SUMITOMO FORESTRY CO.,LTD.

Sumitomo Forestry Group

CSR Report 2013

CSR Report 2013

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Top Message

President / Representative Director
Akira Ichikawa

Chaireman / Representative Director
Ryu Yano

The Sumitomo Forestry Group traces its origins to the forests that supplied timber to the Besshi Copper Mine in Ehime Prefecture, opened a little over 320 years ago. Our Corporate Philosophy states, "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."

Supporting Disaster Recovery Efforts by Doing What We Do Best

As the Sumitomo Forestry Group continues to enhance the value of forests and the potential of timber, and utilizes timber in housing-related businesses, we continually ask ourselves if our operations are beneficial to society. Following the Great East Japan Earthquake, we are acting on a strong sense of duty to help facilitate a quick recovery in the disaster-affected Tohoku region. Going beyond construction of emergency housing and other public housing initiatives for affected residents, we entered into a reconstruction cooperation agreement with Higashimatsushima City, Miyagi Prefecture, in July 2012.

The Group supports Higashimatsushima's wood-based city development in a variety of ways, for example through the promotion of forestry in coastal areas struck by the tsunami, wood biomass power generation business and timber use in public building construction. This is in line with our approaches, developed over the years, of pursuing a sustainable recycling-oriented society in which we repeatedly plant, grow, harvest, use and replant trees, and of promoting wood use integration to encourage timber use in non-residential building construction, use of wood resources in housing and pervasion of a wood culture.

Enhancing the Value of Housing Stock

Japan is said to have a stock of 57 million houses nationwide, many of which are inadequate in terms of basic performance parameters such as earthquake resistance and insulation. As illustrated by Japan's revising its Basic Plan for Housing in line with the Basic Act for Housing in March 2011, it is vital that the nation increases its stock of good-quality houses that can be lived in well into the future. In our remodeling and renovation business, we propose a construction method based on both vibration control and earthquake resistance. It involves the use of vibration control devices found in hydraulic dampers of high-rise buildings, modified for application in wooden houses, together with conventional earthquake-resistant construction methods. We have also officially entered the renovation business, applying the engineering and design capabilities and integrated capabilities of the Sumitomo Forestry Group developed through custom-built housing, to enhance the value of assets like condominiums and company housing. In regard to new housing construction, we are participating in validation testing of construction methods for countering liquefaction implemented by Urayasu City, Chiba Prefecture, the aim being to conduct soil improvement for detached housing, which was previously considered challenging.

In October 2012, we launched a new product based on the Big-Frame construction method using an original wooden beam Rahmen structure, introducing a house with improved earthquake resistance, fire resistance and durability, and also versatility by allowing future alterations. As part of our role to provide good-quality housing stock for the future, we have started various initiatives relating to residential styles, such as commercializing two-family and three-story homes, as well as, in the wooden apartment building sphere, share houses, which have been the focus of much interest in recent years.

Ensuring Responsible Use of Forest Resources

The Sumitomo Forestry Group owns 43,328 hectares of forests in Japan, around 1/900 of the country's land area, and manages around 200,000 hectares of forest overseas, such as in Indonesia and Papua New Guinea. Trees are the foundation of the Group's business. We engage in wooden panel manufacturing, and distribution of timber and building materials. We also operate wooden housing businesses in Japan, Australia, the United States and China.

As trees grow, they absorb carbon dioxide and continue to store it as carbon even after they're processed. As part of a sustainably managed forestry operation, trees are a natural resource that contributes to the prevention of further global warming. Greater responsibility in timber procurement, including action on steadily declining forest area, is required. Each year, the Group formulates an action plan in line with its Timber Procurement Philosophy, established in 2007. In fiscal 2012, we sought to expand the boundaries of that plan. We also added CSR-related questions to our supplier questionnaire and have been strengthening traceability in order to comply with the European Union Timber Regulation (EUTR), which took effect in March 2013.

In our management of Company-owned forests, forestry operations and procurement of timber resources, considerations toward biodiversity preservation have become increasingly important. We commenced related activities in March 2012 after formulating the Sumitomo Forestry Group Declaration of Biodiversity. Addressing the question of how the merits of forests could be employed to reduce greenhouse gases, we undertake feasibility studies of bilateral credit mechanisms (REDD+) as solicited by Japan's Ministry of the Environment. Project EARTH, a reforestation project seeking carbon offsets for the housing business, is also entering its fifth year with reforestation in Indonesia progressing as planned.

Having engaged in tree-related business over three centuries, the Sumitomo Forestry Group has the ability and a duty to act to ensure responsible use of forest resources.

Creating an Environment Where Diverse Human Resources Can Work Together

Our philosophy of contributing to the creation of a sustainable society is upheld by Sumitomo Forestry Group employees in 13 countries and 40 regions. Aiming to create an environment where diverse human resources can work together, in Japan we established the Workstyle Diversification Department in April 2013, enhancing the functions of the Work & Life Group. We will take active steps to create workplaces where female employees and junior employees can better apply their talents, to ensure the right environments are in place to support childcare, and to establish frameworks promoting the employment of people who have a role to play, regardless of disabilities or age.

We can sense the mounting expectations of our stakeholders. Those expectations come from an understanding of our Corporate Philosophy and trust in the legacy we have built. We intend to meet those expectations by making our knowledge and technologies available in as many countries and regions as possible and through businesses that benefit society. We believe that is the Sumitomo Forestry Group's responsibility and duty as we aim to be "the world's leading forestry company."

Headed by the Tohoku Reconstruction Support Department, which was placed under the President's direct control in April 2013 as a way to speed up efforts, the Group's 15,000-strong workforce hopes to make a powerful contribution to realizing a quick recovery by doing what we do best.

Addressing the Diversifying Functions of Houses and Energy Issues

Houses are filling increasingly diverse roles following the Great East Japan Earthquake. A house is a place where we can lead a healthy life in safety and with peace of mind. It is the smallest social unit fostering ties between family members and between people in the community. At the same time, a house can play a role in society's infrastructure for energy creation, for example through the installation of environmentally friendly equipment.

The Sumitomo Forestry Group has been placing its priority on selling energy-efficient houses. A wide range of environmentally friendly equipment is available with the new *Smart Solabo* house, launched in July 2012, including two home storage battery systems (a large-capacity 12kWh system and a 4.8kWh system) that can be linked to the house's solar power system, and a vehicle-to-home (V2H) system.* One result of this was an installation rate for environmentally friendly equipment in fiscal 2012 of 62%, an 11-point increase from the previous year.
We are also working on development of Life Cycle Carbon Minus (LCCM) housing to make total carbon dioxide emissions negative over the entire life cycle of a home, from construction, operation and renovation through to dismantling and disposal. A model house, enabling evaluation and testing of an actual house, was completed in July 2013.

*A system enabling use of the battery of an electric vehicle as a battery for the home.

Corporate Governance

MANAGEMENT SYSTEM

Corporate Governance Guidelines

The Sumitomo Forestry Group's corporate philosophy is "to utilize timber as a renewable, healthy, and environmentally friendly natural resource, and to contribute to a prosperous society through all types of housing-related services." In addition, one of its Action Guidelines is that "we conduct business that is beneficial to society based on the principles of integrity and sound management," and reflecting this it works to ensure transparency in management, that its operations are appropriate and comply with laws, and to carry out quick decision-making and execution of operations. Through these efforts, the Group is further strengthening its corporate governance and continuously increasing its corporate value while conducting management that lives up to the expectations that its many stakeholders have for the Group.

Corporate Governance and Internal Control

The Company introduced the executive officer system to separate decision making and management oversight from operational execution functions, enabling the seven directors comprising the Board of Directors to take quick decisions. Moreover, in April 2010, the oversight function of the Board of Directors was strengthened and the lines of operational responsibility further clarified, as from this point the Chairman of the Board of Directors was no longer to serve as an Executive Officer.

Sumitomo Forestry is a company with auditors. In addition to attending important meetings within the Company, the auditors provide oversight for the directors' execution of duties, through sharing information and opinions with auditors at Group companies and the staff in the Internal Audit Division, and by supervising staff assisting auditing operations.

As of June 21, 2013, seven directors and 17 executive officers had been appointed to the Company, and three of the five auditors were external auditors. Furthermore, based on the opinions of investors and in view of social trends such as changes to company legislation, the Company continues to examine the appointment of external directors from the perspective of further strengthening and enriching its corporate governance.

List of Directors and Executive Officers (link to Corporate Information)

Corporate Governance Structure (as of April 30, 2013)

* Important matters requiring management decision are submitted to the Executive Committee (decision by committee)

Board of Directors and Executive Committee

In principle, the Board of Directors meets once a month, making decisions on important issues and carrying out its supervisory function. In addition to making decisions on all important items and confirming business results, it supervises the directors' execution of their duties. The Executive Committee, which is a consultary body for the President, holds meetings twice a month, before the Board of Directors meeting to ensure that there is sufficient prior discussion on important issues. It is attended by those directors who also serve as executive officers, as well as the full-time statutory auditors. In fiscal 2012, the Board of Directors met 16 times and the Executive Committee 26 times. Six of the directors attended all 16 meetings, and one director attended 15 of the meetings.

Board of Statutory Auditors

The Board of Statutory Auditors meets to discuss and make decisions on important matters regarding audits. The five auditors, including the three external auditors, utilize the deep insights and diverse perspectives they have acquired from their various business backgrounds to provide oversight for the directors' execution of duties. The Board of Statutory Auditors met 14 times during fiscal 2012.

The Board of Statutory Auditors for the Group is comprised of the full-time auditors from Sumitomo Forestry and the auditors from the Group companies. It meets once every two months to exchange information and improve the effectiveness of the audits undertaken at Group companies.

Attendance of External Auditors at Meetings of the Board of Directors and Board of Statutory Auditors (FY2012)

Name and area of expertise		Board of Directors		Board of Statutory Auditors	
		No. of meetings attended	% of meetings attended	No. of meetings attended	% of meetings attended
Satoshi Teramoto	Certified Public Accountant	16	100%	14	100%
Shin Nagata	Professor at the Graduate School of Agricultural and Life Sciences at The University of Tokyo	13[1]	100%	11[1]	100%
Junko Hirakawa	Attorney at Law	13[1]	100%	11[1]	100%

1 Shin Nagata and Junko Hirakawa have both attended all meetings of the Board of Directors and all meetings of the Board of Statutory Auditors since their appointment as external auditors on June 22, 2012.

Risk Management Committee

In order to establish a system for managing business risk that encompassed Group companies, the Group created the Risk Management Basic Regulations and the Company President was appointed as the person who is the highest authority on risk management within the Company and Group companies.

Furthermore, in order to manage risk based on these regulations in an appropriate and smooth manner, the Company established the Risk Management Committee, which is chaired by the executive officer in charge of general administration, and under this, it established the Compliance Subcommittee and the BCP Subcommittee, which are chaired by the general manager of the General Administration Department and comprised of the general managers and working-level managers of each department. Doing so has increased the effectiveness of the cross-sectional risk management activities undertaken by the Group as a priority. By regularly reporting on the activities of the committee to the Board of Directors and to the auditors, and by undertaking management reviews, a system has been developed whereby risk management is reflected in the Company's business activities.

During fiscal 2012, the Risk Management Committee met four times, the Compliance Subcommittee two times, and the BCP Subcommittee three times.

CSR Committee

The CSR Committee is chaired by the executive officer in charge of CSR, and is comprised of the general managers and working-level managers of each department. Its purpose is to promote improvements in CSR activities in cooperation with each division and department. In fiscal 2011, in addition to appointing CSR promotion officers in every business department and Group company, the committee conducted a CSR survey on the Group companies, which covered 10 topics, including human rights, labor practices and health and safety, and intellectual property. In fiscal 2012, based on the results of this survey, the Company assisted Group companies in setting CSR targets, and in fiscal 2013, it will verify the progress made in achieving these targets. Furthermore, conducting the second CSR survey in March 2013, the Company has established a system that follows the PDCA cycle.

On top of these efforts, in fiscal 2012, the Company invited external lectures and held four in-house seminars for employees to learn about the latest trends in CSR. The Company plans to continue these seminars in fiscal 2013.

▶ In-house seminar on the latest trends in CSR(P35)

Officer Remuneration

In accordance with laws and regulations, Sumitomo Forestry discloses the remuneration paid to officers (directors and auditors, separated into external and internal) each fiscal year.

Remuneration Paid to Officers (FY2012)

Category	Number	Total amount
Directors (External directors)	7 (0)	421 million yen (0)
Auditors (External auditors)	8 (5)	74 million yen (25 million yen)
Total	15	495 million yen

1. The number of auditors includes three auditors who retired at the conclusion of the 72nd Ordinary General Meeting of Shareholders held on June 22, 2012.
2. The total amount of remuneration paid to directors includes a total of 105 million yen for bonuses to directors, which was resolved at 73rd Ordinary General Meeting of Shareholders held on June 21, 2013.

Risk Management and Compliance

MANAGEMENT SYSTEM

Risk Awareness

With the scope of establishing a risk management system that is integrated with internal control, and developing regulations for risk management, members of the Risk Management Committee of Sumitomo Forestry investigate and verify the priority risks to be addressed in their respective area of responsibility every year, before formulating plans for managing those risks, and sharing these with the committee. The Company has also established the Compliance Subcommittee and the BCP Subcommittee as subordinate organizations under the Risk Management Committee for dealing with "compliance risk" and "disaster risk," which are regarded as cross-cutting risks affecting the Group. These activities are reported to the Board of Directors meetings once a quarter, and to auditors via the monthly Internal Control Report, and reviews are undertaken by management.

Rapidly Comprehending and Dealing with Risks

The Sumitomo Forestry Group operates a two-hour rule system designed to quickly and accurately communicate information to management in the event of an emergency situation that may have a grave impact on company management. The Group has developed a system whereby, through sharing information at an early stage, management can take a speedy and appropriate initial response, and information can be disclosed to stakeholders in a timely and appropriate manner. Moreover, collecting and accumulating reported cases leads to stronger Group-wide measures for preventing these situations from recurring.

