

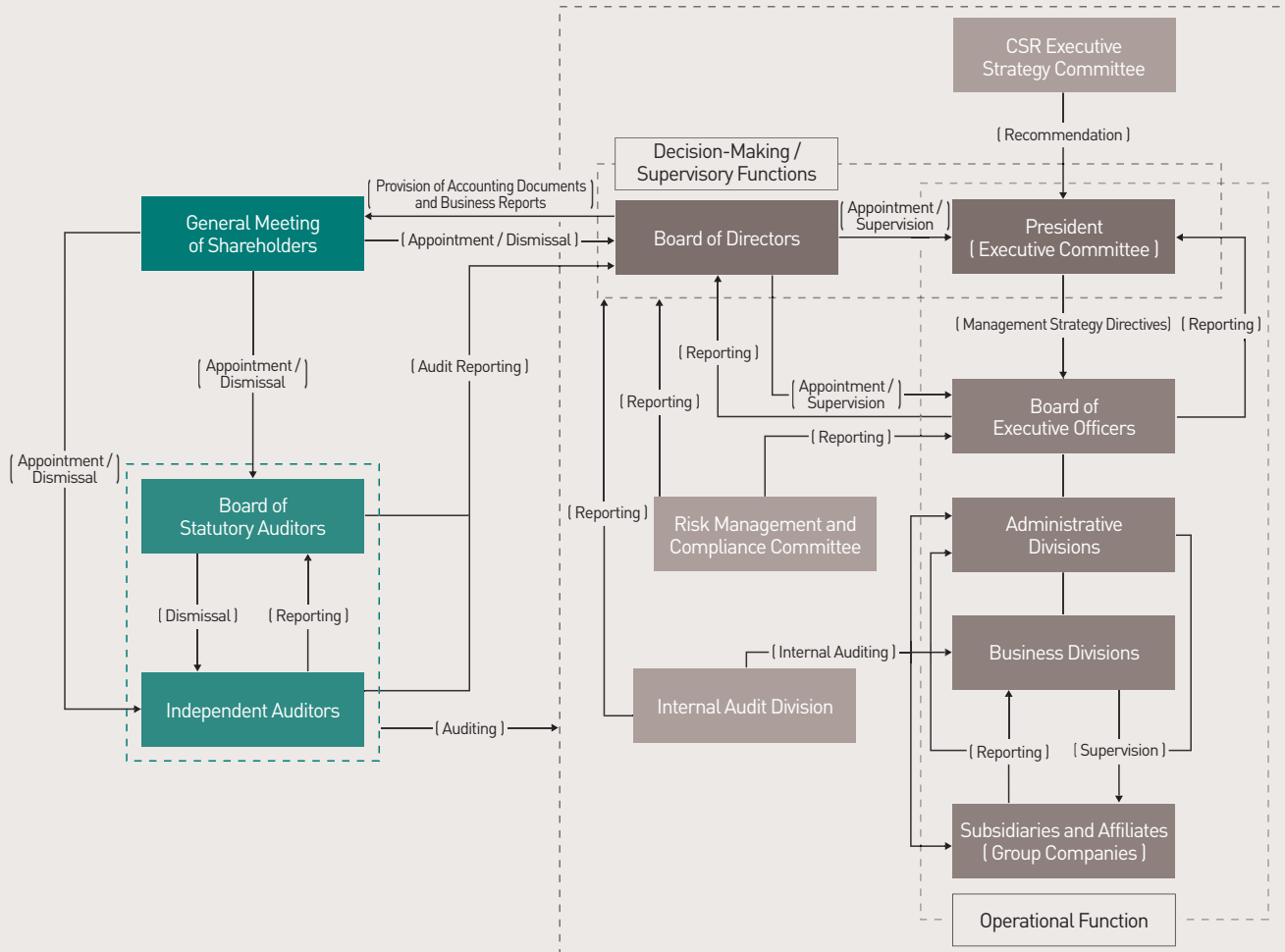
CORPORATE SOCIAL RESPONSIBILITY

CONTENTS

- 34. Our Management System
- 37. Directors
- 38. Our Corporate Social Responsibility

OUR MANAGEMENT SYSTEM

Business Execution and Management Supervision Mechanism



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 based on principles of integrity and sound management.

