objectives for direct emissions of CO₂, numerical targets were reviewed in fiscal 2007, and CO₂ emissions reduction activities will be bolstered in advance of the fiscal 2010 target. At the same time, we will work hard to reduce the CO₂ emissions associated with the occupation stage of Sumitomo Forestry Home houses.

Sumitomo Forestry is contributing to the prevention of global warming, approaching the issue in terms of both CO₂ emissions reductions as well as absorption and retention of CO₂.



Hidekazu Tanaka
Environmental
Management Division
Forestry &
Environment
Headquarters

Stakeholder comment

- We live in a world where consideration of the environment is having an ever increasing direct impact on the business performance of a company. Given this, I believe such consideration deserves greater attention. (Investor)
- I'm hoping to see Sumitomo Forestry, given the leadership role you have in the industry, exercise that leadership by striving to be the No. 1 environmentally-considerate firm. (Business partner)

Reductions in Direct Emissions from Plants and Offices

• Operation of Wood Biomass Power Plant at RPI

At PT. Rimba Partikel Indonesia (RPI), the company's 4MW biomass power plant using wood waste and sawdust has received certification as a Clean Development Mechanism (CDM) project by the United Nations' CDM Executive Board. By switching from conventional power generation using diesel to generation using wood biomass, this project is expected to reduce CO₂ emissions by 15,000 tons annually.



Wood biomass power generation facility which began operation in March 2008

• Efforts to Reduce CO₂ Emissions by Non-Production Facilities

In February 2008 the Sumitomo Forestry Group decided to reduce CO₂ emissions caused by company vehicles by limiting new vehicle leasing to those vehicles that meet its designated fuel economy standards, while vehicles currently under lease agreements are to be changed over to ones meeting the new standards at the next contract renewal. Some 2,700 leased vehicles are currently being used, and conversion to more fuel-efficient models is calculated to yield an annual CO₂ emissions reduction of 1,278 tons.

CO₂ Emissions Reduction during Occupation

P39: [Effectiveness of Ryouonbou in Reducing Environmental Impact](#)

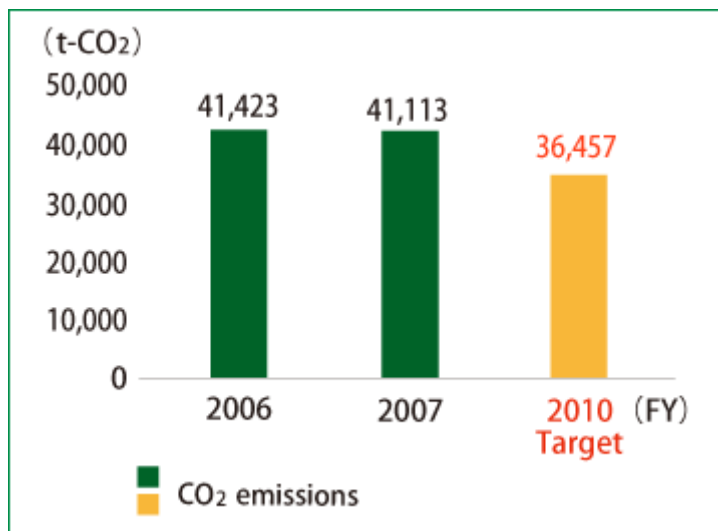
Absorption by Forests

Sumitomo Forestry contributes to the conservation of land, cultivation of water resources, CO₂ absorption and biodiversity preservation through proper management of a total of 40,567 hectares of company-owned forestland in Japan (about one thousandth of Japan's landmass). As a result of these efforts, CO₂ absorption by company-owned forests amounted to 138,000 tons in fiscal 2007.

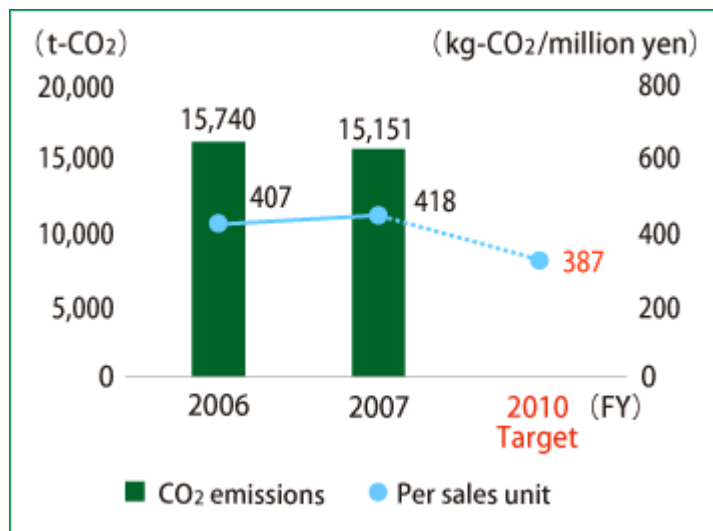
We are also promoting afforestation overseas, with approximately 3,200 hectares planted during fiscal 2007. CO₂ absorption is currently being measured.

