

Sustainability

This Annual Report provides, in digest form, a description of some of Sumitomo Forestry Group's key activities with regard to social responsibility. For more information on these activities and related performance data, please refer to the CSR report on our website.

Sumitomo Forest Group's website  <http://sfc.jp/english/>

Promoting Sustainable Businesses

The corporate philosophy of Sumitomo Forestry Group is to utilize timber as a renewable, healthy, and environmentally friendly natural resource, and contribute to a prosperous society through all types of housing-related services. In order to realize this philosophy, we are implementing sustainable forest management, promoting the use of timber from certified forests, plantation forests and domestic timber, and providing homes with low-environmental impact. We will continue to implement sustainable initiatives in all our business fields in order to contribute to addressing issues confronting the global environment and society.

To maximize the capabilities of our human resources, our most valuable corporate resource, we are also proactive in recognizing the diversity of our individual employees and in creating an open and inclusive corporate culture.



Company-owned Forest (Shikoku)

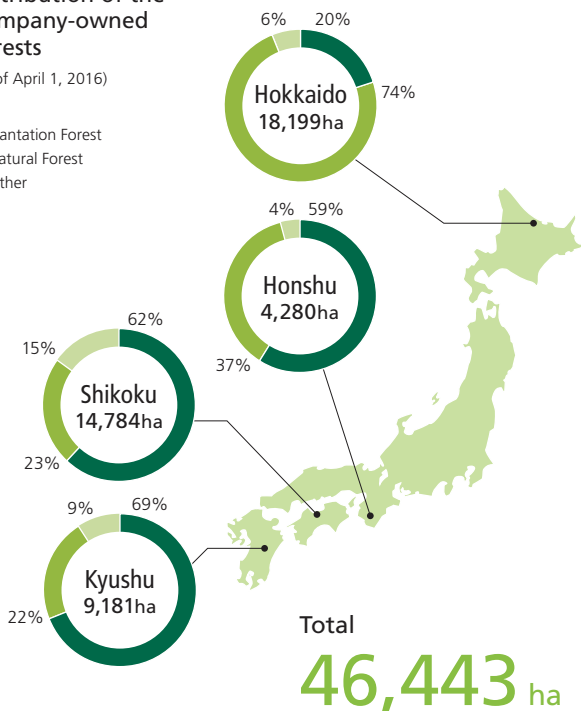
Continuing to Procure Timber and Resources with Respect for Sustainability and Biodiversity

The Sumitomo Forestry Group promotes eco-friendly, sustainable forest management in Japan and overseas to preserve the diverse functions of forests in serving the public good, while enabling the perpetual use of timber resources. Furthermore, given the increasing diversity and sophistication of society's expectations regarding procurement, and based on our Timber Procurement Policy as revised in July, 2015, we are promoting the procurement of timber from verifiably legal and appropriately managed forests. Increasingly, we are also handling timber from certified forests and plantation forests, as well as domestic timber.

Distribution of the Company-owned Forests

(As of April 1, 2016)

- Plantation Forest
- Natural Forest
- Other



Managing Company-owned Forests to Maintain and Expand Timber Resources

Forests occupy about 70% of Japan's total land mass, making it one of the world's leading forest powers. The Group owns a total of 46,443 hectares of forest in Japan as of April 1, 2016, corresponding to about 1/900th of the land area of Japan. These vast Company-owned forests are managed appropriately based on our forest management plan, which is reformulated every five years.

Our Company-owned forests in Japan are divided into two categories: "economic forests" with timber production prioritized and "environmental forests" where environmental protection is the main priority. In order to confirm our forests are being appropriately managed, including as regards maintaining biodiversity, in 2006 we acquired certification from Japan's Sustainable Green Ecosystem Council (SGEC)*1 for all Sumitomo Forestry-owned forests*2. Part of our forestry practice involves taking into account associated concerns such as ecosystems to maintain and expand forestry resources, so we are thinning forests where appropriate.

Making use of our knowhow developed through management of Company-owned forests, we also provide forestry management consulting services as regards maintaining and expanding timber resources.

*1. Japan's own forestry certification system through which forest management is verified as sustainable by third parties. From July 2016, this has been mutually recognized under the Programme for the Endorsement of Forest Certification, an international forestry certification system.

*2. Excludes the land held under lease by Kawanokita Development Co., Ltd., a Group company, which manages a golf course.

