



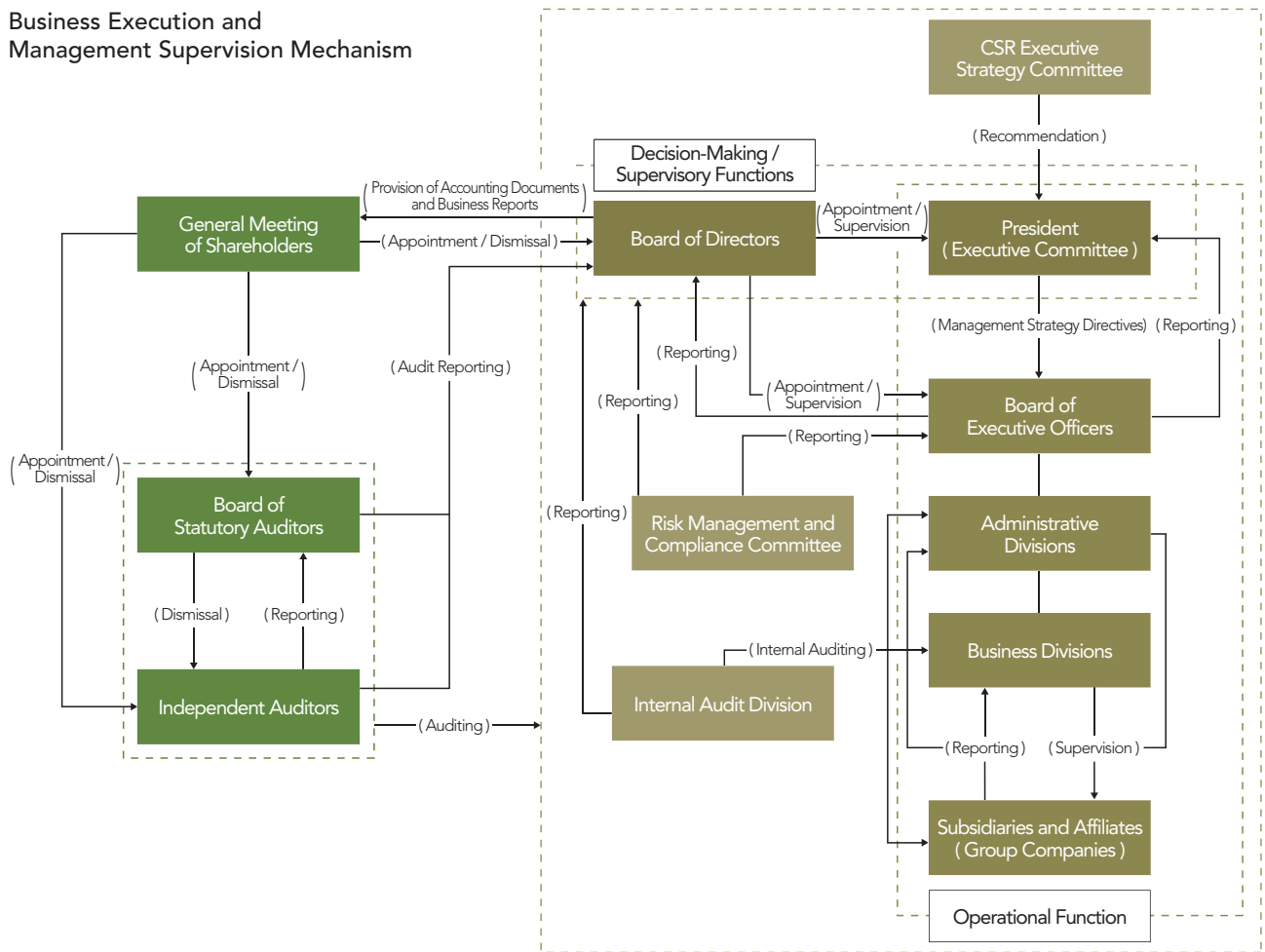
## CORPORATE SOCIAL RESPONSIBILITY

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# 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 that is beneficial to society based on the principles of integrity and sound management.

### Respect for Humanity

- We create an open and inclusive corporate culture that values diversity.

### Symbiosis with the Environment

- 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.