In fiscal 2012, in order to bolster the system for disclosing information to stakeholders, a system was built and cooperation further strengthened so that, as well as emergency information being communicated to the General Administration Department at Sumitomo Forestry, information is also shared with public relations departments.

Compliance

Compliance Promotion System

Sumitomo Forestry established the Compliance Subcommittee as a subordinate organization under the Risk Management Committee, chaired by the general manager of the General Administration Department and comprised of the general managers and working-level managers of each department. As a cross-cutting organization across the Group, the subcommittee promotes compliance management. Furthermore, by sharing information on safe driving management and on systems for managing the permits, licenses and nationally qualified persons needed for business, and through seminars led by invited experts, the Group is working for a bottom-up approach for compliance managers at each Group company. In addition, the Group also shares the risk information of each company throughout the entire Group by holding a briefing session every month to report information to internal auditors.

During fiscal 2012, the Compliance Subcommittee met twice, primarily to disseminate information widely on the compliance risks associated with accepting public works projects, such as about the Public Service Ethics Code, the Antimonopoly Act and the Construction Business Act. Efforts are also being made to strengthen the Group's Safe Driving Management System. Given that the Group manages up to about 6,000 vehicles, in order to avoid or reduce the risks associated with traffic accidents and violations, in 2007, the Company independently developed the Safe Driving Management System, an integrated system for managing information on drivers' licenses, vehicle inspection certificates, insurance, and administrative offenses. In addition, since then, each branch has been required to submit a monthly report. Furthermore, once a year, Certified Driving Records[1] are acquired for employees who have an opportunity to drive either to work or at work, and based on an analysis of this data, the Company implements measures for preventing violations and conducts driver safety education programs. In recognition of these activities, the Company was awarded a certificate of appreciation from the Japan Safe Driving Center in November 2012.

1 A certificate issued by the Japan Safe Driving Center showing a driver's violations and administrative punishments, etc. Certificates are issued pursuant to an application made by either the driver or a place of business authorized by the driver.

Internal Audits

Every year, the Internal Audit Department draws on risk assessments in selecting about 60 business sites from among the roughly 200 business sites in the Sumitomo Forestry Group, and conducts internal audits on them. In the internal audits, the department checks on how a business site is executing its operations and managing its office work, including its compliance with laws and regulations, and it reports its findings to the President, the executive officer in charge of internal audits and to internal auditors, as well as to the manager responsible for the business site and the executive officer or director in charge of the business site. Furthermore, if any indications have been made, the department checks the improvement efforts implemented at the business site, such as by examining documents and conducting quarterly follow-up reviews, and reports on these to the President and to the executive officer in charge of internal audits.

Compliance Training

In order to heighten awareness among each and every employee about compliance, Sumitomo Forestry conducts compliance training for new employees to promote their understanding about traffic safety, information security and intellectual property. In fiscal 2012, training was delivered to 116 new graduate recruits and 74 mid-career recruits. Compliance training was also provided to groups of employees at specific levels, such as "Training for Management" and "Training for New Managers."

Furthermore, two e-learning courses, "Legal Compliance and Risk Management" and "Information Security" have been set as compulsory courses to be taken by all Group employees, and employees are required to take these courses every year. In addition, each Group company in Japan and overseas also has its own arrangements for training, such as for new employees.

Compliance Seminar for Employees on Public Works Projects

Sumitomo Forestry's construction business has centered around orders received from the private sector, typically, for custom-built detached houses. However, in line with the government policy promoting the use of wood in public buildings, etc., there is growing demand for non-residential wooden building structures, and it is expected that there will be more opportunities for the Company to be directly and indirectly involved in public works projects.
For this reason, in fiscal 2012, the Compliance Subcommittee held seminars delivered by lawyers, targeted at employees working in responsible departments. Participants reaffirmed the possibility of risks arising from being involved with public servants and other companies in the same industry as a consequence of public works, as well as matters to be observed under the Construction Business Act, such as the assignment of engineers and the keeping of account books.

Compliance Counter

As a corporate group that can stand proud before society, the Sumitomo Forestry Group is committed to creating a workplace environment equipped with a self-corrective function able to catch any impropriety concealed in day-to-day operations at an early stage, where each and every employee can feel proud to work. To this end, the Group established the Compliance Counters (advice desks) in 2002.

The Group has two Compliance Counters, one within the Group (general manager of the General Administration Department) and one outside it (lawyer), ready to provide advice and receive reports via telephone or a dedicated email address. The Group has also put effort into creating an environment in which employees can use the Compliance Counters easily. For instance, as well as stipulating in the relevant regulations and user manual about the protection of rights for persons seeking advice or making reports, and publishing this on the Sumitomo Forestry intranet, the user manual is also distributed to all Group employees.

In fiscal 2012, the Compliance Counters were contacted 36 times about such topics as workplace management and working hours. In cases where the facts were confirmed, in addition to implementing the necessary corrective measures, these examples were also taken up in management training for managers.

Compliance Counter Manual

Business Continuity Plan (BCP)

System of Business Continuity Plan (BCP)

As a measure against risks which could significantly impact Head Office functions and are beyond a company's capacity to prevent such as natural disasters and novel influenza, Sumitomo Forestry established the BCP Subcommittee as a subordinate organization under the Risk Management Committee to formulate business continuity plans (BCP) and promote activities for the Sumitomo Forestry Group in a systematic manner.

BCP Subcommittee meeting

The BCP Subcommittee is chaired by the general manager of the General Administration Department, and is comprised of the general managers and working-level managers of each department.

In view of the fact that Group companies are an integral link in the supply chain of each other's business, each Group company is committed to constantly improving the resilience of the whole Group, and tackling Group-wide issues with a mind to improving business continuity.

During fiscal 2012, meetings of the BCP Subcommittee were convened in the three metropolises of Tokyo, Nagoya and Osaka, where it is predicted that any large-scale disaster would leave many people unable to return home. The meetings targeted the key persons handling countermeasures to disasters and BCP responses at each business site, namely general managers and the persons responsible for general administration. In addition to giving publicity to the Group's standards for disaster prevention measures and initiatives based on these standards, BCP Large Scale Earthquake Countermeasures Simulation Training was also conducted based on a scenario of a large-scale earthquake. By sharing a sense of crisis, the aim of the training is to foster an environment which facilitates cooperation in the event of a disaster, and since 2011, in excess of 200 general managers and persons responsible for general administration have already undertaken the training.

Development of Systems for Business Continuity

The Sumitomo Forestry Group continues to formulate business continuity plans (BCPs) at each Group company both in Japan and overseas in preparation of an earthquake, disaster, emergency or other such event, and has advanced specific initiatives based on these plans. For example, in fiscal 2012, the Group redeveloped its information infrastructure to back up accounts data, customer data and so forth, and to enable the performance of priority operations, such as the payment of customer accounts, at home or at other remote locations in the event employees were stranded at home or otherwise unable to get to work. Every year since 2009, the Group has also continued to conduct simulation exercises for making payments in the event of an emergency.

Furthermore, in the housing business, the NACCS System, developed by Sumitomo Forestry, allows materials manufacturers, building contractors and other business partners to share such information as the specifications and processes for construction properties and the progress of construction sites means that users can anticipate the procurement and manufacture of materials. The system enables advanced procurement and manufacturing of materials, and thus business will not be easily interrupted even in the unlikely event that the supply chain is fragmented by a major disaster.

The Company has also worked to diversify disaster risk. In addition to being the first in the industry to establish an after-hours call center in 1999, and develop a system for customers to access after-sales support 24 hours a day, the Company also dispersed its business centers to Tokyo, Osaka and Nagoya, thereby achieving a system whereby calls from customers can be answered at any center. Moreover, by utilizing a disaster system to centrally manage each business center's information, the Company shares information on the disaster conditions of homeowners throughout Japan, and responds quickly to requests for repair, etc.

Countermeasures for Natural Disasters

Based on the experiences from the Great East Japan Earthquake of March 11, 2011, the Group has formulated the "standards for disaster prevention measures" for each Sumitomo Forestry Group company with a goal of strengthening the capacity of individual business sites to prevent damage from disasters. The standards include provisions for checking the levels of safety at all of the Group's business sites within Japan; implementing measures to ensure safety within work sites, such as to prevent work equipment falling over; and selecting standardized emergency goods and ensuring that the minimal necessary level of these goods are stored at all sites. In addition, in March 2012, the housing business departments revised the Disaster Response Guidelines, and published the *Record of Recovery and Disaster*, an internal document compiling responses taken after the Great East Japan Earthquake. Furthermore, in December 2012, the Company distributed the *Record of Activities Undertaken by Head Office and Business Divisions* to members of the Risk Management Committee. This document shares information on the measures taken immediately after a disaster by each section and department at Head Office and by each Division as well as the future challenges they face.

Disaster-preparation goods have been distributed to all Group business sites, and enough supplies have been stored at business sites in the Tokyo metropolitan area, Osaka and Nagoya for staff to remain at their offices for a period of three days if they find themselves unable to return home.

Measures for Employee Safety

Disaster prevention cards have been distributed to all Group employees, publicizing the basic response procedure to take in the event of a disaster. The safety verification system was also introduced in 2010, allowing the safety of employees to be checked quickly in the event of a natural disaster, and drills using this system have been conducted every year since.
During fiscal 2012, the BCP Large Scale Earthquake Countermeasures Simulation Training was conducted in March 2013. The training exercise not only raised the participants' ability to respond to a crisis, but also nurtured awareness for their individual challenges and those facing their organization. The company also continued to conduct Training for Employees Unable to Return Home after a Disaster.

Disaster prevention card

Measures against Novel Influenza

Sumitomo Forestry has established a policy for dealing with novel influenza for each of the pandemic influenza phases announced by the World Health Organization (WHO). While the policy states to "suspend operating activities" at Phase 4B (Outbreak in Japan), a decision will be made depending on the circumstances of the Company's employees and the circumstances facing financial institutions and other infrastructure. Group companies outside Japan have also formulated response policies for each phase in line with the systems in each country.

Hygiene products stored as a measure against novel influenza

During fiscal 2012, based on the BCP for Novel Influenza, the Company replaced all of the hygiene goods purchased in 2009.

On April 1, 2013, WHO announced the spread of the avian influenza A(H7N9) to humans. Given the increasing number of infected persons and deaths, the government's Advisory Council on Countermeasures against Novel Influenza and Other Diseases renewed its appeal for business operators to implement thorough measures for preventing infection, and advocated the necessity of business continuity plans. In response, the Company has also been promoting verification and review of its measures against novel influenza.

Overseas Risk Countermeasures

As the Company expands its business overseas, there is a growing number of overseas business travelers, representatives and accompanying family members. Given this, in fiscal 2012, the Company took steps to enhance its measures against overseas risks. It introduced a service of referring employees and their families to medical providers and making necessary arrangements so that they can receive appropriate treatment if they suffer an accidental injury or get sick while overseas.

Overseas emergency contact card

In fiscal 2013, the Company plans to formulate an Overseas Crisis Management Manual, which summarizes the safety management systems for employees overseas, as well as the principles of conduct and coping strategies in the event the employee suffers damage while overseas.

Information Security

Information Security Policy

In order to ensure the confidentiality, integrity and availability of its information systems, the Sumitomo Forestry Group has raised the security level of its systems while maintaining the "regulation" aspects and "technology" aspects of information security in a mutually complementary manner. Based on the recognition that the protection of customer information in particular is of utmost importance, the Group continues to conduct employee training to ensure dissemination of the rules, and verifies their level of awareness.

With respect to the "regulation" aspects of information security, the Group has established the Sumitomo Forestry Group Information Asset Protection Guidelines for Group companies in Japan. At the same time, it has prepared a checklist based on these guidelines, and every year, the person responsible for the department in charge of information systems at each Group company runs a check for the purpose of ascertaining the actual information security situation at each Group company and improving the level of security. In fiscal 2012, the Group also formulated guidelines for Group companies outside of Japan.

On the other hand, with respect to the "technology" aspects of information security, the Group has introduced encrypted start-ups and restrictions on writing data from computers that are taken outside the Company.

Systems for Managing Information Security

Under the supervision of the executive officer in charge of information systems, the general manager of the Information Systems Department promotes information security measures for the Sumitomo Forestry Group, such as the formulation and management of rules and regulations, the proposal and implementation of technical measures, the education and training of employees, and the investigation of accidents and implementation of countermeasures.

Furthermore, the person responsible for each department provides guidance and management for the execution of that department's operations as the information security supervisor, and assigns an information security officer who is the working-level manager for the department's information security.

The Group also holds regular meetings of the Affiliated Companies IT Managers Council, which is attended by the persons responsible for departments in charge of information systems at Group companies in Japan. The council checks the content of the guidelines and promotes the introduction of security systems.

Implementation of Information Security Self-Checks (Attitude Survey)

With an aim of raising the awareness of information security officers and understanding the information management activities conducted in each department, the Sumitomo Forestry Group introduced a self-check system provided by an external systems supplier, and performs self-checks once a year.

In fiscal 2012, self-checks were carried out on 122 information security officers, and as result of ongoing efforts, it was confirmed that awareness for information security had improved compared to the previous fiscal year.

Website Security Assessment

Once a year, the Sumitomo Forestry Group carries out a security assessment on the public websites of Sumitomo Forestry and each Group company. The Group commissions an external IT vendor to conduct the assessment, who uses a simulated attack to verify the safety of the websites and then remedies any vulnerabilities as they are discovered.

Intellectual Property Management

Intellectual Property Management Policy

Imitation and unauthorized use of trademarks and copyrights have become one of the risks for corporate management. The Sumitomo Forestry Group strives to protect the intellectual property it creates, such as by claiming rights for whatever it can, and concealing as know-how that property for which rights cannot be acquired.

The Group is also putting effort into preventing rights violations from being caused by or to the Group. It endeavors to improve awareness about intellectual property rights for all Group employees, not least those in the research and development departments and in the marketing and planning departments, such as by means of group study sessions, e-learning and educational activities via posters and the Company's intranet.

Systems for Managing Intellectual Property

Sumitomo Forestry established the Intellectual Property Department and it employs a number of patent lawyers on its department staff. In addition to providing support for creating intellectual property, support for filing applications and preserving rights for intellectual property, and support for concluding various technology-related contracts, the department also raises awareness for intellectual property among employees, conducts internal and external intellectual property trend analysis, and makes recommendations for the direction of research and development.