Area of Plantation Forestry Owned and Managed Overseas

(as of June 30, 2016)

Indonesia

Approx. 160,000 ha

Papua New Guinea

Approx. 31,000 ha

New Zealand

Approx. 36,000 ha

Sustainable Plantation Forestry Overseas

Overseas, in Indonesia and Papua New Guinea, the Group is also conducting industrial plantation forestry to supply plantation timber as a raw material for wood building materials and wood chip, and conducting environmental plantation forestry, including planting trees with the goal of environmental preservation. Additionally, with our 2016 purchase of timberland assets in New Zealand, the group added 30,000 hectares to the plantation forest area it manages overseas, which has reached approx. 230,000 hectares. Through our proactive plantation forest operations, we are working to preserve the world's forests, which continue to shrink in the face of illegal logging and slash-and-burn agriculture, and to contribute to regional economies.

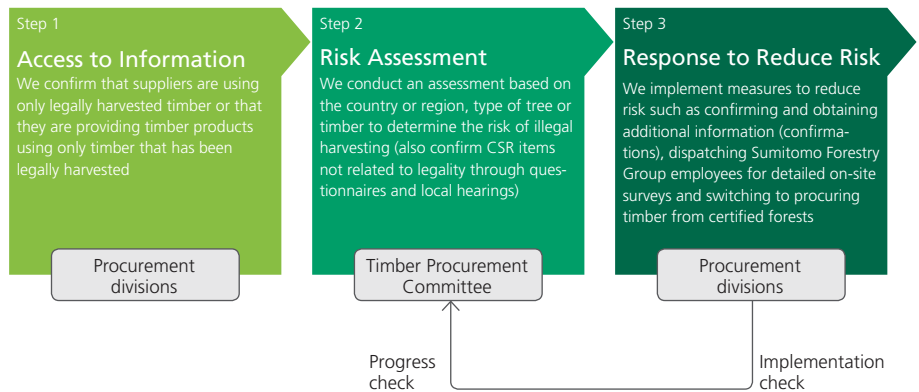


Measurements being taken at a forest in Indonesia

Ensuring the Traceability and Legality of Timber

To prevent the disappearance and degradation of forests, legal frameworks are being created around the world to eliminate illegal logging. To promote sustainable timber procurement, the Group checks that the timber the Group handles has been appropriately managed and harvested in compliance with the laws of each country and region, based on documentation submitted by the suppliers that confirms the legality of the timber, and through on-site inspections conducted by the Company's overseas representatives. In fiscal 2015, the Timber Procurement Committee conducted three legality confirmation reviews. As a company whose business centers on trees, a renewable resource, we continue working with our suppliers to promote the creation of a reliable supply chain.

System of Timber Procurement Due Diligence



Volume of Domestic Timber Exported

(Fiscal 2015)

103,000 m³

↑ (Fiscal 2014)
72,000 m³

Promoting the Use of Timber from Certified Forests, Plantation Forests and Domestic Forests

The Sumitomo Forestry Group is working to expand its use of timber from certifiedly sustainable forests, from plantation forests that are systematically planted and logged, and domestic timber that contributes to the revitalization of Japan's forestry industry, positioning these as sources of sustainable timber.



Domestic timber

Exports of Domestic Timber

Although timber consumption in Japan is trending downward, economic expansion and population increases in China and other emerging countries is expected to lead to increased demand for timber overseas. Under these circumstances, exports of timber from Japan have risen in recent years, and the Sumitomo Forestry Group is working to expand its export volume.

Volume of Unused Wood in Domestic Timber

(Fiscal 2015 results)

119,000 t

↑ (Fiscal 2014)

90,000 t

Promoting Use of Unused Wood Left in Forest Areas

The increased use of forest residue and other unused wood, which had previously been underutilized, is helping to reinvigorate the forestry industry in Japan while also maintaining and improving the benefits that forests provide. Unused wood handled in fiscal 2015 was 119,000 tons, collected for use as wood chip to fuel the Group's wood biomass power plant in Mombetsu, Hokkaido. There is also an increasing volume of wood chip used for fuel and increasing demand for recycling of timber resources through wood chipping. The wood chip used by the Sumitomo Forestry Group as fuel in the wood biomass power plant includes recycled chips from wood found in construction waste and wood chips made from unused timber, and not only contributes to curbing the CO₂ emissions which lead to global warming, but also to the effective use of timber and the reinvigoration of the regional forestry industry.