Respect for Humanity

- We create an open and inclusive corporate culture that instills a strong sense of pride and motivation in employees.

Environmental Protection

- We contribute to the protection of the environment and our fellow beings through responsible business practices.

Putting Customers First

- We act with customer satisfaction first and foremost in mind.

THE MANAGEMENT SYSTEM FUNDAMENTAL STANCE

The Sumitomo Forestry Group regards and makes efforts in enhancing and strengthening our system of corporate governance as one of our top priorities for management, including maintaining management transparency, conducting proper and lawful operations, and promoting swift decision-making and action. To promote and maintain an open-minded corporate culture in which each employee works with motivation and pride, we have adopted a management philosophy and code of conduct emphasizing the Sumitomo Spirit, respect for humanity, environmental protection, and putting customers first. We continuously promote the importance of this philosophy to all employees through public relations channels.

CORPORATE GOVERNANCE

Board of Directors and Executive Committee

In principle, the Board of Directors meets once a month to address decision-making and supervisory functions and specifically addresses decisions regarding important management matters, the review business performance, and determination of measures to fortify supervisory functions related to business execution. The Executive Committee, in principle, meets twice a month to ensure complete preparation for discussion of issues at the Board of Directors meetings.

At present, directors are not provided non-performance related bonus incentives. The retirement benefit system for directors was abolished in June 2005 and replaced by a remuneration and bonus system closely linked to business performance.

Executive Officer System

In June 2002, we introduced an executive officer system and separated the decision-making and supervisory functions from business execution functions to improve the speed of management, enhance the business execution supervisory function, and clarify responsibility for business execution.

Board of Auditors

The group's Board of Auditors consists of four statutory auditors, including two external auditors. In addition to attending important company meetings, auditors meet once every three months to exchange views with representative directors regarding business issues and improvements to the auditing environment, and meet

periodically to exchange information with the auditors of Group companies to support the overall appropriateness group operations. The Internal Auditing Department works in concert with the statutory auditors by performing internal audits of the appropriateness and lawfulness of the daily operations of the group.

External Statutory Auditors

The two external statutory auditors are Mr. Hiroshi Miki and Mr. Satohiko Sasaki. Hiroshi Miki is an attorney and legal expert focusing on providing an objective evaluation of the appropriateness of the group's business operations. Satohiko Sasaki, who is deeply versed in forest administration, focuses on providing an objective evaluation of the appropriateness of the company's environmental operations and business development activities in Southeast Asia. To enable the external statutory auditors to best perform their supervisory function and ensure smooth progress in meetings, the external auditors attend meetings of the Board of Directors and keep an administrative office in the General Administrative Division. They are advised of meeting schedules and provided preparatory materials to ensure they are fully informed about the issues to be discussed.

Strengthening Disclosure and Accountability

We at Sumitomo Forestry realize that raising transparency in our management in a very important issue in corporate governance. To meet this responsibility we disclose at appropriate times not only business decision related information but also corporate and financial information to shareholders and other stakeholders. Also, we work to communicate the feedback received from stakeholders to management.

BASIC POLICY FOR INTERNAL CONTROL SYSTEM DEVELOPMENT AND IMPLEMENTATION

At a meeting of the board of directors in May 2006, the group established the “Basic Policy for Internal Control System Development and Implementation” to identify current and future issues associated with the group’s internal control systems with the aim of further enhancing corporate governance and constructing a more effective risk management system. In addition, in July 2006 we established a dedicated project team to work with the group’s auditing firm to construct an internal control system to ensure the appropriateness of financial reporting with the aim of introducing the system in April 2008.

COMPLIANCE AND RISK MANAGEMENT

The Sumitomo Forestry Group is committed to compliance and is fully aware that, as a member of society, compliance is essential to continuing our business activities. The group considers its compliance activities to be among its most important management issues.