## BASIC POLICIES

Our corporate philosophy is as follows: “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.” Guided by this philosophy, we have adopted a basic policy targeting maximization of Corporate value. To realize this basic policy, we have formulated a set of action guidelines emphasizing the Sumitomo Spirit, respect for humanity, symbiosis with the environment, and putting customers first. The Sumitomo Spirit involves maintaining proactive, sound management with a focus on fairness and integrity. Demonstrating our respect for humanity, we aim to create an open-minded corporate culture in which each employee works with high moral and pride. We also strive to symbiosis with the environment by deploying our business activities to foster natural, comfortable living spaces. In addition, we put the customers first by placing top priority on ensuring their satisfaction.

## CORPORATE GOVERNANCE

The Sumitomo Forestry Group regards corporate governance as key to raising transparency of corporate management and ensuring sound, sustainable management. Strengthening and upgrading corporate governance, therefore, is one of our top management priorities.

### Executive Officer System

In June 2002, we introduced an executive officer system to separate the decision-making and supervisory function from the business execution function. In this way, we have sought to improve the speed of management, reinforce supervision of business execution, and better clarify responsibilities for business execution.

### Board of Directors and Executive Committee

The Board of Directors meets once a month and the Executive Committee meets twice a month to cope with violent changes in the business environment. The Board of Directors makes decisions on important items, monitors the Group’s business performance, and fortifies supervision of business execution. The Executive Committee discusses Group strategies. In June 2005, the retirement benefit system for direc-

tors was abolished and replaced by a remuneration and bonus system closely linked to business performance.

### Compensation for Directors and Auditors

Directors (7 persons): ¥287 million  
Auditors (4 persons): ¥59 million

### Board of Auditors

Sumitomo Forestry’s Board of Auditors has 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. A supervisory department has been set up within the parent company to provide management and guidance for various Group companies. In addition, the Group Board of Auditors (an information exchange entity), made up of auditors from various Group companies, meets regularly to ensure the appropriateness of the Group’s overall operations.

### External Statutory Auditors

The two external statutory auditors are Mr. Hiroshi Miki and Mr. Satohiko Sasaki. Mr. Miki is an attorney who evaluates the appropriateness of the Group’s operations from legal and impartial perspectives. Mr. Sasaki, a professor at the Advanced Research Institute for the Sciences and Humanities at Nihon University, is highly knowledgeable in the fields of forestry management and forest resource science. He provides objective evaluations of the Group’s environmental activities and business development in Southeast Asia. Both men have no capital or personal relationships with the Sumitomo Forestry Group.

Name and title	Board of Directors (20 times)		Board of Auditors (14 times)	
	Attended	Attendance	Attended	Attendance
Hiroshi Miki (Statutory Auditor)	19 times	95%	14 times	100%
Satohiko Sasaki (Statutory Auditor)	17 times	85%	12 times	86%

### Strengthening Disclosure and Accountability

To increase the transparency of its operations, Sumitomo Forestry not only holds information meetings to announce its interim and year-end results, but also actively communicates with its shareholders and investors other ways. These include one-on-one meetings with shareholders and investors (around 200 such meetings held in the year under review). In

September 2007, we gave a presentation about forestry management at a conference hosted by a securities company. In these and other ways, we worked to help as many investors as possible gain an accurate understanding of our company.

Our proactive disclosure policy goes further than simply fulfilling our explanatory obligation. We also utilize grass-roots feedback from shareholders and investors to improve our management, which we feel is an important part of building deeper trust with the capital markets and maximizing corporate value.

## COMPLIANCE

The Sumitomo Forestry Group works to deeply entrench compliance as an essential prerequisite for continuing business activities. The Compliance Group within the General Administrative Division identifies and develops response measures for potential compliance risks in order to strengthen compliance systems throughout the Sumitomo Forestry Group. To address diverse risks affecting each business, we are also establishing an internal control system and reinforcing risk management.

## INTERNAL CONTROL AND RISK MANAGEMENT

Previously, the Group assembled a dedicated project team to prepare the groundwork for building an internal control system for financial reporting, pursuant to the Financial Instruments and Exchange Law. By March 2008, the team had completed all such preparations, and full-scale measures for an effective internal control system began in the following month.

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. In addition, each business division identifies, evaluates, and manages risks in its respective businesses. In fiscal 2007, we started preparing a new "risk map" covering all companies in the Group to cope with violent changes in our business environment. In addition, we started compiling a "disaster response manual" incorporating Business Continuity Plan (BCP)\* concepts, with the aim of minimizing damage in the event that a major earthquake in the Tokyo Metropolitan Area causes suspension of head office operations, and also to permit swift assistance to customers affected by disaster.

\* BCP: Management Strategies designed to avoid suspension of main businesses or recover from such suspension within as short a period as possible in the event that the Group is affected by a disaster. The BCP is aimed to protect the Group from losing customers to competitors, a decline in market share, or damage to its reputation as a result of suspension of businesses.

