

Sustainability

This year's annual report provides an overview of the Sumitomo Forestry Group's important CSR activities. For more details on the Group's CSR activities and performance data, please refer to the *CSR Report 2014*.

CSR Report 2014  <http://sfc.jp/english/information/society/index.html>

Pursuing Sustainable Businesses

Based on the philosophy of Sumitomo Forestry Group—"utilize timber as a renewable, healthy, and environmentally friendly natural resource, and contributes to a prosperous society through all types of housing-related services"—we are implementing sustainable initiatives—including providing timber and wood building materials from sustainable forests, and providing environmentally friendly homes—in order to help solve problems facing the global environment and society. Valuing employees and their families, we are proactively working to create workplaces that encourage the active participation of a diverse range of people.

Providing Timber and Wood Building Materials from Sustainable Forests

The Group promotes environmentally friendly, sustainable forest management in Japan and overseas to preserve forests, which serve the public good, while enabling the perpetual use of timber resources. In fiscal 2007, Sumitomo Forestry established its Timber Procurement Philosophy & Policy and Action Plan, and has promoted procurement of timber from forests that have been verified as legally compliant and appropriately managed. Accordingly, we will also promote the increased handling of timber from certified forests, plantation forests and Japanese timber.

Company-owned Forests in Japan

(As of March 31, 2014)

45,808ha

(As of March 31, 2013)

43,328ha

Maintenance and Expansion of Timber Resources through Company-owned Forests Management

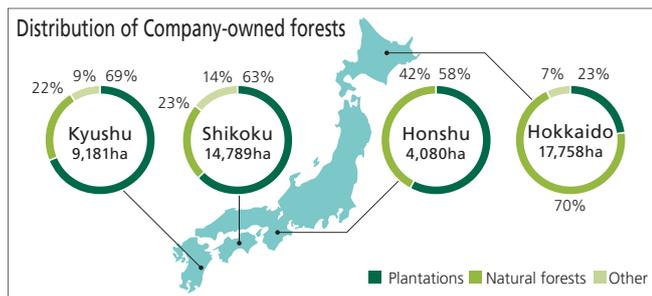
The Group owns a total of 45,808 hectares of forests within Japan (about 1/900th of the nation's land area). During fiscal 2013, we increased our Company-owned forests in Japan by approximately 2,500 hectares from the previous year through the additional purchase of forest in Hokkaido and elsewhere. To step up our environment-sound management of forests and secure sustainable resources, we are considering further expanding the area of forestry we own, and plan to take measures to revitalize Japan's forestry industry and ensure the availability of renewable timber resources.

The Group divides the Company-owned forests it manages in Japan into two categories: "economic forests," in which production of timber is prioritized, and "environmental forests," where environmental protection is the main priority. In 2006, we acquired certification from Japan's Sustainable Green Ecosystem Council (SGEC)*1 for all Sumitomo Forestry-owned forests*2, because of our appropriate forest management practices, including the preservation of biodiversity. In the forestry management, we undertake appropriate

thinning that takes into consideration the ecosystems and other environmental aspects of each area, in the interest of maintaining and expanding timber resources. In addition, making use of our knowhow developed through management of Company-owned forests, we provide forestry management consulting services.

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

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



Overseas Plantation Land Area

(FY2013)

12,136ha

(FY2012)

8,412ha

Sustainable Plantation Forest Operations Overseas

In order to preserve in a stable and environmentally friendly manner the raw materials such as wood building materials, we are promoting plantation forest operations primarily in Indonesia and Papua New Guinea. At our "commercial forestry," designed to supply raw materials for wood building materials and wood chips, we appropriately redistribute the land under our management, to protect valuable ecosystems and at the same time contribute to the local economy through our plantation forest operations. We also manage "environmental forestry" which support our greening projects for environmental protection, and proactively afforest land even where it is difficult for plants to grow. By expanding areas under forest cover, we are working on environmental contribution. With the cooperation of the people of surrounding areas, we also engage in "social forestry," so that local residents can share in the economic benefits of plantation forestry. In fiscal 2013, as a result of proactive afforestation activities in Indonesia, we increased our total plantation land area by about 4,000 hectares year on year to 12,136 hectares.