In July 2006, the Compliance Group was established in the General Administrative Division to strengthen the compliance administrative system and to promote and coordinate compliance management throughout the group. The Compliance Group’s main activities include identifying and developing response measures to potential compliance risk in the group’s business. In this way we are working to strengthen our compliance framework.

The group’s risk management activities include monitoring and supervision by the board of directors and risk management on a corporate governance level by the statutory auditors. For risk management within each business division, each division handles management of the risk that inevitably exists in their business promotion activities, such as the credit status of trading partners, inventory management, market conditions, occupational safety, product quality, and the environmental impact.

In addition, the General Administrative Division oversees risk management regarding important risk issues that affect the whole group, such as disaster response, compliance, and information security.

EXAMPLES OF ACTIVITIES IN COMPLIANCE AND RISK MANAGEMENT

Establishment of the “Compliance Counter”

With the aim of activating a self-policing function in our operations, the group has established the Compliance Counter consultation system to receive information from employees and quickly identify and resolve compliance issues, such as illegal activities or actions opposing our corporate ethic, which could be easy to overlook within regular operating processes. The Compliance Counter features the General Manager of the General Administrative Division and legal advisors as communication representatives.

Establishment of the Emergency Hotline

In preparation for an emergency situation, the group has set up an around-the-clock, 7-days-a-week dedicated emergency hotline and response mechanism for use by all group personnel for swift and effective response in the case of an emergency. The response system includes a “two-hour rule” for reporting emergency situations to top management enabling them to swiftly provide guidance and directives for addressing the situation.

Information Security

Due to the character of our business, the group maintains a large volume of detailed customer information over long periods, and ongoing enhancement of our information security to protect private information as well as other data is a top priority. The group’s proactive stance on data protection includes raising employee awareness of security issues through special training and online courses on the Personal Information Protection Act and strict in-house rules regarding the use of digital memory media.

DIRECTORS



First row, from the left

Ryu Yano
President and Executive Officer

Shoichi Takahashi
Vice president and Executive Officer

Second row, from the left
Hitoshi Hayano
Managing Executive Officer

Mamoru Inoue
Managing Executive Officer

Hideki Nose
Managing Executive Officer

Hideyuki Kamiyama
Managing Executive Officer

Shigehiko Shiozaki
Managing Executive Officer

DIRECTORS

* President/Director	Ryu Yano
* Director	Shoichi Takahashi
Director	Hideki Nose
Director	Hideyuki Kamiyama
Director	Mamoru Inoue
Director	Shigehiko Shiozaki
Director	Hitoshi Hayano

(* Representative Director)

STATUTORY AUDITORS

Senior Statutory Auditor	Shuji Kitamura
Statutory Auditor	Toshio Kohigashi
* Statutory Auditor	Hiroshi Miki
* Statutory Auditor	Satohiko Sasaki

(* Outside Corporate Auditors as stipulated by the Commercial Code)

EXECUTIVE OFFICERS

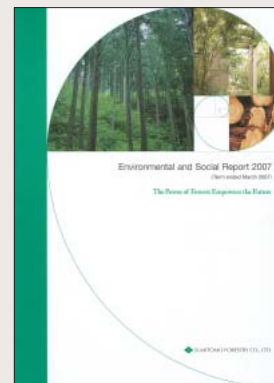
* President and Executive Officer	Ryu Yano	
* Vice President and Executive Officer	Shoichi Takahashi	Responsible for Personnel, Executive Manager of Timber and Building Materials Business Headquarters
* Managing Executive Officer	Hideki Nose	Responsible for Intellectual Property, Tsukuba Research Institute, Executive Manager of Forestry and Environmental Headquarters
* Managing Executive Officer	Hideyuki Kamiyama	Responsible for Corporate Planning, General Administrative, Finance, Information Systems, Internal Audit
* Managing Executive Officer	Mamoru Inoue	Executive Manager of Overseas Business Headquarters
* Managing Executive Officer	Shigehiko Shiozaki	Executive Manager of Housing Business Headquarters
* Managing Executive Officer	Hitoshi Hayano	Executive Manager of Real Estate Business Headquarters
Managing Executive Officer	Hiroshi Ando	Assistant Executive Manager of Timber and Building Materials Business Headquarters
Executive Officer	Masahiro Nishimura	President and Director of Sumitomo Forestry Home Tech Co., Ltd.
Executive Officer	Josuke Toyoda	General Manager of Information Systems Division
Executive Officer	Kaoru Takeshita	President and Director of Sumitomo Forestry Two-By-Four Homes Co., Ltd.
Executive Officer	Koji Takata	President and Director of Sumitomo Forestry Crest Co., Ltd.
Executive Officer	Hideo Watabe	Assistant Executive Manager of Real Estate Business Headquarters and General Manager of Real Estate Solution Business Division of the same headquarters
Executive Officer	Yasuyuki Yamamoto	Assistant Executive Manager of Housing Business Headquarters, General Manager of Product Development Division of the same headquarters and General Manager of Technology Division of the same headquarters
Executive Officer	Jiro Kuramitsu	Assistant Executive Manager of Overseas Business Headquarters and General Manager of Overseas Development Division of the same headquarters
Executive Officer	Akira Ichikawa	General Manager of Corporate Planning Division