Promoting Reduction of Environmental Impact in Business

As the global impact of climate change grows more serious, companies are being asked to reduce their emissions of greenhouse gases as a means of combating global warming. The Group is undertaking a variety of initiatives through its business activities to help stem global warming. These include greenhouse gas emission reduction during housing construction and manufacture of building materials, and promotion of our Biomass Power Generation Business. We also promote the curbing, reuse and recycling of industrial waste.

Carbon stock (from timber used in new custom-built detached housing constructed in Japan)*

(Fiscal 2015)

175,000 t-CO₂

↑ (Fiscal 2014)

198,000 t-CO₂

* Sumitomo Forestry homes fix about 22.6 t-CO₂ per unit.

Expanding Carbon Stock

Carbon stock is the volume of CO₂ that is absorbed by trees and fixed as carbon. The Group is working to expand the carbon stock through the management of Company-owned forests in Japan and through overseas plantation forestry. The Group also helps counter global warming by increasing timber-based carbon stocks mainly by building high-quality, long-lasting wooden homes and promoting the wider application of timber resources in non-housing structures.

As a result of these efforts, in fiscal 2015 the Group's carbon stock from Company-owned forests in Japan rose to 12.40 million t-CO₂, and to 3.06 million t-CO₂ from plantation forests overseas.

The Sumitomo Forestry Group's Carbon Stock (Fiscal 2015)

Company-owned forests in Japan:	12.40 million t-CO ₂ (12.19 million t-CO ₂ in previous year)
Plantation forests overseas:	3.06 million t-CO ₂ (4.54 million t-CO ₂ in previous year)

Installation rate* (environmentally sound equipment in custom-built detached homes)

(Fiscal 2015)

58%

↑ (Fiscal 2014)

66%

* Installation rate of solar power system and/or ENE-FARM fuel cell system in Sumitomo Forestry homes (orders received basis).

Promotion of "Green Smart" Houses

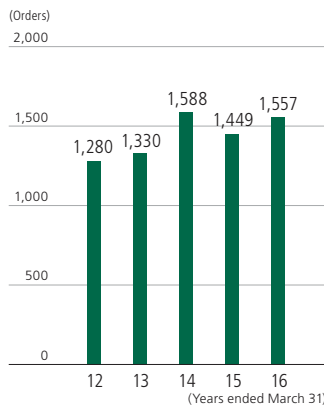
We have always used trees, which absorb and store CO₂ in the process of growth, as our primary structural material, and by also incorporating our "Ryouonbou" natural heating and cooling design method, which takes advantage of natural ventilation and sunlight, we have worked to provide homes that offer comfortable living throughout the year. To enhance energy efficiency in the home, thereby reducing household CO₂ emissions, we propose Green Smart houses that combine this design with our expertise in utilizing the special characteristics and natural charms of wood, along with improved insulating performance and other technology for reducing energy consumption. In addition, we use equipment for creating and storing energy that enable energy to be used more intelligently. With Japanese homes

emitting more CO₂ every year, the Sumitomo Forestry Group is offering new homes built based on Green Smart, which utilizes the properties of wood and other natural materials, while enhancing insulation performance and installing solar power generation systems to accelerating the popularity of net Zero Energy House (ZEH), which consume net zero annual primary energy.

Life Cycle Carbon Minus (LCCM) Housing

Sumitomo Forestry continues working to develop Life Cycle Carbon Minus (LCCM) housing, which produces a net negative volume of CO₂ emissions over its entire life cycle, from construction to use, renovation, demolition and disposal. This is accomplished through the use of solar power systems and environmentally sound equipment. In fiscal 2015, we moved ahead with research and development related to living environments, not only in terms of energy reduction, but also from the perspective of health and comfort. We will continue our efforts to develop new technology toward the realization of LCCM housing.

Number of orders for energy-saving and eco-friendly renovations



Offering Energy-Saving, Eco-Friendly Renovations

Our subsidiary Sumitomo Forestry Home Tech Co., Ltd. specializes in renovations. It promotes energy-saving and eco-friendly renovations, receiving over 1,000 orders every year. When planning a renovation, the company creates a performance evaluation chart to enable easily understandable “visualization” of the enhanced performance provided by earthquake resistance technology, energy saving equipment, and modifications for universal access, as well as other improvements. The company will continue offering renovations that will reduce the environmental footprint over the lifetime of the residence, and aims to realize energy saving through renovations.