Percentage of Legally Verified Directly Imported Timber and Wood Building Materials

(FY2013)
100%
 ▲
 (FY2012)
 100%

Percentage of Certified Imported Timber and Plantation Timber

(FY2013)
62%
 ▲
 (FY2012)
 63%

Ensuring the Traceability of Timber

To prevent the reduction and degradation of forests, legal frameworks are being created around the world to eliminate illegal timber-harvesting. The Group confirms that the timber it handles was appropriately managed and harvested in compliance with the laws of each country and region, based on documents providing certification to that effect from suppliers and on investigative reports by personnel of the Company posted overseas. In fiscal 2013, we carried out inspection of legality for three times and confirmed our imported timber was 100% legal for the consecutive second year. We will continue the inspection to ensure the sustainable procurement of timber and timber products.

Promote the Use of Timber from Certified Forests and Plantation Forests

To promote distribution of timber from appropriately managed forests, the Group is working to increase the handling ratio of imported timber that is certified by the Forest Stewardship Council^{*1} (FSC®) and the Programme for the Endorsement of Forest Certification^{*2} (PEFC) which comprise a global forest certification system. We have a target in the timber and building materials distribution business of increasing the proportion of timber from certified forests and plantation forests to 68% of directly imported timber by fiscal 2015. In fiscal 2013, we maintained the previous-year level of 62% for all types of imported timber, despite a decrease in volumes handled for plywood due to soaring prices for certain timber from plantation forests. In fiscal 2014, we will increase the handling ratio of timber from certified forests and plantation forests used in all the products in timber and building materials distribution business, by developing and marketing new plywood products using timber from certified forests and plantation forests.

*1. The Forest Stewardship Council (FSC®), which is a third-party organization, provides a global forestry certification system. Its Forest Management (FM) certification authenticates forest management, while FSC Chain of Custody (CoC) certification confirms that forest products from certified forests are appropriately separated and marked in the storage, processing and distribution processes.

*2. Abbreviation of the Programme for the Endorsement of Forest Certification Schemes. It is implemented by the international supervisory organization that inspects forest certification schemes independently created in various countries and promotes mutual recognition between these schemes.

Providing Environmentally Friendly Homes

In its Custom-Built Detached Housing Business, the Group adopts the design methods that utilizes the power of nature in the areas of wind and solar. It encourages reduction of home energy consumption by increasing the use of solar power systems, household fuel cells (ENE-FARM) and other types of environmentally sound equipment through promoting sales of the "Green Smart" smart house. We are involved in the development of Life Cycle Carbon Minus (LCCM) homes to reduce CO₂ emissions in the overall life cycle, and also take a wide range of initiatives to ensure environmental friendliness such as utilizing domestic timber in principal building materials.

Installation Rate*(Environmentally sound equipment in custom-built detached homes)

(FY2013)
72%
 ▲
 (FY2012)
 62%

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

Promoting "Green Smart" Orders and Sales

"Green Smart" is a housing product concept for custom-built detached homes in which CO₂ emission volumes are reduced during the period when the home is actually lived in. Sumitomo Forestry proposes comfortable living all through the year with our products using wood which is a renewable natural resource as well as absorbs and accumulates CO₂ when it grows, and by utilizing "Ryouonbou" design method of natural heating and cooling system leveraging the wind and sunshine. The "Green Smart" concept brings together our expertise in home-building utilizing the features of wood and the blessings of nature, heat insulation performance to reduce energy consumption, environmentally sound equipment to use energy more intelligently and the environmental technology such as Home Energy Management System (HEMS) that enables homeowners to visually track energy usage and encourages them. Through the promotion of the "Green Smart" concept, we aim to increase energy efficiency in the home and reduce CO₂ emissions during the period the home is inhabited.

The proportion of homes with our environmentally sound equipment increased in fiscal 2013 by around 10 percentage points year on year as a result of our efforts to drum up orders for smart products.

Percentage of Japanese Timber Used for the Principal Structural Members*

(FY2013)

70%



(FY2012)
70%

* Covers the Multi-Balance Construction Method, which is the main method for building the Company's custom-built detached homes.

Utilizing Domestic Timber in Building Materials and Interior Products

The Group is proactively promoting the use of domestic timber and is developing original building materials using domestic timber to introduce them in custom-built detached homes. We also contribute to the revitalization of Japan's forestry industry while preserving domestic forests by proactively using domestic timber for interior products made by the Group subsidiaries, as well as promoting the use of domestic timber in furniture and exterior products. In fiscal 2013, the handling ratio of domestic timber for principal structural members, our mainstay products that account for approximately 60% of the custom-built detached home products, remained at 70%, the same level as last year.