Poster advertising the Intellectual Property Hotline

Furthermore, in order to prevent rights violations from being caused by or to the Group, the Company has also established an Intellectual Property Hotline and promotes this service to employees.

Comments

Intellectual Property Department
Toshiro Ueshima
(patent lawyer)

I am committed to utilizing my qualification as a patent lawyer for the early discovery, use and protection of technologies and services likely to be patented, in order to facilitate the active creation of intellectual property from the Company's wide range of business areas.

Improvement of Training on Intellectual Property

The Intellectual Property Department conducts training for Group employees as required, for the purpose of promoting the creation of intellectual property and preventing any conflicts with the rights of other companies.

Since fiscal 2012, training that used to be conducted in groups according to function has been conducted as an e-learning program. The e-learning program focuses on the compliance aspects of intellectual property, and all Group employees are required to take the program.
Separate group training is also conducted especially for employees working in research and development departments. During fiscal 2012, group training was held three times on such subjects as trends in the intellectual property of Sumitomo Forestry and other companies, and precautions to note when concluding contracts for joint development. Each session was attended by 80% of researchers. Some impressions of the participants included: "I renewed my appreciation for the importance of checking earlier applications filed by other companies," and "I understood the main points when concluding contracts." In addition, every year, the company advertises for employees from research and development departments, including at Group companies, and sends them to training provided by external organizations, such as the Japan Intellectual Property Association.

Going forward, the Group will also prepare e-learning content for employees working in research and development departments, and will further enhance the training on intellectual property.

Briefing on Regulations Relating to Intellectual Property

In response to revision of the Patent Act in June 2011, Sumitomo Forestry revised its regulations relating to intellectual property, and in April 2012, it held a briefing to familiarize employees about the details of the revisions.

Previously, inventing and creating at Sumitomo Forestry tended to be biased toward housing business departments, and regulations were also primarily targeted at these departments. However, the Company has since developed a system whereby ideas are invited from all departments, and so regulations were revised to suit. The Company also took this opportunity to explain to its workforce again that intellectual property concerns all employees, not just a select few. Going forward, the Company will actively appeal to all departments for the creation of intellectual property.

Renewal of the Intellectual Property Department's Intranet Site

In April 2012, Sumitomo Forestry renewed the Intellectual Property Department's intranet site and called it the Intellectual Property Farm. The site provides Group employees with a fundamental grounding in intellectual property as well as a simple explanation about trademark rights that employees ought to understand when promoting business activities. The site also posts information on the latest topics concerning intellectual property.

Front page of the Intellectual Property Farm

With the website being used for employees to acquire knowledge and to educate them about intellectual property, its hit count has increased. The Company plans to continue enhancing the content posted on the site.

Misrepresentation by Former Employee Claiming to be a Qualified First Class Architect

In April 2012, it was revealed that an employee, who had joined and worked for the Niigata Sales Office at Sumitomo Forestry Home Tech Co., Ltd. claiming to be a qualified first class architect, had in fact misrepresented his qualifications. Notification was received from the Niigata Association of Architectural Firms to the effect that an inquiry of registration numbers of its member architects had revealed that the registration number of the former employee did not match. On receipt of that notification, the company immediately launched an investigation to confirm the facts, and dismissed the employee as disciplinary punishment in accordance with company regulations.

This case was reported as one of three in the press release *Regarding the Illegal Practice by Persons Not Licensed as Architects Using Copies of Forged Licenses, etc.*, which was issued by the Ministry of Land, Infrastructure, Transport and Tourism on July 11, and this announcement resulted in the case being reported in the press. Neither the corporation nor executive officers of Sumitomo Forestry Home Tech Co., Ltd. has received any administrative or criminal punishment.

Approach to Confirming Qualification Certificates

Previously, the Sumitomo Forestry Group, including Sumitomo Forestry Home Tech Co., Ltd., had checked the originals of qualification certificates as part of the procedures for joining a company. In response to this situation though, since June 2012, the Group has confirmed that each qualified person has the proper qualifications, such as by thoroughly rechecking the original certificates for business-related qualifications for all Group employees and verifying them with government administrations and other organizations.

Response to Customers

During his approximately one and a half years of employment, this former employee was involved in a number of properties, such as placing orders for materials. With regard to these properties, the company provided all customers with an apology and explanation of the situation. In addition, the company also checked that there were no performance or safety issues with any of the remodeling and renovation construction work, and reported this to customers.

With respect to the two cases in which this former employee had explained important matters to customers without presenting his architect license, in each case, employees with proper qualifications presented original copies of their licenses, and, based on administrative guidance, explained the important matters to customers again.

Recurrence Prevention Measures

With regard to the procedures for checking qualifications when someone starts working at a company, in addition to the previous check of original qualification certificates, a standardized Group operating rule has been established for inquiries to be made with government administrations and other organizations.

Indication Received from Ministry of Land, Infrastructure, Transport and Tourism Regarding Building Standards Act Violation

In August 2012, Sumitomo Forestry received advice from the Ministry of Land, Infrastructure, Transport and Tourism (MLIT) and from a specific administrative authority to the effect that the method used for constructing partition walls in certain semi-fireproof constructions did not conform with part of the specifications certified by the Minister of Land, Infrastructure, Transport and Tourism. It was confirmed that this applies to 3,524 semi-fireproof constructions announced on August 10 and 1,437 constructions subsequently identified through an internal investigation (4,961 constructions in total). The Company is proceeding with formalities for correction, such as acquiring new certification from the Minister of Land, Infrastructure, Transport and Tourism for specifications that follow the Company's construction method.

Details of the Indication

Following are the two matters that were indicated as being non-conforming.

(1) Furring strips were not used in substrates while MLIT certification states to do so.
(2) Different length of screws were used while MLIT certification prescribes the length of nails used in gypsum board and the length of screws used in gypsum board

Buildings Subject to Indication

The buildings subject to this indication are the 4,961 semi-fireproof constructions previously built by the Company. These include three-story buildings in quasi-fire prevention districts and one-story and two-story buildings in fire prevention districts which have a total area of less than 100m^2.

Course of Events Leading to the Non-Conformity

The Sumitomo Forestry Group has adopted the construction method in question because of the following reasons.

With regard to (1), the Company had understood that the provisions for furring strips in the MLIT certification were only applicable where furring strips are needed.
With regard to (2), based on the other existing MLIT certification for fire resistance, the Company had recognized the screws in question as being equivalent to the nails used in gypsum board.

Countermeasure

The Company is proceeding with formalities for correction under guidance from the municipality with a district construction surveyor, such as acquiring new MLIT certification for specifications that follow the Company's construction method.

Recurrence Prevention Measures

On September 1, 2012, Sumitomo Forestry established the Building Compliance Department within the Housing Division for the purpose of taking a cross-organizational perspective in examining and supervising whether building specifications and construction methods accord with the law. Full-time experts in building techniques and the building code have been assigned to this department to prevent a recurrence of any non-conformity with MLIT certification.

The Company collated measures for preventing a recurrence of any non-conformity with MLIT certification (as well as any occurrence of similar situations), centered on the items listed below. It achieved this by establishing a working group comprised of representatives from each of the relevant departments and companies, with the Building Compliance Department acting as secretariat, and below this, it established six sub-working groups.

Key Items in Measures for Preventing Recurrence (or Occurrence of Similar Situations)

1. Properly manage MLIT certification, etc., such as by preparing a ledger for managing specifications for MLIT certification.
2. Promote the electronic storage of various types of application information, increase the sophistication of information management, and review design and other operational rules.
3. Conduct more reliable construction and works supervision, such as by adding more check items for construction and promoting the storage of more detailed histories.
4. Control the quality, etc. of materials, such as by specifying and carefully managing the required performance properties of materials that relate to MLIT certification.
5. Enhance the functions of the divisional committees on products and quality, and strengthen the management system for divisions.
6. In order to prevent the occurrence of similar situations, enhance human resources training on laws and regulations and on the Company's design and construction.

Amid expectations that the Building Standards Act and other laws and regulations will need to be applied even more strictly, rather than simply implementing these prevention measures in an intensive fashion, the Company will continually examine its business model and endeavor to prevent recurrence (or occurrence of similar situations) at all times.

Notification of Need for Improvement in Waste Disposal

Transportation of Waste from Other Prefectures by Takamatsu Branch

In July 2012, the Takamatsu Branch of the Housing Division received an order for report, claiming that the Company had violated a prefectural ordinance by bringing 25 tons of waste into Kagawa Prefecture during fiscal 2011, exceeding the 20 tons for which approval had previously been given after discussion with the prefectural government. The Company immediately conducted an internal investigation, which revealed the cause to be inadequate management of the cumulative total of actual industrial waste brought into Kagawa Prefecture from other prefectures. On August 6, 2012, the Company submitted a report in response to the order, and after receiving a recommendation for correction from the prefecture on August 31, the Company also submitted a "Recurrence Prevention Measures Report" on September 10, which was accepted. As for measures to prevent recurrence, by taking co-ownership of the information that is reported by the contracted waste disposal firm to the prefecture once every three months, the Company is carefully managing the volume of generated waste. No administrative punishment was handed out for this case.

Transportation of Waste from Other Prefectures by Sumirin Agro-Products Co., Ltd.

After receiving the "recommendation for correction" for the Takamatsu Branch, the Company conducted an internal investigation. This investigation revealed that Sumirin Agro-Products Co., Ltd., which is located in Aichi Prefecture, violated a Shizuoka prefectural ordinance by transporting about six tons of waste a year into Shizuoka Prefecture without first notifying the prefecture. The cause of this was a deficiency in verifying the prefectural ordinance. The Company reported the situation to the prefecture on August 8, 2012, and pursuant to instructions received, it submitted a "statement of facts" on September 7, which was accepted. As for measures to prevent recurrence, the company decided to not take waste outside the prefecture, and changed the company to which it outsources waste disposal to one in Aichi Prefecture. Again, no administrative punishment was handed out for this case.

CSR Management

MANAGEMENT SYSTEM

Corporate Policies

The Sumitomo Forestry Group's corporate philosophy advocates utilizing wood as a renewable and environmentally friendly natural resource, and contributing to realizing a prosperous society through all types of housing-related services. In order to realize this philosophy and to develop corporate integrity 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." As a point of reference for Group employees for what should be considered as most important in relation to their actions, we formulated the statement, "Our Values and Ideals."

These have been translated into English and Chinese, and have been published on the Company's website. The Corporate Philosophy has also been translated into Indonesian, with an aim of instilling it among local Group employees.

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 expertise on timber and housing, we intend to create a "spiral 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
2. Utilize Forests
3. Utilize Traditions

Joy in Development

1. Nurture Families
2. Develop Homes
3. Foster Communities

Joy in Bringing People Together

1. Bring Employees Together
2. Bring Society Together
3. Bring the World Together

Our Values and Ideals

The Group sets great store by the following three ideals: "Inspire Emotion," "Blaze a Trail to the Future," and "Act with Dignity."

1. Inspire Emotion

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

2. Blaze a Trail to the Future

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

3. Act with Dignity

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

Sumitomo Forestry's Business and CSR

The history of Sumitomo Forestry dates back more than 320 years. At the time, the Besshi Copper Mine in Shikoku in Japan was being constructed, and so wood was in great demand for use as props in mine shafts and as fuel. Sumitomo Forestry's business originates in the management of the forests around the mine. Soon after the beginning of the Meiji era, Sumitomo carried out a large-scale reforestation plan to restore the mountain forests of Besshi which had been devastated due to overharvesting and smoke pollution. Having planted more than one million trees annually in some years, Sumitomo succeeded in returning the mountains surrounding Besshi to their original lush condition we see today. The spirit behind this "sustainable forestry," of continuing to utilize resources while protecting the environment through a pattern of logging followed by planting, is harnessed by Sumitomo Forestry in its current operations.

Society has significantly changed in recent years as a result of the global environmental problems and social issues that have emerged. As a corporate group that conducts forest management and provides timber and homes to customers both within Japan and overseas, Sumitomo Forestry Group believes that it can play a significant role in resolving these problems.

Business of the Sumitomo Forestry Group

Forestry Environment Business

Based on the principle of "sustainable forestry" of planting trees, cultivating forests, using the wood as a resource and replanting to replace what has been used, Sumitomo Forestry has practiced sustainable forest management, both in and outside Japan, by making full use of the technology and expertise it has built up over its long history. In addition to supporting the supply of timber, Sumitomo Forestry conducts a variety of businesses that do much for resolving environmental and energy-related issues, such as promoting the use of Japanese timber and biomass power generation.

Timber and Building Materials Business

Sumitomo Forestry achieves a stable supply of good-quality timber from appropriately managed forests by utilizing its global network that spans more than 20 countries worldwide. The Company has also increased its handling of environmentally friendly products, such as solar power generation systems and high efficiency water heaters. As Japan's leading trading company for timber and building materials, the Company is involved in a wide range of businesses, and is working to expand its distribution business overseas.

Overseas Business

From plantation forest operations and the manufacture of timber and wood building materials, to housing and real estate, Sumitomo Forestry is expanding its own sustainable business model, which makes active use of wood as a renewable resource, to the four areas of Southeast Asia, East Asia, Oceania and North America.

Housing Business

In the custom-built detached housing business, which draws on the appeal and potential of "wood," Sumitomo Forestry provides comfortable homes that can be lived in for many years, and which are tailored to the individual lifestyles of customers. Furthermore, based on the technology developed in its housing business, the Company is also engaged in a wide variety of businesses related to housing and lifestyles, including the new spec homes business, the stock housing business (such as remodeling, renovation and resale of pre-owned homes, and real estate brokerage and management) and the apartments business.

In-House Seminars on the Latest Trends in CSR

In order to accelerate the development of business activities as a global enterprise, a company needs to keep up with the latest in CSR information, such as social issues happening around the world and trends in regulatory systems.