Trend in CO₂ Emissions (Direct Emissions)

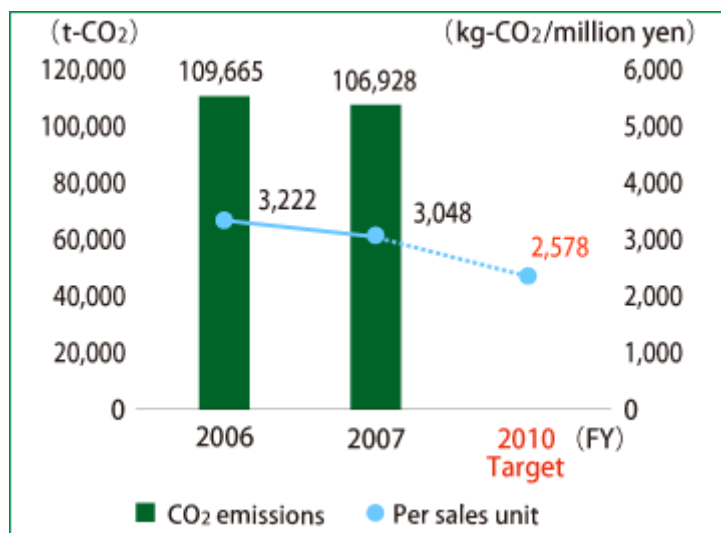
Offices



Plants (Japan)



Plants (overseas)



Stakeholder comment

I was really struck by the *Ryouonbou* concept and its practicality. After all, it's said that we have to reduce greenhouse gas emissions by 80% over the next several decades. What I'd like to see is a revolutionary proposal to reduce CO₂ emissions. (NGO)

Future Goals

- Reinforce concrete activities from fiscal 2008 to achieve reduction targets
- Restrict total CO₂ emissions in Japan
- Reduce CO₂ emissions from homes during the occupation stage
- Review the total and long-term CO₂ emissions reduction targets



Third Party Evaluation

We asked Toshihiko Goto, Chief Executive of Sustainability Forum Japan for his comments on this report.



Toshihiko Goto
Chief Executive
Sustainability Forum
Japan

This year saw a major shift in terms of editorial policy, with expanded content on Sumitomo Forestry's website and a focus on Material Issues. It would appear that the previous emphasis on all-inclusiveness in reports by many companies is giving way to a new stage, and in this regard I believe Sumitomo Forestry's decision to make such a shift is very timely. Deciding what is important can be described in specialist terms as

the application of materiality principles, and, as this trend has just begun, various approaches are being tried. As such, it was good to see the selection of candidate tasks, gathering of views of stakeholders, and examination of specific business strategy perspectives. I understand that "promoting family-centered employee lifestyles" was one of the Material Issues that the management was strongly supportive of. Industry observers are saying that intangible assets will comprise an increasingly large proportion of corporate value in the future, and, since the value of human capital is a major element of these assets, I applaud the decision to focus on the issue of employees' families. The establishment of a forum for open discussion between the president and junior employees is also a good move. In a separate environmental survey that I helped to conduct, the person with whom junior employees wanted most to be able to engage in dialogue was the company president, much more so than with the vice-president.

I was able to tour a redevelopment project in Shizuoka on the site of a decommissioned plant, and I was impressed with the garden vegetation and property development concepts. Clearly, Sumitomo Forestry is one step ahead of the competition. However, this was something that I learned from actually talking with employees, so it seems to me that despite "providing environmentally-friendly homes" being named as a Material Issue, not enough is being done to utilize this in terms of corporate branding. This is something of a lost opportunity. I toured the recently relocated Shizuoka Plant of Sumitomo Forestry Crest Co., Ltd., and while the company offers a wide range of environmentally oriented equipment, what was actually more impressive was the lively manner in which the staff were engaged in their work. It would seem to me that resourcefulness in business operations as well as in investment is an indispensable key for significant reductions in environmental impact in the future. In that sense, the presentation of various efforts in the web version of this report is an excellent step.

Response to climate change took a dramatic turn with the adoption of the Bali Action Plan in December 2007. Thus, while the selection of Material Issues and the raising of various items and objectives for consistent ongoing efforts are certainly praiseworthy, still more needs to be done. This major shift in response to climate change should be taken as a huge business opportunity, and I would very much like to see a revolutionary medium to long-term plan based on the situation envisioned for 2050, including cuts in total greenhouse gas emissions and the preservation of biodiversity. The year 2050 may seem like a long way off, but, assuming a retirement age of 65 in Japan, that is the year when today's university graduates will be retiring. Viewed differently, the Bali Action Plan also declares the initiation of solutions to the "North-South Divide." The efforts of Sumitomo Forestry's Timber & Building Materials Business Headquarters and Overseas Business Headquarters are directly related to this. I believe that approaches such as "social forestry" are truly wonderful, but it may also be necessary to

reconsider such efforts in light of the Bali Action Plan and from a CSR perspective to examine whether these efforts are paying the company and strategically serving the corporate brand.

Afforestation, however, does not necessarily lead to biodiversity. Although some biodiversity efforts are noted, it would be better if these were more visible, particularly overseas. Nagoya has now been selected as the 2010 venue for the 10th meeting of the Conference of the Parties (COP 10) to the Convention on Biological Diversity, and I have heard that one of the themes will be private sector initiatives. I hope that Sumitomo Forestry, as a leader in this area, will be able to inform the world of its policies for contributing to and the strengthening of ecosystem services, as well as efforts aimed at conservation-promoting and sustainable utilization together with fair and equitable allocation of these ecosystem services to all members of society.



Tour of the Shizuoka Plant of Sumitomo Forestry Crest Co., Ltd.

Reply to Third Party Evaluation

We very much appreciate these constructive comments. During the current fiscal year, we have sought out the views of various stakeholders, including CSR specialists, environmental NGOs and business partners, seeking to clarify the tasks that deserve priority in order to realize a sustainable society, and centering our report on the content of these efforts. As we move forward, we will be focusing on the importance of having each and every one of our employees being aware of these tasks in order to promote CSR oriented management. We will be further enhancing both internal and external communication in the future, aiming for appropriate and transparent information disclosure that is easy to understand for readers.

Eita Muto
General Manager, General Administrative Division