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## EXAMPLES OF COMPLIANCE, INTERNAL CONTROL, AND RISK MANAGEMENT ACTIVITIES

### Compliance Counter

With the aim of promoting self-policing in our activities, we established the Compliance Counter consultation system to receive information from employees throughout the Group about illegal activities and actions that violate our corporate ethics. The general manager of the General Administrative Division and legal advisors serve as communications representatives of the Compliance Counter. In fiscal 2007, we issued notebook-sized manuals to all Group employees in Japan to encourage use of the Compliance Counter.

### Emergency Hotline

In preparation for emergency situations, we have established a dedicated Emergency Hotline, which is accessible to all Group employees and is designed to provide swift, accurate responses around the clock, 365 days a year. The response system includes a "two-hour rule" for reporting emergency situations to top management so that they can swiftly provide guidance to address any situation.

### Information Security

Due to the nature of its business, the Group maintains detailed information about customers for long periods of time and regards reinforcement of information security, including of personal information about customers, as a top priority. For this reason, we have adopted a proactive stance on data protection, which includes raising employee awareness through special training and online courses on the Personal Information Protection Law and strict in-house rules on the use of digital memory media.

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## DIRECTORS (As of June 20, 2008)



<b>Hitoshi Hayano</b> Managing Executive Officer	<b>Akira Ichikawa</b> Managing Executive Officer	<b>Shigehiko Shiozaki</b> Managing Executive Officer	<b>Hideyuki Kamiyama</b> Managing Executive Officer	(Back row)
<b>Ryu Yano</b> President and Executive Officer	<b>Mamoru Inoue</b> Senior Managing Executive Officer	<b>Hideki Nose</b> Senior Managing Executive Officer		(Front row)

### DIRECTORS

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

(\* Representative Director)

### STATUTORY AUDITORS

Senior Statutory Auditor	Shoichi Takahashi
Statutory Auditor	Satoru Takeno
* 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	
* Senior Managing Executive Officer	Mamoru Inoue	Executive Manager of Overseas Business Headquarters
* Senior Managing Executive Officer	Hideki Nose	Responsible for Intellectual Property, Tsukuba Research Institute, Executive Manager of Forestry and Environment Headquarters
* Managing Executive Officer	Hideyuki Kamiyama	Executive Manager of Timber and Building Materials 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	Akira Ichikawa	Responsible for Corporate Planning, General Administrative, Personnel, Finance, Information Systems, Internal Audit
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	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, Responsible for Product Development, Technology
Executive Officer	Jiro Kuramitsu	Assistant Executive Manager of Timber and Building Materials Business Headquarters
Executive Officer	Shigeru Sasabe	General Manager of Personnel Division
Executive Officer	Ken Wada	Assistant Executive Manager of Housing Business Headquarters, Responsible for Business Strategy, Succeed Business (Apartment Building Business)
Executive Officer	Seiichi Takano	Assistant Executive Manager of Housing Business Headquarters, Responsible for Production Management, Warranty and Customer Information

(\* Doubles as Director and Executive Officer)

# OUR CORPORATE SOCIAL RESPONSIBILITY (CSR)

Deploying its unique, specialized expertise in “wood” and “housing,” Sumitomo Forestry strives to create a “cycles of happiness” linking employees, customers, regional communities, and the global environment. This is the essence of our corporate social responsibility commitment.

\* For special details about our CSR activities, please refer to our website.