For this reason, Sumitomo Forestry hosted four seminars during fiscal 2012 which were delivered by experts from outside the Company. The seminars were primarily targeted at officers and employees working in departments with strong links to the content of each seminar. The seminars touched on global trends, and gave participants an opportunity to think about the social merits of their work as well as the risks that ought to be taken into account when conducting business operations.

In-house seminar

In-House Seminars (FY2012)

Theme	Instructor	No. of participants
1st Seminar (May 15) Green Economy, Green Growth and the Future of Sumitomo Forestry	Eiichiro Adachi Counselor, Head of ESG Research Center The Japan Research Institute, Limited	82
2nd Seminar (August 27) Global Supply Chain Management: Practice and Significance at Mizuno Corporation	Yasushi Takahashi General Manager, Corporate Legal Department, Mizuno Corporation	52
3rd Seminar (November 30) Global Trend of Systems Surrounding the Environment	Keisuke Takegahara General Manager, Environmental Initiative & Corporate Social Responsibility-Support Department, Development Bank of Japan Inc.	42
4th Seminar (March 26, 2013) Latest Trends in Non-Financial (Environment, Society, Governance) Information	Hiroko Ozawa Senior Manager, Integrated Reporting Department, Ernst & Young ShinNihon LLC Relationships Manager, International Integrated Reporting Council (IIRC)	39

The date on which the seminar was held is stated in the parentheses ( ).

CSR Management Based on Four Material Issues

Through a process of identifying social issues that are particularly relevant to its business, and, while taking stakeholder feedback into account, narrowing them down to four priority issues for which there are high expectations on the Group, the Sumitomo Forestry Group has stipulated "Four Material Issues."

While keeping a close watch on changes in society and incorporating the suggestions of its stakeholders, the Group constantly reviews the progress and outcomes of its activities as it promotes CSR management with an aim of realizing a sustainable society.

Four Material Issues

- Providing "Timber Products and Materials from Sustainable Forests"
- Providing "Environmentally Friendly Homes"
- Promoting "Global Warming Countermeasures through Our Business"
- Promoting "Family-Centered Employee Lifestyles"

The Process for Determining the Material Issues

(1) Selection of candidate material issues

Based on discussions with specialist third parties, responses to previous CSR Report, and opinions received through employee workshops, a total of 27 issues were identified that Sumitomo Forestry should tackle.

(2) Understanding the issues that are important to our stakeholders

A total of 143 customers, business partners, analysts, investors, members of the press, employees, and relevant experts were surveyed for these 27 issues, which allowed us to prioritize various expectations held by stakeholders towards Sumitomo Forestry.

Results of Mapping the Identified Issues

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

Participation in the United Nations Global Compact

In December 2008, we formally signed the United Nations (UN) Global Compact to declare our support for its principles. The ten principles of the UN Global Compact are based on globally established agreements, including the Universal Declaration of Human Rights, and the International Labour Organization's (ILO) Declaration on Fundamental Principles and Rights at Work. They incorporate support of and respect for the protection of human rights and the eradication of forced labor and child labor.

The Ten Principles of the UN Global Compact

Human Rights

Principle 1: Businesses should support and respect the protection of internationally proclaimed human rights; and

Principle 2: make sure that they are not complicit in human rights abuses

Labour

Principle 3: Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;

Principle 4: the elimination of all forms of forced and compulsory labour;

Principle 5: the effective abolition of child labor; and

Principle 6: the elimination of discrimination in respect of employment and occupation.

Environment

Principle 7: Businesses should support a precautionary approach to environmental challenges;

Principle 8: undertake initiatives to promote greater environmental responsibility; and

Principle 9: encourage the development and diffusion of environmentally friendly technologies.

Anti-Corruption

Principle 10: Businesses should work against corruption in all its forms, including extortion and bribery.

Creation of Customer Satisfaction (CS)

Basic Policy on Customer Satisfaction (CS)

The Sumitomo Forestry Group is engaged in the business of planting trees, growing forests and using wood to provide products and services that enrich people's lives. Through this business, the Group has developed an attitude of improving customer satisfaction through business activity that inspires emotions, by bringing together the individual strengths of each and every employee, just as each individual tree makes an abundant forest.

As the environment surrounding companies changes, such as consumers having greater awareness and greater expectations for low-price, high-quality products and services, a trend that has become conspicuous is that only companies that gain support from customers and are chosen by society survive.

Given such circumstances, in order to earn the trust of society, the Sumitomo Forestry Group needs to view the whole of society as its "customer," and to synchronize the directional strength that the entire Group should aspire for. In view of this, in 2007, the Group formulated the statement, "Our Values and Ideals," as a point of reference for each and every Group employee to consult when considering what should be held most important in relation to their actions. Within this, the Group has established the following three guidelines for realizing the ideal, "We always take the customer's perspective to ensure that we offer impressive products and services."

Our Values and Ideals: Guidelines for Realizing Customer Satisfaction

- Strive to fulfill customers' wishes by respecting their perspectives.
- Earn trust by providing appropriate explanations and advice, giving priority to the safety and security of customers.
- Respond with sincerity to customers' feedback

Organizational Structure and Efforts for Promoting the Creation of Customer Satisfaction (CS)

Sumitomo Forestry has established the Customer Service Department as an organization for formulating measures aimed at improving customer satisfaction from a Group-wide perspective, and for expanding the measures to Group companies.

The Customer Service Department holds regular meetings and working groups with individual business divisions and Group companies to share information, discuss and examine problem areas and cases of success, and integrates these into specific measures. In addition to rolling these measures out within the Group, the Customer Service Department also manages them according to the PDCA cycle, such as by regularly verifying their implementation and effectiveness, and then revising and improving them.

Furthermore, for the purpose of raising the awareness of employees, the Customer Service Department distributes a monthly publication within Sumitomo Forestry and to Group companies. The publication introduces ideas for imporving customer satisfaction which employees can put into practice in their everyday work, as well as heartwarming anecdotes. The department also utilizes the Group intranet to regularly post information on best practices and customer opinions, as well as on feedback and inquiries received by the department plus the results of analysis and responses taken. In addition, the department also provides support for internal training and conducts discussions with Group companies on a one-on-one basis.

Roles of the Customer Service Department

Product Safety and Quality Control

SOCIAL REPORT

Activities for Product Safety and Quality Control in the Manufacture of Wood Building Materials

Framework for Product Safety and Quality Control (Quality Management System)

So that customers can use high-quality products with confidence, Sumitomo Forestry promotes the acquisition of certification guaranteeing timber quality, such as ISO 9001, JIS and JAS, for its wood building materials manufacturing business. The company has developed a framework for product safety and quality control that accords with a quality management system.

▶ Acquisition of Quality-Related Certification(P56)

Product Safety and Quality Control in the Manufacture of Wood Building Materials in Japan (Sumitomo Forestry Crest Co., Ltd.)

Basic Policy for Product Safety and Quality Control

Sumitomo Forestry Crest Co., Ltd. has established its quality policy for fiscal 2012 and fiscal 2013 based on ISO 9001 as described below. Each plant and division has formulated specific quality targets and action plans in line with this quality policy, and is committed to maintaining safety and improving quality. In fiscal 2014, Sumitomo Forestry Crest Co., Ltd. plans to determine an action policy for a quality management system.

Sumitomo Forestry Crest Co., Ltd.' s Quality Policy

1. Provide products that always give first priority to customer satisfaction, from product development and manufacture, to distribution and post-construction follow-up.
2. Cooperate with internal and external partners, understand appropriate costs, and manufacture in a way that ensures safety, performance and quality.
3. Establish quality targets, and develop systems that allow all employees to make continual improvements.

Framework for Product Safety and Quality Control (Quality Management System)

Since October 2010, Sumitomo Forestry Crest Co., Ltd. has been operating with integrated ISO 9001 at its six plants nationwide. Having developed a framework for quality control based on the quality policy as well as a strict framework for process control, the company manufactures products of high quality. Furthermore, by utilizing a quality information management system, the company endeavors to reflect market feedback and demands back into the production site. Internal audits are also carried out twice a year at all plants for the purpose of following the PDCA cycle for the quality management system established under ISO 9001. In addition, in order to build the capacity of employees in quality control, the company also puts effort into education on how audits are conducted and into employees getting qualifications. As of March 31, 2012, 167 employees had been certified as internal auditors.

Moreover, in an effort to ensure product safety, a system is in place whereby, in the event information is received about a major product fault that could result in a recall, a report will reach the President from whoever is in charge within two hours via the emergency contact network.

Promotion of Quality Improvement Activities Based on Company-Wide Targets

Sumitomo Forestry Crest Co., Ltd. has set quality targets at each plant and division, and is promoting quality improvement activities. During fiscal 2012, the company encouraged employees to take the QM/QC Examination, improved the skills of inspectors, revised manuals such as process instructions designed to prevent errors, and monitored manufacturing processes based on statistical techniques. Furthermore, the company sought to steadily expand these activities by getting the General Manager of the Quality Control & Customer Information Department who is responsible for quality control to regularly check on their progress and outcomes.

As a result of these activities, in fiscal 2012, the company reduced the number of complaints by 14% compared to fiscal 2011 (11,543). In fiscal 2013, the company will continually promote improvement activities, aimed at achieving a 15% reduction from fiscal 2012.

Product Safety and Quality Control in the Overseas Manufacture of Wood Building Materials (Overseas Companies Manufacturing Wood Building Materials)

Basic Policy and Framework for Product Safety and Quality Control

Overseas companies engaged in the manufacture of wood building materials have acquired ISO 9001 and other quality management certifications. In line with these certifications, each company has established policies and standards for product safety and quality control, and strives to ensure that its employees understand them well. Furthermore, each company also has systems in place for implementing product safety and quality control, and undergoes an external review every year aimed at further enhancing and improving those systems.

▶ Acquisition of Quality-Related Certification(P56)

Managing Quality Targets at Monthly Quality Meetings

PT. AST Indonesia has been holding Monthly Quality Meetings since July 2012. In addition to setting targets relating to defects in manufacturing processes, downstream, at customer-level, and in the market, the meetings also analyze and share the conditions for that month as well as the causes and countermeasures for defects. A PDCA cycle is then followed, that is, the information is publicized widely within the company, improvements are made and the results are verified.

A monthly quality meeting

As a result, during 2012, the number of defects in market (excluding minor defects) decreased by 37% from 2011, and the number of defects at customer decreased by 57%. The company plans to continue these meetings in 2013, and has set targets for defects in market and defects at customer as zero, as well as a 50% reduction in defects in the downstream process and the manufacturing process.

Standardization of Operations, and Promoting Acquisition of ISO 9001 Certification

Vina Eco Board Co., Ltd. (VECO) started commercial production in May 2012, and since 2013, it has embarked on activities for acquiring ISO 9001 certification. More than just obtaining ISO certification, through the certification process, the company aims to standardize work operations and build a system which will allow it to provide consistent quality.

Laboratory at VECO

Furthermore, in order to differentiate itself from its competitors, the company outlines the product specifications to purchasers by attaching a properties sheet on the packaging of each product, which records such data as flexural strength, tensile strength and formaldehyde emissions. This practice is still not common in Vietnam, and so by clearly stating the product specifications, the aim is to establish VECO as a high-quality brand.

Activities for Product Safety and Quality Control in the Housing Business

Basic Policy for Product Safety and Quality Control

Sumitomo Forestry believes that popularizing durable, high-quality houses as social assets plays an important role in creating a prosperous society. Based on this belief, and taking the opportunity of the enforcement of the Excellent Long-Term Housing Promotion Act in Japan in June 2009, the Company formulated a basic policy for product safety and quality control in its housing business in fiscal 2009.

Basic Policy for Product Safety and Quality Control in the Housing Business

1. Make houses more reliable by improving their basic functions
2. Increase future options for layout to accommodate changes in lifestyles
3. Enhance maintenance programs to support long-term upkeep
4. Monitor information on any production faults, and share information on handling faults promptly

Framework for Product Safety and Quality Control (Quality Management System)

Construction of New Houses

In the housing business, Sumitomo Forestry has established strict systems for product safety and quality control at all stages until a house is provided to the customer.

Product Development

New housing products are developed based on a meticulous system of cooperation with individual departments. Once every two months, a meeting of the Product Strategy Committee is held, attended by the Divisional Manager and Deputy Divisional Manager of the Housing Division and the managers of each department, to decide on themes and share information with each department.

Themes are determined according to the product roadmap produced each year, and their order of priority is set based on societal demands and other factors. Once the themes have been decided, information is collected from a survey of consumer attitude and from a questionnaire sent to the owners of a total of about 260,000 *Sumitomo Forestry Home* houses. This information is then used in product development. The Housing Division and the Tsukuba Research Institute are committed to creating products that reflect the views of customers, by conducting joint testing of demonstration houses and verification of products in prototypes, and collaborating with each department within the scope of the warranty.

Design

Sumitomo Forestry designs houses capable of accommodating a diverse range of customer lifestyles and requests including renovation. It does this by suggesting designs that allow for a greater degree of flexibility which is only possible with custom-built houses. The Company also uses its own unique system to perform a design and structure check at the time of contract and at the working design stage.

Materials Procurement

When selecting any materials, they undergo a design review by the Materials Selection Subcommittee. Discussion and decisions on whether to accept materials are made on a case-by-case basis once it has been confirmed that the material clears the acceptance criteria and quality criteria prescribed by the Materials Selection Subcommittee based on standards established by the Sumitomo Forestry Tsukuba Research Institute.

The Quality Improvement Committee, which sits above the Materials Selection Subcommittee, shares information on new materials that have been accepted, and discusses materials that had already been accepted as well as improvement measures to address any shortcomings.

Construction

In order to provide customers with houses of high quality, Sumitomo Forestry has developed systems for sharing information and managing inspections. Information sharing is achieved by means of the Company's own construction management system. Through this system, each of the construction managers centrally manages and shares information on the building construction at each worksite, as well as the latest information on process, quality and safety control.

Construction management

Inspections management basically consists of inspections conducted at the foundation, structure and completion stage by workers at each site, by the contracts manager and by the construction work supervisor based on advanced quality standards, plus management carried out using construction management records. Moreover, by getting the Head Office Inspection Department to check these inspections and management, Sumitomo Forestry has maintained a high level of construction.