Interior (floor materials) using domestic timber

Research and development: Life Cycle Carbon Minus (LCCM) Housing

Taking an integrated approach to home construction, use, refurbishment dismantlement and demolition, the Group is now involved in development of Life Cycle Carbon Minus (LCCM) housing, in which CO₂ emissions are reduced in the overall life cycle of the property. With an aim to develop detached homes with lower environmental impact, in October 2013, we completed a pilot structure for the purpose of evaluating the results of our research in an actual home, and carried out a Life Cycle Assessment* (LCA) on an LCCM model home that will reduce CO₂ emission in the overall life cycle. As a result, compared with standard models by Sumitomo Forestry, the LCCM model is able to cut CO₂ emissions by 37% when it is constructed and by 50% while being lived in. A further finding was that CO₂ emission volumes become negative with the installation of 7kW-solar power systems. During fiscal 2014, we plan to carry out LCA on the recycling benefits of waste materials generated during the construction and dismantlement stages.

* Life Cycle Assessment (LCA) is a method of quantitatively evaluating environmental impact of products and services through all stages of their lives, including raw materials procurement, manufacture, transportation, usage/consumption and demolition.

Promoting Global Warming Countermeasures through Our Business

We promote energy-saving initiatives in offices and plants as well as the use of wood biomass to reduce CO₂ emissions generated by the Company's business activities. In addition, we are undertaking various measures through our business activities to help stem global warming. These include the absorption and storage of CO₂ through our forest management, reducing CO₂ emissions during housing construction and use as well as carbon offsetting.

Carbon Stock* (From timber used to build new custom-built detached housing in Japan)

(FY2013)
Approximately

209,000t-CO₂



(FY2012)
Approximately

203,000t-CO₂

* The amount of CO₂ retained as carbon from timber used in the Group's new detached housing built in Japan. Sumitomo Forestry Home houses retain about 22.6t-CO₂ per unit.

Expanding Carbon Stock

Carbon stock is the volume of CO₂ that is absorbed by trees and sequestered as carbon. The Group is working to expand the carbon stock by sustainable management of Company-owned forests in Japan, and through overseas plantation forestry. The Group also helps fight against global warming through increasing timber-based carbon stocks mainly by building high-quality, long-lasting wooden homes and promoting the MOCCA Business, which is widening the applications of timber resources. In fiscal 2013, carbon stock derived from timber used to build custom-built detached housing increased by approximately 6,000t-CO₂ from the previous fiscal year due to an increase in unit sales of custom-built detached housing.

The Sumitomo Forestry Group's Carbon Stock (2013)

Company-owned forest in Japan:	11.96 million t-CO ₂ (11.00 million t-CO ₂ in previous year)*1
Plantation forests overseas:	3.87 million t-CO ₂ (3.79 million t-CO ₂ in previous year)*2

*1. Domestic: carbon stock as of the beginning of fiscal 2013

*2. Overseas: carbon stock as of the beginning of 2013

Biomass and Solar Power Generation Operations

The Sumitomo Forestry Group engages in biomass power generation operations primarily using as fuel recycled wood chips from timbers produced from construction waste, and previously unused timber resources. The volume of CO₂ released by combustion of timber is equivalent to that of CO₂ absorbed as atmospheric CO₂ through photosynthesis when wood was growing, and in the total life cycle of the tree, the atmospheric CO₂ does not increase. For this reason, the Group is developing biomass power generation as a new business that makes effective use of timber and suppresses emissions of CO₂.



Environment-friendly wooden frames for solar panels

Additionally, we built a solar power generation facility with a generation capacity of 876 kW at Kashima City in Ibaraki Prefecture, which began operation in November 2013. With an expected annual output of around 900,000 kWh, we generated 357,000 kWh in fiscal 2013. By using originally-designed wooden frameworks made of domestic cedar timber for some of the solar panels, we reduce environmental impact caused by power generation facility.

Total Plantation Land Area in the Carbon Offset Project

(FY2013)

1,464ha

(FY2012)

1,090ha

Carbon Offset through Afforestation

The total amount of CO₂ emitted during the whole process of producing principal structural members for the Company's custom-built detached homes and detached spec homes is around six tons per unit, extending from the use of trimmed wood through processing, transportation and to final construction work. To offset the CO₂ emitted by its business, Sumitomo Forestry is carrying out initiative called "Project EARTH." The initiative will offset CO₂ emissions for all custom-built detached homes and detached spec homes sold over a five-year period beginning fiscal 2009. We will plant around 1.5 million trees in 1,500 hectares of land and over the next decade, we plan to cultivate and manage this afforested area. Plantation will take two forms—environmental forestry aiming to revive ecosystems on degraded land at Bromo Tengger Semeru National Park, located in East Java, Indonesia, and commercial forestry at the foot of Mount Semeru in Lumajang Regency, East Java, to be advanced together with the community to both realize sustainable forest management and contribute to the region. The total area covered by carbon offset projects has grown to 1,464 hectares. We plan to extend this initiative from the original plan by three years to fiscal 2016.