(* Doubles as Director and Executive Officer)

(As of June 22, 2007)

OUR CORPORATE SOCIAL RESPONSIBILITY

Sustainability is the very core of the Sumitomo Forestry Group's corporate philosophy as the group has been practicing "sustainable forestry" since its founding over 300 years ago. We regard corporate social responsibility (CSR) as "returning to our starting point and reexamining our corporate philosophy of sustainability" and we continue to uphold and raise our corporate stature as a company essential to society.



For further details regarding Sumitomo Forestry's corporate social responsibility efforts, please refer to the Environmental and Social Report 2007.

ENVIRONMENTAL VISION

In December 2005, the Group established the Medium-Term Environmental Management Policy placing "environmental coexistence" as a management cornerstone for achieving a viable balance of economical and environmental factors in our business operations. The policy focuses on four themes: 1) engaging in comprehensive environmental management, 2) strengthening and promoting environmental education, 3) providing thorough environmental reporting, and 4) promoting activities that contribute to society.

(Further details, please see our Environmental and Social Report website: <http://sfc.jp/english/information/ir/library/#environmental>)

ENVIRONMENTAL COEXISTENCE THROUGH BUSINESS ACTIVITIES

"MyForest" and Environmental Coexistence (New Custom-Built Housing Business)

A fundamental design of our MyForest detached-housing product line launched in October 2005 is the harnessing of natural shading, heat resistance and storage, air circulation, and other elements to provide a naturally comfortable living environment without over-reliance on heating and cooling. The energy efficiency of these units meets the strict specifications of the government's Next Generation Energy Conservation Standards*. Also, at the design stage of each of these custom-built units, a lighting simulation test is conducted to evaluate the impact from adjacent buildings. Our meticulous approach to enhancing the energy saving capabilities of the MyForest products has enabled us to lower the CO₂ footprint of these homes by about 20% over other units that also meet the Next Generation Energy Standards.

* Next Generation Energy Conservation Standards: Adopted in Japan in 1999 to promote improved insulation and reduction of energy consumption in housing units.

Environmental Coexistence through Use of Domestic Materials (New Custom-Built Housing Business, Distribution of Timber and Building Materials Business)

About 70% of Japan's land area is forest, and the Sumitomo Forestry Group maintains about 40,000 hectares, representing approximately 1/1,000 of the total. Nevertheless, about 80% of the timber material used in Japan is imported. This reliance on imported timber has led to reduced thinning, pruning and other efforts to maintain domestic forests, and the amount of forest in Japan that can effectively contribute to absorbing CO₂ and the future common good is rapidly dwindling. To promote environmental coexistence through the use of domestic timber resources, the Custom-Built Housing Business constructs its MyForest homes using materials such as the high-performance glue-laminated "Super Cypress" made from 100% domestic-grown Japanese cypress. We have achieved 51% usage of domestic timber materials in our principal structural members and are ambitiously aiming to raise this percentage to 70%. In addition, in fiscal year 2007, the Distribution of Timber and Building Materials Business successfully increased the volume of high-precision dry timber MIZDAS using our new drying technology by 67% year on year to 22,459m³.