Supervision

In September 2012, Sumitomo Forestry established the Building Compliance Department for the purpose of taking a cross-cutting perspective in examining and supervising whether the specifications and construction methods used for the buildings constructed by the Company accord with the law. Full-time experts in building techniques and regulations have been assigned to this department.

Implementation of the Housing Performance Indication System by Third-Party Organizations

Sumitomo Forestry actively promotes the Japanese Housing Performance Indication System[1] because it ensures safe and reliable houses, and also raises their asset value. The Japanese Housing Performance Indication System is a mechanism whereby highly reliable evaluations are provided by third-party organizations, allowing customers to objectively assess the quality and performance of houses. There are two evaluations: the Design Performance Evaluation at the time of the design, and the Construction Performance Evaluation at the completion of construction. As of March 31, 2013, the implementation rate for Design Performance Evaluation was 98.9%,[2] and the implementation rate for Construction Performance Evaluation was 91.0%.[2] Sumitomo Forestry will continue to promote the use of this system and to maintain and improve the implementation rates.

1. A system based on the Housing Quality Assurance Act which was enacted in Japan in April 2000. The system spans ten evaluation items, including structural stability, fire safety, alleviated deterioration and thermal environment.
2. The implementation rate for performance evaluation is the ratio of the number of applications to the total number of housing starts, including extension and/or alterations (covers applications for Design/Construction Performance Evaluation made between April 1, 2012 and March 31, 2013).

After-Sales Support

Sumitomo Forestry has developed the Long-Term Support System so that customers can continue living comfortably in their houses for a long period of time. In addition to carrying out regular inspections, the system supports customers for a period of 60 years after handover, through making proposals for remodeling and other maintenance and managing maintenance records.

Under the Long-Term Support System, in addition to a ten-year warranty on the structural framework and waterproofing, Sumitomo Forestry also offers a "20-year warranty system" and a "30-year warranty system" which extend the warranty period on the structural framework and waterproofing by a maximum of ten and 20 years respectively, as long as paid maintenance work judged necessary by the Company, such as anti-termite treatment, is performed from the tenth year onwards.

▶ Establishment and Operation of Branch Customer Support Centers(P62)

Renovation

For houses requiring major repair work, Sumitomo Forestry calculates a numerical performance rating for the seismic resistance, insulation and barrier-free design of existing buildings and planned buildings, based on the Company's own performance evaluation chart. By doing so, the Company can show customers how much the performance rating has improved in a way that is easy to understand.

S-shaped vibration damper

Renovation (Purchase for Resale)

In fiscal 2012, Sumitomo Forestry launched the Renovation Department. Through renovating houses, the aim of the department is to improve the performance and value of existing houses, which are a form of social capital, and to build and create a stock of good quality housing.
At the proposal stage, the department performs a reliable home inspection and overall seismic capacity evaluation for detached houses. For condominiums, the department performs an inspection and survey of the overall present condition and any defective areas using the Company's own check sheet. Renovation plans are then put forward, tailored to each individual property. During the construction stage, the department controls quality by conducting checks with a main focus on safety, performance and durability. Support systems for safety and quality have also been developed for after handover, including regular visits and fixed period warranties.

Acquisition of Excellent Long-Term Housing Certification

Sumitomo Forestry Home houses are the standard specification for providing high-quality houses with excellent overall balance. They clear the certification conditions required for excellent long-term housing—namely durability, seismic resistance, ease of maintenance, and energy-saving performance—all at the highest level (applying the evaluation under the Japanese Housing Performance Indication System).

Certification for excellent long-term housing was acquired for 88.4% of constructions started in fiscal 2012.

▶ Helping to Mitigate Global Warming through Products and Services(P190)

Standards for Excellent Long-Term Housing

	Certification type	Certification criterion	Standard performance of *Sumitomo Forestry Home houses*
Durability	The house will **last a long time**	Rating of measures against deterioration **Highest level 3** Measures that are able to be inspected periodically	Equivalent to **highest level 3 !**
Seismic resistance	The house is **resistant to earthquakes**	Rating of earthquake resistance **2 or higher**	Equivalent to **highest level 3 !**
Ease of maintenance	The house is **easy to maintain**	Rating of measures for maintenance **Highest level 3**	Equivalent to **highest level 3 !**
Energy-saving performance	The house is **energy efficient**	Rating of measures for energy conservation **Highest level 4** (Compatible with next-generation energy conservation standards)	Equivalent to **highest level 4 !**

1 The higher the rating value, the better the evaluation.

Improving the Stability of Housing Structures (Seismic Resistance and Durability)

Construction of New Houses

Sumitomo Forestry uses the highest possible rating for seismic resistance of 3 as its standard specification for "structural stability" (resistance against earthquakes, etc.) under the Japanese Housing Performance Indication System. The Company also continues to actively engage in developing technology that allows for a high degree of design freedom while fulfilling the rating 3 for seismic resistance.

One outcome of this has been improvements to the Big-Frame (BF) construction method, which was first developed in 2005. The BF method was renewed and relaunched in October 2012. On top of making structural frameworks stronger, a feature of the Company's original BF method is the high degree of freedom in that it is easy to design large openings along entire walls and expansive spaces. In addition to improving the metal joints, which produce high rigidity and strength, considerable enhancements were also made to the performance of the big columns, which fulfill the function of shear walls.

Remodeling

Sumitomo Forestry Tsukuba Research Institute and Sumitomo Forestry Home Tech Co., Ltd. are involved in research and development of renovation technologies for increasing the structural safety of wooden houses and for comfortable places to live. In April 2013, they developed the original S-shaped vibration damper for the wooden post-and-beam construction method, an improvement on conventional vibration dampers. After reinforcement using the Sumirin REP construction method (Sumitomo Forestry's original seismic resistance technology) to increase the seismic rating by at least 1.0, following that up by using S-shaped vibration dampers not only improves seismic resistance, but also achieves better vibration damping. Not only does this reduce any damage to buildings in the event of an earthquake, but it also produces an effect against secondary disaster such as that caused by furniture tipping over.

Ensuring Safety in the Event of a Fire

Sumitomo Forestry is engaged in developing technologies aimed at improving the fire resistance of wooden buildings. Particularly with regard to the demand for constructing public buildings out of wood, which is expected to increase in the future, the Company is pursuing research on specifications which will allow designs that convey the appeal of wood while also ensuring resistance to fire.

With respect to government regulated quasi-fire-resistive,[1] which have been the standard specification since fiscal 2009, during fiscal 2012, Sumitomo Forestry worked to further expand their popularization by increasing the specifications.

1 A house that meets the standards prescribed by the Japan Housing Finance Agency as being a construction having fire-resistant properties corresponding to semi-fire resistant prescribed in the Building Standards Act.

Comparison of the Strength Degradation of Materials Using a Standard Heating Test

Results of standard heating test

Char layer on the surface of structural material

A characteristic of timber of a certain thickness is that, even if the surface of the timber burns in a fire, the char layer that forms on its surface suppresses the penetration of heat and the supply of oxygen. This means that the fire does not burn rapidly to the interior of the timber, and so the timber is not susceptible to any rapid degradation of strength. Under a standard heating test, ten minutes after the heat is applied, iron changes shape and its strength declines to almost one-tenth. In contrast, wood retains more than seven-tenths of its strength.

Mitigating the Deterioration of Houses, and Addressing the Maintenance of Household Furnishings

With respect to the "deterioration decrease" and "maintenance" categories under the Japanese Housing Performance Indication System, Sumitomo Forestry's policy is to adopt the highest levels for each as its standard specification. The Company is engaged in developing technologies for increasing the lifespan of houses, and its aim is to acquire certification for excellent long-term housing for all its houses.

Demonstration Tests for Construction Methods that Counter Liquefaction

Prior to the Great East Japan Earthquake of March 2011, there were very few construction methods in practical use which had a positive effect against ground liquefaction and which could economically be applied to detached houses. Furthermore, the conventional construction machinery was large and so was unsuited for construction in general residential areas. For some time, Sumitomo Forestry had been verifying a construction method which resolved this former problem by using steel plates to reinforce the area around the building foundations thereby suppressing any ground outflow immediately below the building. This technology demonstrates adequate effect and durability, and is economically sound to be applied to detached houses.
In fiscal 2012, Sumitomo Forestry conducted a number of experiments in connection with this construction method: it conducted joint liquefaction experiments with Tokyo Denki University; it conducted demonstration tests on public construction site set at a sports park based on an agreement with the City of Urayasu in Chiba Prefecture; and it conducted a liquefaction vibration test using a large soil tank at the Building Research Institute. Going forward, Sumitomo Forestry will submit a proposal to the City of Urayasu for an effective measure against liquefaction, and it plans to offer the technology to other regions where it is predicted an earthquake could cause ground liquefaction.

Preserving Air Quality inside Houses

The Sumitomo Forestry Group is working to reduce emissions of volatile organic compounds (VOCs), which have been identified as a cause of “sick house” syndrome. The Law on Promoting Green Purchasing was enacted in April 2001, and Sumitomo Forestry published its Green Procurement Guidelines in July 2002. The Guidelines state that VOCs are to be less than the guidelines prescribed by the Ministry of Health, Labour and Welfare, and they also contain separate provisions for prohibited chemical substances.

In January 2013, the Green Procurement Guidelines were revised, and it was clarified that they also cover “materials procured at Sumitomo Forestry Housing Division, Sumitomo Forestry Landscaping Co., Ltd., Sumitomo Forestry Home Tech Co., Ltd. and Sumitomo Forestry Crest Co., Ltd.”

In accordance with the standards contained in these guidelines, ″F☆☆☆☆″-rated timber, building materials, insulation and adhesives, etc.—which have the lowest level of formaldehyde emissions—are used in *Sumitomo Forestry Home* houses. Moreover, ″F☆☆☆☆″-rated furniture, lighting and curtains, etc. are recommended in interior design proposals.

Practicing Universal Design

Sumitomo Forestry offers houses that integrate universal design as the foundation, which are comfortable for all members of the family and will be easy to live in for many years to come.

The Sumitomo Forestry Tsukuba Research Institute is conducting research based on human lifestyle engineering using 3D motion and view-tracking analysis equipment. In-home improvements are being made based on the results of this research, including spatial configuration and traffic-flow planning tailored to the family's lifestyle, dimensional planning designed to enable smooth and strain-free positioning and movements, as well as handrails and other materials to prevent accidents.

Employees are also given the opportunity to experience universal design themselves from the perspective of an elderly person, by wearing the "elderly simulation suit" which was developed as part of the research. In addition to instilling employees with the philosophy of universal design, an aim of this activity is to make use of real experience-based awareness in business.

Human motion analysis at the Sumitomo Forestry Tsukuba Research Institute

Kids Design Award 2012

Following on from an award in 2010 for Easy Metal (EM) Stairs, in July 2012, Sumitomo Forestry's Resin Joint Safety Stairs, with even more enhanced safety, were selected as a safety product in the general category of child safety and security design at the 6th Kids Design Award, organized by the Kids Design Association. The objective of the stairs is to make it easier to notice steps and harder to slip for children, the elderly and various other consumers. The stairs have a resin joint embedded on each tread. The fact that it is easy to replace the resin joints was also acknowledged for its continuance of safety.

Ordinary stairs

Resin Joint Safety Stairs

Improvement of Security Performance

Based on the "crime prevention" category under the Japanese Housing Performance Indication System, Sumitomo Forestry provides customers with proposals for crime prevention measures from the site survey and design stage with a degree of care only possible with custom-built houses. For example, given that breaking through glass windows is the most common means of break-ins,[1] Sumitomo Forestry recommends security glass that is difficult to smash. Break-ins via the front entrance are the next most common,* and so the Company recommends front doors fitted with double locks and thumbturns.

Comparison of damage caused by breaking glass
(Left: Double-glazed security window, Right: Float glass window)

1 According to the Administration Division of the Community Safety Bureau, Metropolitan Police Department

Acquisition of Quality-Related Certification

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Certification of Group Companies

Group Company	Country	Type of Certification	Date Acquired
Sumitomo Forestry Crest Co., Ltd.	Japan	ISO 9001	3[1]/1999
Sumitomo Forestry Landscaping Co., Ltd. Environmental Greenification Division	Japan	ISO 9001	9/2002
Sumitomo Forestry Home Engineering Co., Ltd.	Japan	ISO 9001 JIS Q9001	3/2006
Alpine MDF Industries Pty Ltd.	Australia	JIS certification(MDF)	5/2003
		New JIS certification(MDF)	9/2008
		CARB certification[2]	1/2009
Nelson Pine Industries Ltd.	New Zealand	JIS certification(MDF)	3/2003
		ISO 9001(MDF)	7/2003
		ISO 9001(LVL)	7/2004
		JAS(LVL)	5/2008
		New JIS certification	5/2008
		CARB certification	10/2008
		ISO 9001	9/2011
PT. Kutai Timber Indonesia	Indonesia	ISO 9002	9/1997
		JAS	7/2000
		Q-Mark	6/2010
		ISO 9001	8/2010
		CARB certification(PB)	11/2012
		CARB certification (Plywood)	12/2012
		CE Marking	12/2012
		JIS certification	planned for acquisition in 2013

Group Company	Country	Type of Certification	Date Acquired
PT. Rimba Partikel Indonesia	Indonesia	ISO 9001	12/1999
		JIS certification(PB)	3/2007
		CARB certification	2/2009
		SVLK certification[3]	12/2012
PT. Sinar Rimba Pasifik	Indonesia	JAS	3/2012
PT. AST Indonesia	Indonesia	ISO 9001	10/2002
		JAS	12/2012
PT. Wana Subur Lestari	Indonesia	SVLK certification	2/2013
Vina Eco Board Co., Ltd.	Vietnam	CARB certification(PB)	11/2012
Canyon Creek Cabinet Company	United States	ISO 9001	3/2007
Fuxin Sumirin Wood Products Co., Ltd.	China	JAS(Plywood)	7/2010
		CARB certification	8/2010
		LVL certification	12/2010
		Ministerial-level certification	2/2012

1. Acquired first by the Kyushu plant in March 1999 and all other plants subsequently. All plants had acquired integrated certification by October 2010.
2. Air pollution regulation stipulated by the California Air Resources Board in the United States. CARB standards are stricter than federal regulations.
3. Certification under the new timber legality assurance system in Indonesia.