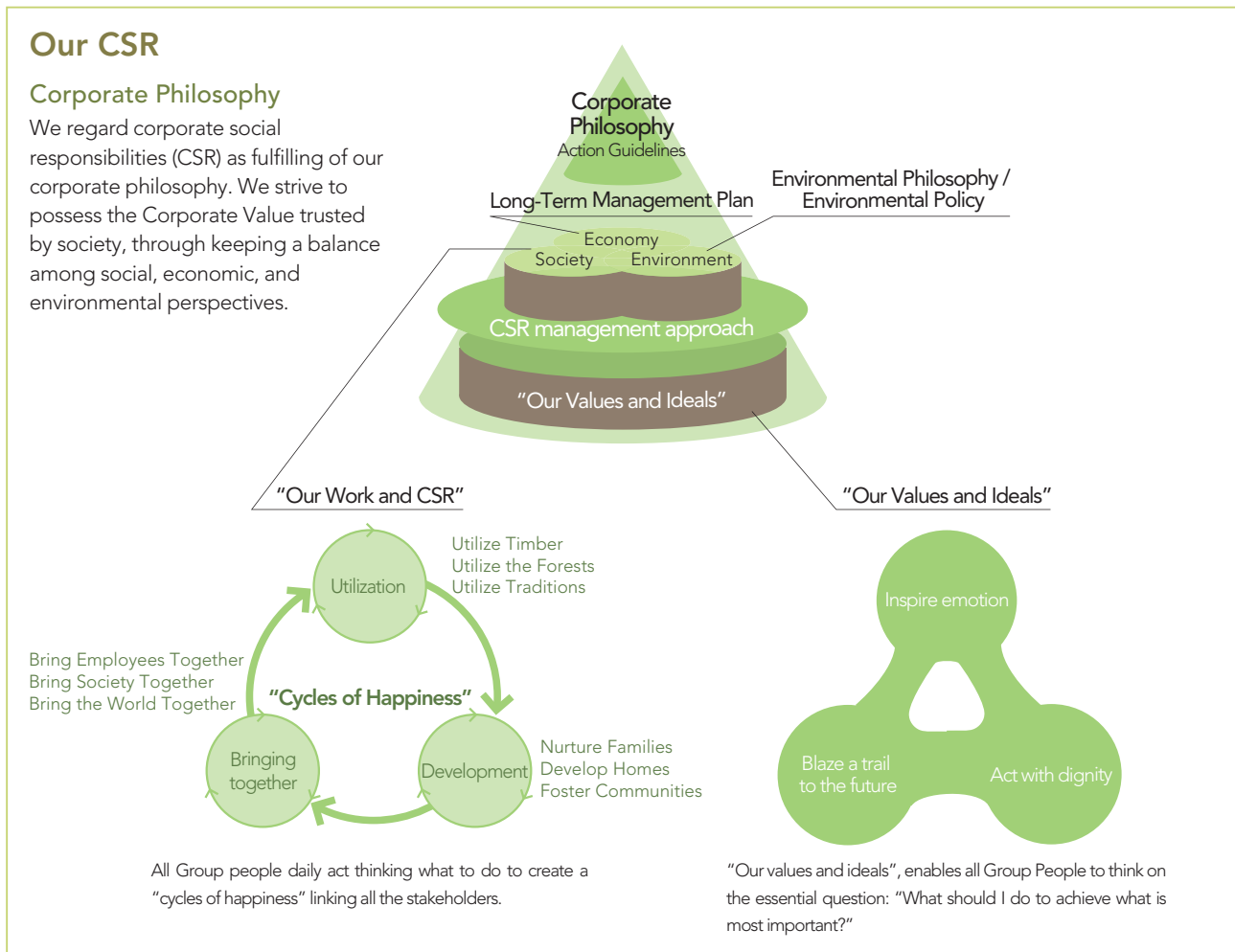
## CORPORATE PHILOSOPHY AND CSR MANAGEMENT

The Sumitomo Forestry Group utilizes timber as a renewable and environmentally friendly natural resource and provides all kinds of housing-related services. In this way, we help realize a prosperous society as reflected in our corporate philosophy. In other words, we deploy our unique, specialized expertise in wood and housing to create a “cycles of happiness” linking employees, customers, regional communities and the global environment, in an effort to remain a company considered valuable by society in the future.

## CSR Code of Conduct

As a company, we have a CSR management approach that emphasizes our economic, social, and environmental responsibilities. To fulfill these responsibilities, we have formulated a statement entitled “Our Work and CSR,” which calls for all Group employees to meet the expectations of society by adopting CSR-driven perspectives and considering the social implications of their own business activities.

We also formulated the statement “Our Values and Ideals” enabling all Group people, including directors, to jointly embrace the essential question: “What should I do to achieve what is most important?”



## SPECIFIC CSR INITIATIVES

In this section, we introduce two examples of CSR activities pursued by the Sumitomo Forestry Group.

### Case 1

#### Sustainable, coexistence with the environment housing, stemming from forestation

##### *MyForest-Taiju*

In February 2008, we launched a new product, “*MyForest-Taiju*,” which combines a multitude of the Group’s environmentally friendly technologies. This detached housing products features a robust design using 100% domestic cypress as the main structural material, offering earthquake resistance and durability that will provide comfort for the owners and their future generations. It also uses domestic cedar as the interior material, thus minimizing the environmental impact of both structure and materials. In addition, it incorporates our unique natural heating and cooling *Ryouonbou* concept, which skillfully mobilizes the renewable energy of the sun and wind, together with the special attributes of garden trees, to save energy and reduce carbon dioxide emissions. By utilizing domestic materials, we can contribute to forestation in Japan and provide high-asset-value, sustainable housing that is both comfortable to live in and coexistence with the environment.