ENVIRONMENTAL MANAGEMENT

In fiscal year 1997, our housing division became the first company in the housing industry to earn ISO 14001 certification, and in fiscal year 2002 we renewed the certification for all of the parent company's operations. We are also making solid progress in earning certification for our group companies. PT. AST Indonesia received ISO 14001 certification in fiscal year 2006, and four domestic group companies were added to of the overall ISO-certification. In addition, we introduced environmental budgets in all of our domestic and overseas operations in fiscal year 2006 to make environmental management an active element in everyday operations.



“Ryo-on-bo”: To allow people to spend each day in health and comfort, this type of housing skillfully incorporates the power and rhythm of nature. The approach toward homes that the Japanese have developed and built over centuries is realized through modern technology.

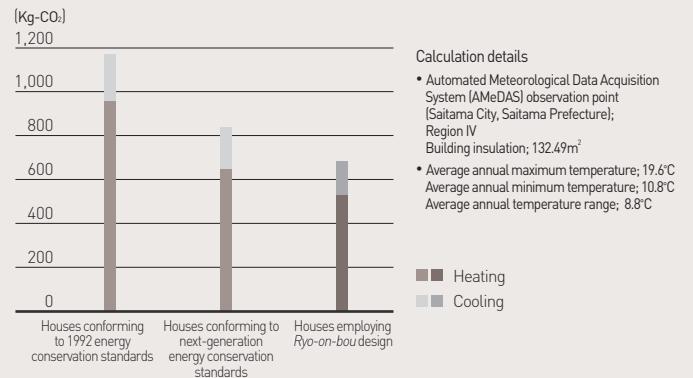
ENVIRONMENTAL RISK MANAGEMENT

We are seeking to rid our operations of activities with potential or known environmental risk, such as waste treatment, the use of asbestos, illegal logging and soil pollution and developing specific countermeasures for related business departments. Thanks to these efforts, we found no significant infractions of environmental regulations and there were no environmental accidents at any of our group companies in fiscal year 2006. Our efforts to further strengthen and improve our environmental risk management include close examination and action in the following areas of concern for the future.

Preventing Illegal Waste Disposal

In fiscal year 2006, we conducted an exhaustive examination of the industrial waste treatment conditions at all of the companies in the Sumitomo Forestry Group and immediately corrected all consignment contracts and manifests that were found to be inadequate in their waste treatment processes. In addition, we conducted 24 study sessions attended by 506 staff from across the country to enhance knowledge about proper industrial waste treatment processes. At the parent company and all of our affiliated companies, we have established strict regulations regarding industrial waste management and a management system with clearly defined management roles and responsibilities. We have begun transitioning all group companies to an electronic manifest system and are concentrating our business transactions with waste treatment operators onto companies with superior efforts in compliance to waste treatment policies. We will continue to conduct internal audits and inspections of waste treatment facilities to be fully informed of our industrial waste treatment management conditions and to further enhance our abilities to implement the most appropriate waste treatment in each business operation at all companies in the group.

Comparison of CO₂ Emissions from Houses Using Eco Assessment Charts*



Eco Assessment Charts: Assessment record of CO₂ emissions and air-conditioning expenses for each house plan calculated based on the insulation specification used and others assumptions, and on regional AMeDAS climate data for the house location. Environmental design is carried out based on this assessment record.

Measures to Prevent Global Warming

Residential housing is the source of about 13% of all CO₂ emissions in Japan, and this percentage rises with each passing year. As a housing provider, we believe our group bears a strong responsibility in this matter. Our group efforts therefore go beyond actions to reduce the CO₂ emissions of our operations and work to enhance nature’s ability to absorb CO₂ from the environment by promoting the use of locally grown domestic timber and proper forest management.