Information Disclosure/Dissemination and Communication

SOCIAL REPORT

Disclosure of Information to Customers and Communication

Sumitomo Forestry is committed to the appropriate disclosure of information, and to active communication for a better understanding of the Company, and the handling of information under its action guidelines, "Our Values and Ideals." Furthermore, the company manages personal information and inside information in a strict and proper manner, and rigorously safeguards information that ought to be protected.

Observance of Laws, Standards and Norms in Advertising and Publicity

When creating advertisements, Sumitomo Forestry complies with relevant legislation, including the Building Lots and Buildings Transaction Business Act, the Act against Unjustifiable Premiums and Misleading Representations, and the Copyright Act. The Corporate Communications Department, the Intellectual Property Department and the Legal Group in the General Administration Department cooperate to confirm and verify the content of advertisements as required.
In addition to holding monthly meetings of the Brand Communication Executive Committee comprised of advertising personnel from relevant departments and relevant affiliates, and holding meetings of the WEB Integration Committee twice a year, Sumitomo Forestry also notifies all Group companies of any matters necessary for preventing non-compliance. During fiscal 2012, as well as putting effort into sharing securities guidelines, the Company also worked to create and share guidelines on the use of social networking services. Through these efforts, Sumitomo Forestry made certain of prior checks, and endeavored to ensure that unreliable information was not communicated and customers not otherwise misled. In fiscal 2012, again, there were no legislative violations or other issues related to advertising.

Systems for Protecting the Privacy of Customers (Protection of Personal Information)

At Sumitomo Forestry, in order to safeguard the personal information of customers, the Information Systems Department has formulated rules for protecting personal information, and revises them as required. Furthermore, to ensure familiarity with the rules, in addition to conducting e-learning programs every year for all employees, Sumitomo Forestry has also placed an information security officer in each department to manage computers and other information devices, and conduct educational activities on information security. At the same time, information security officers implement self-checks once a year, thereby raising awareness for information security.

In order to prevent any leaks of customers' personal information to outside parties, Sumitomo Forestry restricts the writing of information from Company computers to external media. In addition, when writing such information, personnel are required to follow a procedure of applying to and getting the approval of their supervisor.

Keeping Customers Informed

The Company communicates information on *Sumitomo Forestry Home* houses via the website as well as at model homes and showrooms throughout Japan. It uses newspapers, magazines, television, radio and other forms of mass media to announce and promote new products and new technologies, and it uses the Company's website, as well as catalogs and pamphlets to introduce them in detail. The Company also offers opportunities for customers to experience the houses directly, such as through explanations given at model homes and showrooms as well as by making construction sites open to the public. Since it deals in custom-built houses, Sumitomo Forestry is also able to provide much content on its website, and supports customers in building a home exactly as they like.

As part of these efforts, Sumitomo Forestry has hosted its *Sumai Haku* interactive housing fair every year since 1998, where it comprehensively displays the appeal of *Sumitomo Forestry Home* houses, such as technological and design prowess, its competence in construction and its after-sales support. The theme for *Sumai Haku* in fiscal 2012 was "Experience it all! People- and earth-friendly home-building." The fair was opened in Tokyo, Nagoya and Osaka, and attracted a total of about 13,000 families. The Company also opens its online *WEB Sumai Haku* to public access for a limited time, where users can experience building their dream home in a virtual setting. A variety of participatory content has been prepared, such as games and quizzes through which users can have fun while learning useful information.

Main Catalogs and Pamphlets

mamato
(product catalog)

Sumitomo Forestry Subdivision Catalog
(subdivision housing catalog)

Long-Term Support System
(services catalog)

Homes Worth Self-Praise
(collection of construction examples)

Ryouonbou Home Building
(design concept catalog)

Lovely Family
(magazine for owners of Sumitomo Forestry homes)

Exterior Select Book
(housing exterior catalog)

Bringing Wisdom from the Past to Tomorrow
(book of remodeling examples)

Disseminating Information on the Website

Sumitomo Forestry's website provides information on products, building examples and construction technology. The website also provides access to other useful content for building homes: the *BF Floor Plan Designer*, which allows users to simulate their desired plan in 3D; and the *Home Building Master*, where users learn about building homes in a fun way through games and an attitude survey.

In January 2013, the Company released its *Smart Kodachi* website, a members-only site linked to its new *Smart Kodachi* product. Through this site, users can also choose from 388 superb floor plans and simulate the plan and price that is best for them.

Keeping Owners Informed

Club Forest Special Website for Owners

In March 2013, the Company revamped its *Club Forest* special website for owners of *Sumitomo Forestry Home* houses. The Company increased the amount of content on the site and updated its design so that owners can utilize it more than ever before as a place for communication and after-sales follow-up. The Company also improved the content of the online store within the site to make it easier, more secure and better value for owners. As of March 2013, the online store offered a total of 89 products across 134 categories, such as maintenance products, daily necessities and various insurance policies. Also as of March 2013, about 52,300 owners had registered as members.

Front page of *Club Forest*

Lovely Family Magazine for Owners

Lovely Family is a home and lifestyle magazine sent out twice a year to owners of *Sumitomo Forestry Home* houses. It also features details about Group company activities such as remodeling and utilization of land. Print runs for each issue were about 250,000 in fiscal 2012. The results of a questionnaire survey of readers in October 2012 showed that more than 70% of respondents were female, and so the Company is working to enhance the content of the magazine to better suit the interests of readers.

Establishment and Operation of Customer Consultation Services (Customer Support Centers, Sumitomo Forestry Call Center)

Previously, once a house had been handed over, all requests for advice and repairs were handled by each respective branch. In order to enhance customer service, Sumitomo Forestry also took prompt action, such as with a communications lifeline in the event of an emergency, by establishing an after-hours call center in April 1999. In preparing a system capable of providing 24-hour support, in July 2010, the Company established Customer Support Centers within its branches nationwide, and it set up the Sumitomo Forestry Call Center, a national 24-hour 365-day toll-free call center dedicated to receiving calls for repairs and maintenance. As well as sending out direct mail and cards that summarize the roles and significance of these centers, Sumitomo Forestry has also featured them on its website and magazine exclusively for owners so as to create broader awareness.

By setting up a national toll-free service and building a network that connects the three centers, not only does this shorten the waiting time before getting connected to an operator, but the quick service will also result in improved customer satisfaction.

Volume of calls to Customer Support Centers and the Sumitomo Forestry Call Center, and breakdown of those calls

Customer Surveys

To accurately assess customer views and customer satisfaction, Sumitomo Forestry distributes a questionnaire three times: once when an owner moves in, and then during the second and tenth year of their residence. The survey questions primarily cover design, building materials, systems and fixtures, and the support service provided by Sumitomo Forestry staff. The Company then statistically processes and analyzes these results, and applies any findings to product development and employee training. Customers are also given a short questionnaire at the end of any after-sales maintenance visit or inspection, requesting feedback on such subjects as the attitude and behavior of the maintenance contractor, as well as their response speed and repair techniques.

In 2012, with an aim of achieving even greater improvements in customer satisfaction, the following were adopted as common targets for all Group companies.
・100% return rate for questionnaires distributed when owners move in
・Minimum 80% response rate for "I would recommend *Sumitomo Forestry Home* houses" in the survey conducted when owners move in
・Minimum 70% response rate for "I would recommend *Sumitomo Forestry Home* houses" in the survey conducted in the second year of residence

Recognizing that the benefits of improvements in customer satisfaction will only appear after ongoing efforts, Sumitomo Forestry implements initiatives with a mind to PDCA management so that they do not end as simply a goal-setting exercise.

Enforcement of CSR in the Supply Chain

SOCIAL REPORT

Thorough Green Procurement

In July 2002, the Sumitomo Forestry Group formulated the Green Procurement Guidelines for the preferential purchasing of environmentally friendly products. The guidelines establish standards for the procurement of products from two perspectives, namely: the supplier's stance toward the environment (corporate activities assessment); and the product's impact on the environment throughout its life cycle (product assessment).

Of all the products subject to the Green Procurement Guidelines, timber is essential to the Sumitomo Forestry Group's housing business and timber distribution business. Therefore, separate Timber Procurement Standards have also been established, and the legal compliance of timber materials handled is verified by the Timber Procurement Committee, which is chaired by the General Manager of the Environmental Management Department.

Moreover, in order to conduct procurement that is not only lawfully and environmentally responsible but also socially responsible, in July 2012, the Timber Procurement Committee commenced CSR surveys to check that all suppliers of timber and timber products directly imported from overseas are observing human rights and appropriate labor practices, and the results of these surveys have been used when screening suppliers.

Following the start of the CSR survey, in January 2013, the Group published the Green Procurement Guidelines, Third Edition, in which items for confirming CSR conditions and initiatives, such as workplace health and safety and considerations for human rights, were added to the corporate activities assessment. The Timber Procurement Standards were similarly updated.

Going forward, the Group will continue to practice responsible procurement to meet the societal demand for CSR.

Green Procurement Guidelines (extract)

(Corporate activities assessment)

1. Acquisition of ISO 14001 certification, and adoption of environmental policies and philosophy.
2. Active in global environmental conservation, such as biodiversity preservation and the prevention of global warming.
3. Committed to CSR in its entirety, such as workplace health and safety and respect for human rights.

(Product assessment)

1. No use of hazardous materials which are likely to have an adverse effect on health and the environment.
2. No leaching of hazardous materials from the product during construction or use.
3. Ability to be reused or recycled after use.
4. Use of processes and materials to lengthen the lifespan of the product.

Timber Procurement Philosophy and Policy

The world's forests have continued to diminish due to illegal logging and excessive slash-and-burn farming, and over the past decade, approximately 52 million hectares have been lost, or an area equal to about 1.4 times the size of Japan.[1]

At the same time, Japan's forests account for about 70% of Japan's land area, and about 40% of this is plantations afforested for the purpose of producing timber. However, with no progress being made in the development of these plantations, due to a decline in price competitiveness compared to imported timber and to the aging forestry workforce, they continue to be devastated without adequately fulfilling their intrinsic functions for the public good, such as the cultivation of water resources, the prevention of landslide disasters and the absorption of CO_2. In view of these circumstances, in June 2007, the Sumitomo Forestry Group formulated and published its philosophy and policy on the procurement of timber.

For the purpose of realizing a sustainable society, the Timber Procurement Philosophy and the Timber Procurement Policy both indicate cooperating with business partners in the procurement of timber from forests that have been verified as legally compliant and appropriately managed.

1 Source: *Global Forest Resources Assessment 2010*, Food and Agriculture Organization of the United Nations (FAO)

Timber Procurement Philosophy

Timber is a renewable, natural resource. Sumitomo Forestry considers forest ecosystems and the blessings from nature provided by forests to be precious assets shared by all of humanity, and in order to realize a sustainable society in which people and forests can live in harmony, it cooperates with its business partners to procure timber that is considerate to the environment and to society.

Timber Procurement Policy

1 To procure legal and sustainable wood

- Observe all relevant laws and regulations and maintain a system for confirming that the timber is legal
- Procure timber from forests that are managed to be sustainable
- While promoting the use of plantation timber, carry out plantation activities that contribute to the maintenance of forest resources

2 To build a highly reliable supply chain

- Cooperate with business partners and work to improve the reliability of traceability measures
- Confirm with business partners that High Conservation Value Forests are being managed appropriately
- Appropriately disclose information to ensure procurement transparency
- Maintain dialogues with business partners to ensure that human rights and the fundamental rights of workers are being protected and to prevent corruption

3 To reduce the environmental burden and effectively use timber resources during their lifecycle

- To contribute to land conservation and the revitalization of the forestry industry by actively using domestic timber
- Utilize thinnings and wood waste, reuse and recycle wood, and develop the technologies to facilitate these actions
- Reduce the environmental impact of procurement, such as by increasing distribution efficiency

4 Together with our stakeholders

- Carry out continuous reforms in cooperation with stakeholders
- Respect biodiversity and the culture, traditions, and economies of regions that live in harmony with forests
- Communicate to stakeholders the importance of timber procurement that is considerate to the environment and society

Systems for Promoting the Sustainable Procurement of Timber

For the purpose of continually raising the standard of its timber procurement activities, the Sumitomo Forestry Group promotes procurement activities in accordance with its Timber Procurement Standards, which are based on the Timber Procurement Philosophy and the Timber Procurement Policy, and with its Action Plan for Timber Procurement, which clearly sets out its specific action goals.

The Timber Procurement Committee was established for the purpose of promoting timber procurement in accordance with this philosophy, policy and plan. The committee is chaired by the General Manager of the Environmental Management Department. The Environmental Management Department serves as its secretariat, and its members are comprised primarily of working-level managers in departments related to the procurement of timber. The committee meets three times a year, and in addition to confirming how the Action Plan for Timber Procurement is progressing, it discusses such topics as measures for promoting activities for achieving the goals and measures for dealing with overseas timber regulations. It also has the function of examining the legality of timber based on documents certifying legality, which are submitted by the timber supplier, and on the field survey reports submitted by the Company's representatives.

Organization of the Timber Procurement Committee

Timber Procurement Committee
Chairperson: General Manager of the Environmental Management Department
Secretariat: Environmental Management Department

Members

- Timber & Building Materials Division
- Housing Division
- Forestry & Environmental Business Department, Forestry & Environment Division
- Overseas Business Division
- Sumitomo Forestry Wood Products Co., Ltd.
- Sumitomo Forestry Crest Co., Ltd.

System for Verifying Legality Based on the Timber Procurement Standards

Request submission of documents for confirming legality
Request timber supplier to submit documents by which legal compliance can be confirmed. Sumitomo Forestry prescribes content of certification document according to the laws and regulations of each country or region.

→

Conduct field survey
Where necessary, the person in charge at the purchasing department or the local representative visits the logging site and offices of the supplier, and investigates legal compliance by interviewing the supplier and obtaining corroborative evidence.

→

Examine legality
Based on the application documents submitted by the purchasing department (including the results of the local survey), the Timber Procurement Committee examines the legal compliance.