##### 100% domestic timber used as main structural material

For the main structural material used in posts, base, beams, closing, and other sections, we used “Super Cypress” made from 100% domestic cypress. We also use domestic cypress in the cross panels\*, an original load-bearing wall panel developed by the Company. By using Japanese cypress as the structural material for the housing frame, we have achieved 100% use of domestic timber for the main structure.

\* Cross panels (original load-bearing wall panels): Durable surface material in which narrow cedar panels are cross-latticed together at a 45-degree angle to the ground. This design, original to the Sumitomo Forestry Group, offers exceptional permeability and durability.

##### *Ryouonbou*: Cool in summer, warm in winter

This configuration has three key elements: “*Taiyo no Sekkei*” (solar design,) which accumulates heat by bringing solar rays into the house; “*Kaze no Sekkei*” (wind design,) which harnesses the wind to attract coolness; and “*Midori no Sekkei*” (green design,) which uses the power of planting and other greenery to serve as “natural cooling agents.” By combining these elements, we have developed a house that efficiently utilizes the sun, wind, and other renewable energy sources. With such a design concept, which is original to the Sumitomo Forestry Group, we can reduce the usage time of heating and cooling equipment and thus offer an environmentally friendly living space with lower energy consumption and carbon dioxide emissions.

##### Materials and equipment that reduce environmental impact

For the internal walls, we use volcanic ash as the main material. Our “volcanic ash walls,” which offer excellent humidity control and odor-suppressing qualities, are coated with “Sea-Sand Coat” combining natural soil with shell and coral. Water-related equipment is also environmentally friendly, with such features as a highly efficient hot water supply facilities, heat-insulating bathtub, water-saving toilet, and built-in water purifier. In these ways, we ensure that the equipment contained in the house helps reduce carbon dioxide emissions.



*MyForest-Taiju*  
The exterior of a product



*MyForest-Taiju*  
The interior of a product



Cross Panels



Natural heating and cooling *Ryouonbou*

## Case 2

### World's first technology for wood traceability using DNA

Since 2003, Sumitomo Forestry has been developing method for wood traceability, or scientifically verifying the history of wood, from seedling to final product. Recently, we refined a technology for identifying specific pieces of wood using DNA.

Native forests play a major influential role in the earth's ecosystem. In order to protect such natural forests, wood resources in the future will be sourced mainly from artificial forests. These are sustainable forests in which tree varieties are best suited to the region, planted using top-quality seeds, then logged and replanted. From the perspectives of protecting native forests and preventing illegal logging, there are growing opportunities worldwide for promoting the use of legitimate timber, by using forest certification systems. However, there has been an absence of consistent rating systems for verifying production location, which is fundamental to confirming timber legitimacy. Because different verification methods are used in different regions, confirmation ultimately depends on visual inspection by the human eye. Facing this challenge, Sumitomo Forestry developed the world's first wood traceability technology using DNA. This is a revolutionary development allowing scientific verification of the legitimacy of wood products.

To date, identification of artificial forests was limited to leaves, logs, and boards. Our new technology, however, enables checks to be made at all stages, from seedlings to mature trees, and from logs to plywood and other processed timber products. Therefore, inspectors can confirm whether or not other timber varieties have been added at any time in the process, from forest to consumer, so they can prevent a reduction in quality at an early stage.

The Sumitomo Forestry Group has been involved in forestation activities in various world regions for some time. These activities include breeding of high-quality seeds and clone propagation of famous and valuable trees. Having established our revolutionary wood traceability technology, however, we plan to develop an integrated business that also includes planting of high-quality trees and forestation management.

#### Identification of plywood and laminated timber also possible

In the case of trees with long growth periods, DNA-based identification has been difficult in the past. This is because the accuracy of analysis deteriorates as the portion analyzed gets closer to the tree's heartwood. In the case of plywood and other processed products, moreover, the quality of analysis deteriorates due to heating and bonding at the time of manufacture. With our new technology, however, we earmark sections where, in the DNA base array of the subject being analyzed, DNA with the same makeup is aligned repeatedly from two to five pairs. Using difference in the lengths of such sections, we can identify plywood and laminated timber.

#### Wood traceability using DNA

This method uses DNA technology to identify individual wood-related specimens, from seedlings to logs and wood materials, making wood traceability possible.