Overseas, upgrades to the timber chip fiber processing equipment at Nelson Pine Industries Ltd. in New Zealand resulted in a 10% reduction in electricity consumption and a 5% decrease in CO₂ emissions from the previous fiscal year. Overall, however, our expanding business operations led to a 7.2% year on year increase in CO₂ emissions to 199,576 tons in fiscal year 2006. We are steadfastly determined to reduce our CO₂ output and are continuing to promote and amplify our CO₂ reduction measures.

WORKING WITH OUR STAKEHOLDERS

Working with Business Partners

In line with our Green Procurement Guidelines, our purchase transactions prioritize products and services with low environmental impact from business partners that share our dedication to reducing the environmental burden of their operations. We also set strict Safety and Sanitation Control Regulations in our operations with builders to reduce labor accidents at construction sites.

Working with our Customers

The Sumitomo Forestry Group has earned a reputation among its customers as the leader in the custom-built wooden housing field as the “wood” and “living” specialist. To continue providing the high quality, high performance housing that backs this reputation, we conduct inten-



Students gain full understanding through the study comic "Mori-to-ki-no-Himitsu" [The Secrets of the Forest and Trees]



"Kikorin" Created in 2006, the tree spirit "Kikorin" is our new character to symbolize our commitment to sustainability. In a friendly way, Kikorin conveys the Spirit of Sumitomo Forestry for the creation of a future where people and nature co-exist.

sive testing and verification at the Tsukuba Research Institute in order to identify potential issues with our existing housing products and introduce materials that will further raise our product quality and performance. Recognizing that purchasing a home is a major investment for our customers, we are promoting a housing performance reporting system to provide customers a greater sense of security when they purchase our products. This indication system provides data from careful evaluations by third-party specialists of the performance of each of our housing products. We provided Housing Performance Evaluation at Design Stage on 95.9% of our housing products in fiscal year 2006.

Working with Society

As a good corporate citizen, we operate as an open company inviting students to tour our company and hold public seminars and other activities to present our corporate position and share our vision. Among our activities are the Forest of Learning events we have held in the national forests on the slopes of Mount Fuji to support the restoration of natural forest after typhoons. Since 1997 large numbers of people from Sumitomo Forestry and our business partners joined with volunteers to carry out large-scale forest replanting, and these events have progressed to thinning and other forest sustainability activities as we work to regenerate the forest.

In fiscal year 2006, we participated in the publication of the study comic "The Secrets of the Forests and Trees" and donated approximately 26,000 copies to elementary schools and public libraries across the country. We believe this publication provides an opportunity for a wide range of children in Japan to learn about the current conditions surrounding forests in their environmental studies and encourages understanding of the relevance of environmental issues. In addition, in January 2007 we opened the Sustainable Forest Gallery in the popular Omotesando Hills shopping center in Tokyo to provide an access point for appreciation of the uses of domestic timber for an audience of jun-

ior high and high school students, who would not ordinarily have the opportunity to consider the importance of forests.

Among our social contributions overseas, our affiliated company PT. Kutai Timber Indonesia established the KTI Educational Foundation in 2000 to provide scholarships primarily to elementary school children. The company also provides donations, living assistance and emergency supplies.

Working with our Employees

The Sumitomo Forestry Group views each of its employees as a treasured company asset and aims to provide a safe work environment that can accommodate the full range of human diversity. As a housing company, we also take great interest in being a company that supports the home lifestyles of our employees and their families and actively endeavor to facilitate a healthy balance of career and family life. In fiscal year 2006, we revised our child and nursing care program to provide an extra off day each week for employees raising children or providing special care for a family member. We also expanded such programs as that to provide full remuneration for the first five days of parental leave to fathers, and expanded our shortened work day program to parents of children up to the fourth grade.

Working with our Shareholders

We constantly seek to improve the quality of management by increasing transparency through appropriate information disclosure and active publicity and IR activities to continue to build on our relationship of trust with our shareholders and investors. We have been selected from among 2,500 companies globally for the third consecutive year for inclusion in the Dow Jones Sustainability World Index (DJSI World) for being in the top 10% in terms of economy, environment and social aspects. Recognition of our efforts to fulfill our social responsibility has also led to annual inclusion in the FTSE 4 Good Global Index.