Promotion of the Action Plan for Timber Procurement

Since 2007, the Sumitomo Forestry Group has formulated and promoted Action Plans for Timber Procurement, which indicate activity targets based on the Timber Procurement Philosophy and on the Timber Procurement Policy.

Under the First Action Plan for Timber Procurement, which covered fiscal 2007–2009, and the Second Action Plan for Timber Procurement, which covered fiscal 2010–2012, all suppliers were investigated and the legality of certain timber was confirmed. Legality was confirmed for timber imported directly from overseas suppliers by Sumitomo Forestry and Sumitomo Forestry Crest Co., Ltd. (directly imported timber), for domestically produced timber sold on the Japanese market, and for timber procured by the Housing Division from suppliers outside the Sumitomo Forestry Group.

From fiscal 2013 onwards, in accordance with the Third Action Plan for Timber Procurement, which has a target year of fiscal 2015, the Group will help realize a sustainable society, by maintaining timber procurement that is 100% legally compliant and by continuing to verify environmental and social considerations along the supply chain.

Confirmation of Legality

The Sumitomo Forestry Group conducted the following activities in fiscal 2012 with regard to confirming the legality of timber procured.

Fiscal 2012 results for activities confirming the legality of timber procured

(1) Continued to verify the legality of all directly imported timber, including from new suppliers
(2) Started CSR surveys for all suppliers of directly imported timber, including questions on human rights and labor practices
(3) Started verifying the legality of woodchips produced in Japan for use in manufacturing paper
(4) Verified the legality of materials handled at overseas sales offices which are bound for markets outside Japan
(5) Started verifying the legality of timber used by manufacturing businesses outside Japan
(6) Staff from environmental departments conducted field surveys to verify legality as well as environmental and social considerations
(7) Initiated measures addressing the enactment of the EU Timber Regulation (EUTR)

Preserving Forests: Through the Use of Timber(P228)

Initiatives in the Housing Business

Policy and Framework for Procurement in the Housing Business

Building materials handled in the housing business are also procured in accordance with the Green Procurement Guidelines. When introducing any new products, each product is investigated for quality, the legality of timber and the CSR initiatives of the companies handling the product, and a product specification sheet is prepared.

Furthermore, once a month, a meeting of the Materials Selection Subcommittee is held, attended by the General Manager of the Building Materials Procurement & Logistics Department and by personnel from each department ranked at the deputy general manager level. The subcommittee discusses whether to accept new products, and defers handling any materials that fail to meet the Sumitomo Forestry standards.

With respect to timber, based on the Timber Procurement Policy, in addition to using timber that has been verified as legal by the Timber Procurement Committee, in fiscal 2011, the Company also completed verification of the legality of all timber supplied from other companies. In fiscal 2013, the Company will again verify legality in accordance with the Third Action Plan for Timber Procurement, thereby maintaining 100% legality.

Evaluation of Supplier in Housing Business

The aim of the Housing Division is for sustainable growth together with its many business partners, such as materials suppliers and building contractors.
To optimize and further stabilize its procurement of materials, on top of Group-wide standards, the Housing Division establishes and operates its own supplier evaluation standards for the housing business. Using a scale of one to five, it uses factory audits and performance evaluations from the past year to evaluate its main suppliers according to 16 assessment items, including management, cost, supply capacity, quality and environment. The division continued to carry out evaluations during fiscal 2012, and all evaluated suppliers were provided with feedback to use in making improvements.

The Housing Division also conducts an annual Survey on Production Systems and CSR for contractors that actually build the homes. The results of this survey are put to use in making work improvements and promoting CSR awareness.

Communication with Business Partners

Communication with Sumitomo Forestry's Business Partners

The Company's housing-business worksites are found in every region of the country, and they rely on the support of the many companies that the Group collaborates with. The Company considers communication with these companies to be vital in order to share with them its philosophy of improving the quality of homes while protecting the environment.

Main Communication Activities with the Business Partners of Sumitomo Forestry Landscaping Co., Ltd.

Name / scale	Description
Timber Storage and Delivery Safety Conference 64 people from 50 timber storage and delivery-related companies participated (2012)	Based on the action guideline of "Putting Customers First," this event introduced complaint case studies in order to widely disseminate information aimed at realizing even safer timber storage and delivery operations and higher quality in the future.
Master building constructor evaluation system Residential Landscaping Division of the 440 building contractors nationwide, 40 have obtained this certification (as of 2012)	This system is for designating building contractors as being of a "master" level and to position them as models for others based on their building quality, safety management, customer services, maintenance of compliance, and other factors. There are four evaluation items; building capabilities, quality inspections, financial foundations, and the CSR survey, and the results for all building contractors evaluated are announced. In addition to contributing to improved customer satisfaction and quality levels, the goal of the evaluation is to help achieve the stable management of building contractors through priority ordering.

Communication with Our Timber and Building Materials Business Partners

Given that its business is characterized by regional industry, Sumitomo Forestry maintains close communication with the supplier and purchasers of timber and building materials in each region.

Main Communication Activities with the Business Partners of the Timber & Building Materials Division

Name / scale	Description
The Sumirin club —a membership organization to communicate with regional suppliers of timber and building materials 837 people nationwide (as of February 2013)	Established in different regions around Japan as a forum for communication with business partners of timber and building materials. Training sessions and information exchange meetings are held two or three times a year in each region, allowing members to deepen mutual friendships, promote product R&D, enhance production and distribution, and support improvements in the industry as a whole.
Precut[1] Forum 21	Established with the goals of improving quality and productivity and developing the businesses of all member companies. As the managing company, the Company is involved with operation and training, organizes visits to other companies in the sector to improve quality levels among member companies, cooperates on the development of high quality PFWOOD, and holds training sessions on applying for excellent long-term housing status, as well as seminars on business opportunities utilizing Japanese timber.
INOS Group 229 companies nationwide (as of March 2013)	In order to provide more reliable and safe housing for many customers in different regions around Japan, Sumitomo Forestry established the INOS Group as a network of construction company members to share its extensive expertise developed over many years, including in computerized structural calculations and estimates, and to implement its warranty system. A general meeting is held once a year to further communication between members and share objectives. During fiscal 2012, the INOS Group constructed 435 houses.
Publication of Building Materials Monthly Monthly print run of approximately 5,000 copies	For Suppliers and Purchasers of Timber and Building Materials, this is a distinctive informational magazine with a history spanning nearly half a century. It aims to "inspire everyone involved in the timber and building materials industry" through the timely publishing of related news and topics. Each month, the magazine disseminates information on a special theme. In fiscal 2012, the themes included: promoting wood construction in non-residential building structures, remodeling and renovation, and incentives to promote house purchases.

1 A production system for construction in which timber undergoes high precision processing before being transported to the construction site. CAD/CAM technology is used for selecting wood that is resistant to external forces and for verifying structural design.

Consideration in Communities Outside of Japan and Communication

In consideration of local employment, Group companies outside Japan procure locally from suppliers in the communities where they develop their businesses.
Canyon Creek Cabinet Company, which manufactures and sells cabinets, frequently meets and reports to suppliers on customer feedback and its own evaluations, enabling it to manage the procurement process in a timely manner.

In addition, SFC Homes stays in continuous communication with suppliers in order to share information on matters including methods of product manufacturing with low environmental impact and best practices to promote recycling.

Our Business Partners' Occupational Health and Safety Management

Strict Management of Occupational Health and Safety in Housing Construction

On any given housing construction site, there are many workers involved in the build. Ensuring occupational health and safety for all the people involved in construction is the fundamental social responsibility of a housing builder.

Sumitomo Forestry's basic policy is to prevent occupational accidents through the comprehensive implementation of risk assessment. The Company aims to eliminate occupational injury caused by falls, heavy machinery and power tools, by predicting and eliminating risks before any work commences, and by carrying out work strictly in line with procedure manuals so as to ensure safety.

At each division and department in charge of construction, safety patrols and health and safety meetings are conducted once a month. A system has been established whereby, in safety patrols, the Company goes around the construction site together with the building contractors, and they inspect each other's work in terms of safety and quality. Then, at the health and safety meeting, they discuss improvements based on the results of the patrol. In addition, each division and department also formulates its own fiscal year targets and plans, based on the priority goals of legality, comprehensive self-management and prevention of occupational injury.

In fiscal 2011, there were 12 occupational injuries involving contractors at housing construction and subdivision worksites, whereas in fiscal 2012, there were ten.[1] Sumitomo Forestry will continue to use onsite guidance to lead to a reduction in occupational injuries, and will strive to improve both health and safety and quality by continually holding training sessions.

1 Indicates the number of injuries subject to compensation benefits for temporary absence from work under the Industrial Accident Compensation Insurance Act of Japan.

Strict Management of Occupational Health and Safety in Forestry

The Sumitomo Forestry Group holds a Workplace Safety Conference twice a year at all forestry offices in Japan. Here, guidance and training is provided to the employees of contractors and the Sumitomo Forestry Group on such topics as occupational health and safety, environmental education and emergency first aid.

Despite these efforts though, in fiscal 2012, there were two occupational injuries involving contractors at forestry worksites of the Sumitomo Forestry Group.

These accidents will be taken up for discussion at future Workplace Safety Conferences. The Group will also provide retraining on precautions and promote awareness among contractors to prevent recurrence of these accidents.

Information Disclosure and Communication

SOCIAL REPORT

Basic Policy on Information Disclosure and Communication

In the interest of greater management transparency, Sumitomo Forestry takes a proactive approach to information disclosure. At the Ordinary General Meeting of Shareholders held every June, the Company presents reports and information as clearly as possible and publishes printed and online versions of its Annual Report in both English and Japanese, as well as Japanese reports for shareholders on business activities. It also discloses a range of other IR information on its English and Japanese websites, including financial information such as the short financial statements, summary of financial results and forecasts, and also information on monthly orders. Moreover, the Company publishes notifications of its Ordinary General Meeting of Shareholders in both English and Japanese, in these and other ways creating opportunities to communicate with its stakeholders.

Annual Report 2012

Japanese reports for shareholders on business activities (Year ended March 31, 2013)

The Company will continue to communicate the business operations, corporate stance and future vision of the Sumitomo Forestry Group to all investors, whether shareholders or institutional or individual investors in Japan and overseas, in a fair and appropriate manner, and it will conduct IR activities that are recognized fairly in stock markets.

▶ Investor Relations

Two-Way Communication with Shareholders and Investors

General Meeting of Shareholders

Sumitomo Forestry holds its Ordinary General Meeting of Shareholders every June. Through various initiatives, the Company endeavors to get as many shareholders as possible to participate at the meeting and exercise their right to vote. These initiatives include sending out convocation notices earlier than legally required, scheduling the meeting to avoid the date when most other shareholder meetings are held, and accommodating shareholders who wish to cast their votes online or via their mobile phones

Initiatives for Facilitating Participation and the Exercise of Voting Rights

(1) Early posting of convocation notices

In order to deepen understanding for the Sumitomo Forestry Group, and out of regard for the convenience of overseas shareholders, convocation notices for Ordinary General Meetings of Shareholders are prepared in both Japanese and English, and are disclosed on the Company's website. Convocation notices are also mailed out three weeks before the date scheduled for a General Meeting of Shareholders. Notices for the 73rd Ordinary General Meeting of Shareholders, which was held on June 21, 2013, were sent out on May 30, 2013.

(2) Avoidance of the date when most other shareholder meetings are held

Ever since the 66th Ordinary General Meeting of Shareholders on June 27, 2006, the Company has avoided scheduling meetings on the date when most other shareholder meetings are held, so as to make it easier for shareholders to attend. The 73rd Ordinary General Meeting of Shareholders was held on June 21, 2013, four business days before the meetings of most other companies.

(3) Improving the Voting Environment

The Company is meeting investor needs for an improved voting environment and established a platform on which institutional investors can vote digitally, while individual investors can now vote online or via their mobile phones. The voting rate at the 73rd Ordinary General Meeting of Shareholders was 81.55%.

Explaining Business Performance and Conference Calls

In its efforts to continue gaining greater trust from shareholders and investors, Sumitomo Forestry holds earnings briefings and individual meetings to explain its business performance to institutional investors and analysts following the announcement of interim and year-end results, as well as conference calls following release of Q1 and Q3 results.

Individual Meetings

Sumitomo Forestry holds individual meetings for institutional investors following the announcement of its quarterly results. In fiscal 2012, the Company held 100 of these individual meetings both inside and outside of Japan.

Hosting IR Meetings for Individual Investors

Sumitomo Forestry holds regular IR meetings for individual investors. During fiscal 2012, it held one each in Tokyo and Osaka, and these were attended by about 220 individual investors. At the meetings, in addition to presenting on the business operations of the Sumitomo Forestry Group, the Company talks about current issues, such as increases in the consumption tax and energy-related problems, as well as the Group's initiatives to tackle them.

IR Activities for Overseas Institutional Investors and Shareholders

The Company distributes English versions of financial documents to institutional investors and shareholders residing overseas. Furthermore, in fiscal 2012, senior management visited institutional investors and shareholders in Europe and the United States, to present the Company's business results and strategies and to exchange opinions.

Returns to Shareholders

Basic Policy on Returns to Shareholders and Retained Earnings

Sumitomo Forestry acknowledges that providing returns to shareholders is one of its most important tasks and the Company maintains the ongoing provision of stable returns to shareholders as its basic policy. The Company will continue efforts to enhance profitability by improving return on capital employed (ROCE), which is viewed as an important management indicator, and will deliver a fair return that reflects the profit situation while taking into consideration the overall balance between aspects including its business foundations, financial condition and investment plans.

Retained earnings will be utilized effectively for investments, research and development and other activities that bring about positive results and contribute to the improvement of corporate value in line with long-term management plans.

Surplus earnings are distributed twice a year as an interim dividend and a year-end dividend. The year-end dividend is finalized by the General Meeting of Shareholders, and the interim dividend by the Board of Directors. The Company's articles of incorporation stipulate that it may issue an interim dividend each year, with a record date of September 30, through a resolution by the Board of Directors.