Biomass Power Generation

The Sumitomo Forestry Group engages in biomass power generation, primarily using as fuel previously unused timber resources and recycled wood chips from construction waste. The volume of CO₂ released by combustion of timber is equivalent to that of atmospheric CO₂ absorbed through photosynthesis. Therefore, atmospheric CO₂ does not increase throughout a tree’s total life cycle. For this reason, the Group is developing biomass power generation as a new business that makes effective use of timber and reduces CO₂ emissions. The Group’s domestic biomass power business includes the already operating Kawasaki plant and additional plants under construction in Mombetsu, Tomakomai and Hachinohe. We will continue to develop business using renewable energy in a way that best serves the interests of each region.

Creating an Environment that Encourages the Active Participation of People of Diverse Backgrounds

Based the Group’s Action Guidelines, which call for respect for humanity under which we work to create an open and inclusive corporate cultures that values diversity, we are engaged in a global effort to establish and manage human resources programs, ensure the appropriate, efficient allocation of human resources, and develop and nurture those resources, as well as shape our employees into groups that approach their work with a positive attitude and a willingness to take on challenges. We also actively promote work-life balance by creating workplaces that support the personal and professional lives of our employees.

Employment (Sumitomo Forestry Co., Ltd. non-consolidated, as of March 31, 2016 and 2015)

Management level:	1,995	(2,047)
Non-management level:	2,292	(2,297)
Contract employees and part time staff:	98	(125)
Secondment from other companies:	32	(30)
Average length of service:		
Men	15 years and 3 months	(15 years and 5 months)
Women	11 years and 1 months	(11 years and 0 months)

Figures in parentheses are for last fiscal year

Ratio of female employees (includes contract employees):*	19.9%	(19.2%)
Ratio of newly hired female university graduates:	22.8%	(26.8%)
Ratio of employees with disabilities:	2.1%	(2.2%)

* Calculated based on the number of employees on April 1, 2016.

Percentage of Women in Management Positions

(As of April 1, 2016)

2.8%

↑ (April 1, 2015)
2.6%

Promoting Employee Diversity

The Sumitomo Forestry Group makes no distinctions based on gender, age, nationality, race, religion or disability, and advancing maintenance of a workplace in which highly motivated employees can display their abilities. We are conducting initiatives aimed at providing opportunities for female employees by working to enhance our childcare and training programs and promoting their utilization.

Initiatives towards Empowering Women

The Group has formulated the Sumitomo Forestry Group's Declaration on Empowering Women. Its three provisions call for 1. Creating a positive work environment for women; 2. Leveraging women's unique creative powers; and 3. Spurring innovation through the participation of women. Under this Declaration, the Group is working to promote women's active participation in the workplace. We have also set numerical targets for appointment of women to managerial posts to foster the further participation of female employees. We are now working toward our publicly announced goal of increasing the proportion of female managers to more than 5% by 2020 (2.8% as of April 1, 2016).

Initiatives to Encourage a Better Work-Life Balance

Among the Group's values and ideals, we speak of what we consider important, among which is "Respect for Families: We maintain respect for ourselves and our families, and strive to build an abundantly rewarding future." Recognizing the importance of work-style diversity, Sumitomo Forestry has taken the initiative in arranging child care and nursing leave programs, as well as reducing overtime, with the aim of creating a fulfilling workplace and ensuring a rich family life. We have established the Workstyle Diversification Department within the Personnel Department, where employees can find a comprehensive career support desk dedicated to such matters as childcare, nursing, career development, mental health and reemployment after retirement, and we have also put systems in place such as assigning employees with qualifications as clinical psychologists.

Human Resources Development

Developing a Human Resources Development Structure

In an effort to strengthen the Sumitomo Forestry Group's development of human resources, since fiscal 2011 the Group has worked to establish the Sumitomo Forestry Business Institute as a common Group platform for human resources development. Working under the theme of "Supporting Motivated People" since its establishment, the Institute has shifted its emphasis from across-the-board hierarchical training, to more self-development directed, selective training, which puts a greater focus on developing capabilities through personal initiative.

Preserving Traditional Building Techniques for Wooden Houses

The Sumitomo Forestry School of Professional Building Techniques was established in 1988 as an in-house training center to pass down the traditional Japanese wooden post-and-beam construction method to future generations. To master carpentry skills, trainees, who are mainly new employees at Sumitomo Forestry Home Engineering Co., Ltd., learn for a year at the school. This training starts with lectures and continues with practical training on the use and maintenance of tools, ink-marking and other traditional techniques, material handling, and safety. In fiscal 2015, 64 individuals were accepted for enrolment, including employees of partner companies, and 57 graduated, and at the start of fiscal 2016, the school welcomed 64 new trainees.



Training at the Sumitomo Forestry School of Professional Building Techniques