Commercial forest at the foot of Mount Semeru

Creating an Environment that Encourages the Active Participation of a Diverse Range of People

Based on its action guideline, "respect for the individual: create an open and inclusive corporate culture that values diversity," the Sumitomo Forestry Group will aim for the highest standards of excellence in the field of housing by taking global initiatives to ensure that employees as a group maintain a positive spirit of willingness to take on challenges at all times through measures such as establishment and administration of personnel systems, appropriate and effective deployment of human resources, and their development and training. We also actively promote work life balance through workplaces that support the professional and private lives of employees.

Employment breakdown

Figures in () are for the previous year

Management level:	2,053 (1,983)
Non-management level:	2,292 (2,303)
Contract employees:	111 (114)
Hosted from other companies:	30 (16)
Average years of service:	14 years and 3 months (14 years)
Ratio of disabled employees:	2.18% (1.95%)
Ratio of locally hired employees at overseas Group companies:	99.3% (99.2%)

(Sumitomo Forestry non-consolidated, as of March 31, 2014)

Ratio of disabled employees

(As of March 31, 2014)

2.2%

(As of March 31, 2013)
2.0%

The Sumitomo Forestry Group
Three policies in our declaration on expanding the role of women

- 1 Create a workplace which is comfortable for women to work in
- 2 Leverage the female angle
- 3 Foster new innovativeness by expanding the role of women

Ratio of pregnant women who take childcare leave

(FY2013)

100%

(FY2012)
95%

Promoting Employee Diversity

The Group has a non-discrimination policy with regard to hiring and treatment of employees, which respects equality of opportunity and diversity, and makes no distinction based on gender, age, nationality, race, religion or disability. Based on this policy, we aim to create a workplace in which highly motivated employees can give free rein to their abilities. We are also engaged in various initiatives to create a workplace that broaden the participation of female employees, with support for child care, and are geared to the needs of those with disabilities. As a result of these measures, as of April 1, 2014, the percentage of female employees including contract employees was 18.4%, (compared with 17.7% in the previous fiscal year), and the percentage of newly hired female university graduates as of April 1, 2014 was 28.7% (23.6%). The average years of service was 14 years and three months (compared with 14 years in the previous fiscal year), in all cases increased year on year. Overseas Group companies are actively engaging in local hiring and the rate of local employment was 99.3%, up from 99.2% in the previous fiscal year.

Employment of People with Disabilities

Sumitomo Forestry places priority on tailoring the individual characters of the employees to the workplaces and job assignments in promoting the hire of employees with disabilities. In fiscal 2013, 10 people with disabilities were taken on, bringing the ratio of disabled employees as of March 31, 2013 to 2.2%, higher than the legally mandated level of 2.0% for private enterprises in Japan.

Commitment to Expand Women's Roles

In Japan, where demographic change (a falling birth rate and rising number of elderly) is expected to lead to a decline in the working population, promoting women's greater participation in the workforce at all kinds of enterprise is an important issue. It forms the third arrow of the Japan Revitalization Strategy compiled by Prime Minister Shinzo Abe in the previous fiscal year. To date, the Group has committed itself to diversity-based management, which respects the diversity of every individual and stimulates the competitiveness of the Company. To strengthen such measures, the Group has compiled a declaration on expanding the role of women, and encourages their broader participation in the workforce.

Initiatives to Encourage a Better Work-Life Balance

Sumitomo Forestry, recognizing the importance of work-style diversity, has taken initiatives to arrange childcare and nursing leave systems, promotion of women's participation in the workforce, and reduction of overtime, with the aim to create a workplace employees find worthwhile and create a rich family life.

In fiscal 2013, we established the Workstyle Diversification Department in the Personnel Department, under which employees can find in one place support desks for work approach and career-related matters including childcare, nursing, support for career formation, mental health, reemployment after retirement, etc. In this way, we have in place a framework enabling employees to consult even more easily than before, and which supports alternative approaches to work.

In fiscal 2014, we established a working group to look into approaches to work for parents with young children, to identify areas requiring improvement in current working practice. We are creating of workplace environments that are better suited to employees with young children.



Forum for exchange for mothers