Dividends in Fiscal 2012

In fiscal 2012 (the year to March 31, 2013), a year-end dividend of 9.5 yen per share and an interim dividend of 7.5 yen per share were issued. This corresponds to a full-year dividend of 17 yen per share.

Share Distribution by Shareholder Type

Inclusion in Environmental Investment Funds and SRI Indices

Inclusion in Environmental Investment Funds and SRI Indices as of April 2013

Sumitomo Forestry engages in business activities that enhance its selection as a socially responsible investment (SRI) covering not only its financial performance but also its environmental responsiveness, social activities, and ethical stance.

The Dow Jones Sustainability Indexes (Asia Pacific) in the home construction section (as of September 2012)

The FTSE4 Good Global Index for nine consecutive years from 2004 (as of April 2013)

The Morningstar Socially Responsible Investment Index (MS-SRI) for six consecutive years from 2008 (as of April 2013)

Fair Employment and Treatment

Basic Policy on the Employment and Treatment of Employees

Sumitomo Forestry aims to be a"truly excellent company" in housing and wood products businesses, by making efforts to put in place effective personnel systems, carrying out appropriate and efficient placement of "human assets," developing and training personnel, and building a group of employees who are always willing to take up challenges, all in accordance with one of the Company's action guidelines: "Respect for Humanity—We work to create an open and inclusive corporate culture that values diversity."

With respect to the employment and treatment of employees, in addition to respecting equal opportunity and diversity, the Company has prescribed in "Our Values and Ideals" that it will not discriminate on a basis of gender, age, nationality, race, religion or disability. In its recruitment activities too, the Company emphasizes the ambition and volition of the applicant, and does not differentiate selection processes according to academic background or gender. At Group companies outside Japan, the employment of local staff is actively promoted, and talented personnel are employed and promoted to management positions, irrespective of race or gender.

As for the disciplinary punishment and dismissal of employees, if there has been a compliance violation, the employee will be dealt with appropriately in accordance with Employment Regulations. Unfair dismissals are not allowed.

Promoting Affirmative Action

Sumitomo Forestry is committed to a workplace environment where employees can fulfill their ambitions and exercise their skills irrespective of gender. To promote the active involvement of female employees in particular, the Company takes a proactive stance on expanding the areas of work performed by female employees, providing them with support for raising children, and providing them with training programs and other in-service initiatives.

For job types where there are few female employees, the Company has enhanced both internal and external training, aimed at resolving work-related problems and enhancing motivation. Furthermore, the Company also provides female managers with skills-building training and opportunities to mix with employees from other companies. The Company plans to continue these initiatives in the future.

▶ Childcare Support for Employees(P111)

Main Initiatives Aimed at Increasing the Motivation of Female Employees

	Name of seminar	Date	Main participants	Main topic, training description
Sales training	Networking Event for Female Housing Sales Staff: Joint Program by Nine Housing Builders	June 2012 Feb. 2013	June: 6 female sales staff, 2 supervisors Feb.: 2 female sales staff	At any housing builder, there are few female sales staff. The aim of this seminar was to share role models and to build networks, leading to greater retention and more active involvement of female sales staff. Sentiments of participants included: "The companies may be different, but the worries and issues for female sales staff are the same. I became more motivated."
	Knowledge-Based Training for Female Sales Staff	June 2012	47 female sales staff in at least their 2nd year of employment	This was the first female-only sales training seminar. The aim of this seminar was to impress upon participants the importance of working subjectively and to motivate them to conduct sales with enthusiasm.
	Talk by High-Achiever Female Sales Staff	Dec. 2012	37	This was the first in-house event for participants to listen to presentations made by peer employees thereby leading to improved motivation. Four female representatives from among high-achiever sales staff gave presentations, and their topics included: Tough Times at Work and How to Overcome Them; Exercising Ingenuity in Sales Activities; and Advantages and Disadvantages of Being a Female.

	Name of seminar	Date	Main participants	Main topic, training description
Production training	Production Training for Female Employees	July 2012 Jan. 2013	10 at each session	The aim of this seminar was to enhance the property management and proposal capabilities of construction site managers. Participants toured traditional wooden buildings and model homes, and took part in discussions on the main points and precautions regarding construction techniques with a high level of difficulty.
Management training	Training for Female Managers	June 2012 Oct. 2012 Feb. 2013	1 at each session	The aim of this external training seminar for female managers was for them to develop leadership and build networks with other female managers from companies in different business sectors. The program was designed for participants to re-examine their past selves and to reform themselves as managers.
	Joint Cross-Industry Business Skills Training	Jan. 2013	4	This joint cross-industry seminar on business skills training was only for female employees. Its aim was to develop female candidates for managerial positions and to upgrade their skills. It provided a great stimulus for participants who would otherwise have little opportunity to interact with employees from companies in other lines of business.

Promoting the Employment of People with Disabilities

Sumitomo Forestry is promoting the employment of people with disabilities while considering possible challenges people with disabilities working in companies encounter and the ways of working lead to increased corporate value. Furthermore, to improve the retention rates for current employees, the Company provides regular face-to-face meetings as well as phone interviews and career advice as required, and it seeks to improve the workplace environment.

Re-Employment of Retired Employees

Sumitomo Forestry has a system in place whereby it re-employs personnel, who retired at 60, on temporary contracts until they turn 65, on the condition that they have had at least 10 years of continuous service, they have specific qualifications and experience, and they wish to be re-employed. The Company re-employed 27 people in fiscal 2010, 27 in fiscal 2011, and 32 in fiscal 2012. They are all actively involved in the Company, making the most of their abilities and experience.

Over the past three years, Sumitomo Forestry has re-employed 72% of employees who retired, and 86% of those who sought re-employment. As an interim measure following revision of the Act on Stabilization of Employment of Elderly Persons on April 1, 2013, the Company's policy is to re-employ all workers who wish to return to work.

Return to Work Application System

Sumitomo Forestry has operated the Return to Work Application System since fiscal 2008. The aims of the system are to meet the re-employment needs of workers forced to retire for reasons such as childbirth or caring for family members, and to secure talented personnel. Employees register their wish to return to work before they retire, and applicants must have worked for three or more consecutive years.

When the company receives an application for return to work from a registrant after they have retired, it goes through a selection process based on the employment needs of the Company and the skills of the applicant. Moreover, applicants hired within three years of leaving are able to return to the same grade as their former position. As of March 31, 2013, 73 people are registered under the system.

Direct Employment of Non-Permanent Employees

In recent years, regulations for dispatched employees have been strengthened to correct disparities arising out of different forms of employment. In response, Sumitomo Forestry reviewed its personnel systems from a compliance perspective, and in April 2011, changed the status of its dispatched employees to directly employed fixed-term employees, referred to as "partner employees." The Company also operates a system for promoting partner employees to permanent status. It promoted 18 workers to permanent employee status in fiscal 2012, and a further 38 in fiscal 2013.

Initiatives at Group Companies

Sumitomo Forestry Home Engineering Co., Ltd.

Sumitomo Forestry Home Engineering Co., Ltd. proactively employs female personnel, and in fiscal 2010, it launched the Workplace Improvement Group, an organization consisting mainly of female employees. The theme of the group's activities in fiscal 2010 was "identifying issues in the current situation, and understanding and making proposals in relation to the Act on Securing, Etc. of Equal Opportunity and Treatment between Men and Women in Employment and associated internal systems." The group's membership was comprised of employees from a wide range of ranks and ages, including people responsible for operations, people currently on childcare leave and personnel three years out from university. The theme in fiscal 2011 was "women and revitalization of the organization." Females working as assistant supervisors in the administration groups of each section were selected to discuss the roles, responsibilities and necessary skills and actions of assistant supervisors in administration groups where the majority of workers are female.

In fiscal 2012, the group was comprised of females in charge of construction management, and the theme was "development of the organization and the active involvement of female engineers." Members gave their own environmental report for their workplace, identified problems in working on construction sites as a woman, proposed solutions for those problems, and exchanged views on future "ways of working." During the three years that the Workplace Improvement Group has been in operation, problems have been identified and information shared across various job categories and levels. In view of this, the company plans to link these outcomes to new forms of in-house training.

Dalian Sumirin Information Technology Service Co., Ltd. (China)

Dalian Sumirin Information Technology Service Co., Ltd. in China is responsible for housing design. In March 2012, in collaboration with a local university, the company commenced an initiative employing students using an internship program. While still at university, the students gain an understanding of the company's business activities, such as through operational training and on-the-job training, and the company then recruits students who have reached a certain capacity. In fiscal 2013, the company plans to employ ten recruits through this program.

The university is also optimistic that the program will enable the provision of educational and employment opportunities, thereby tackling the social issue of graduates having difficulty in finding employment. At the same time, the company believes that achieving stable increases in personnel by securing students who have studied the fundamentals of wooden housing will not only lead to expansion of the company's business, but also to an increase in opportunity for existing locally employed staff to get promotions to management positions.

Respect for Human Rights

SOCIAL REPORT

Basic Policy on Respect for Human Rights

The Sumitomo Forestry Group states in "Our Values and Ideals," a set of guidelines on ethical conduct, that everyone belonging to the Group shall respect the diversity of people in terms of characteristics such as disability, gender and age, and acknowledge that everyone is equal, and that no discrimination whatsoever will be tolerated. The Group makes efforts to raise awareness of these matters, for example through training. Our Values and Ideals is available for viewing on the Sumitomo Forestry website in Japanese, English and Chinese and therefore accessible to a large number of stakeholders.

Human Rights Training

Sumitomo Forestry has been holding lectures on human rights as part of new employee training (new graduate and graduate training) since fiscal 2007 to ensure that everyone respects human rights and works to create workplaces free of discrimination. Lectures on two themes were given—human rights basics, and Our Values and Ideals. In fiscal 2012, 116 new graduates and 74 graduates attended the lectures as part of their respective new employee training.

Since fiscal 2011, "Work + human rights"an e-learning course teaching the significance of protecting human rights has been recommended to all Sumitomo Forestry Group employees with access to the in-house Web. In fiscal 2012, 10,846 employees took the course. Efforts to raise human rights awareness among employees through group training and e-learning will be continued.

Prevention of Sexual Harassment and Workplace Bullying

Sumitomo Forestry makes its policy on sexual and power harassment in the workplace clear, having included in its Employment Regulations, under one category of rules to be observed by employees (discipline on the job), a provision prohibiting such harassment as well as disciplinary standards. "Our Values and Ideals", a set of guidelines on ethical conduct, also prohibits all forms of harassment and this is communicated via the in-house Web and pamphlets. In addition, awareness within the Company is fostered by providing information, with case examples, through human rights and ethics training and other activities.

Furthermore, a framework for appropriately handling of inquiries and complaints was put in place in fiscal 2000 with the establishment of the Sexual Harassment and Power Harassment Consultation Hotline within the Personnel Department and Compliance Hotlines both inside and outside the Company. When handling a case of harassment, the Sexual Harassment and Power Harassment Consultation Hotline promptly and appropriately verifies the facts and gathers information with the accused, the complainant, and third parties, and then takes the necessary procedures with those concerned. The privacy of all those involved is protected and every effort is made to ensure that neither the complainant nor those cooperating are treated detrimentally.

Initiatives at Group Companies

Efforts are made to communicate the Sumitomo Spirit and Sumitomo Forestry's Corporate Philosophy to Group companies outside Japan, too, for example through training for Group employees overseas. Employment at business sites overseas is also undertaken in compliance with local laws and ordinances. Illegal practices, such as child labor and forced labor, are not used.

PT. Wana Subur Lestari (Indonesia)

Muslims account for around 70% and 30% of employees, at PT. Wana Subur Lestari (WSL) and PT. Mayangkara Tanaman Industri (MTI) respectively, which are engaged in large-scale plantation operations. During the Islamic fasting month of Ramadan, both companies allow employees to shorten their lunch break and instead bring the end of the working day forward 30 minutes, giving them time to prepare meals for breaking the fast. All Muslim employees make use of this system.

Occupational Health and Safety

SOCIAL REPORT

Basic Policy on Occupational Health and Safety

Sumitomo Forestry has established Rules for OHS Management with an aim of fostering a workplace environment in which employees can perform their jobs in a safe and healthy manner. The rules prescribe that a general OHS manager is to be stationed at each place of business regardless of how big it is, and every year, the Company checks on the status of the officer and committee meetings.

With an aim of preventing accidents at construction sites and maintaining the health of their workers, each division, such as the Forestry & Environment Division and the Housing Division, has also established separate OHS management policies and manuals in view of the distinctive characteristics of their respective businesses.

Occupational Health and Safety Management System

In addition to developing occupational safety and health management systems in accordance with the laws and regulations of the respective country, each Sumitomo Forestry Group company also promotes acquisition of certifications such as OHSAS.[1]

1 Occupational Health and Safety Assessment Series (OHSAS): An international standard developed for the purpose of reducing occupational health and safety risks and clarifying where responsibilities lie.

Acquisition of Occupational Safety-Related Certification

Company	Country	Type of certification	Date acquired
Sumitomo Forestry Crest Co., Ltd.	Japan	OHSAS18001	February 2013
PT. Rimba Partikel Indonesia	Indonesia	OHSAS18001	March 2013
Nelson Pine Industries Ltd.	New Zealand	AS/NZS4801	December 2012
		ACC WSMP Tertiary	November 2009
Alpine MDF Industries Pty. Ltd.	Australia	AS/NZS4801	August 2010
PT. Kutai Timber Indonesia	Indonesia	OHSAS18001	Planned for acquisition in fiscal 2013

Mental Health Care

Based on the *Guidelines for Maintaining and Improving Workers' Mental Health* formulated by the Ministry of Health, Labour and Welfare in August 2000, Sumitomo Forestry implements four types of care for mental health: self-care; care provided by line managers; care provided by occupational health staff within the workplace; and care using resources from outside the business. In fiscal 2012, Sumitomo Forestry put effort into providing mentally ill individuals with follow-up support and help in returning to work, as well as into keeping employees from becoming mentally unwell. The Company assigned an employee, who is a qualified clinical psychologist, to the Work & Life Group in the Personnel Department, and it worked in close cooperation with external employee assistance program (EAP) providers.

In fiscal 2013, Sumitomo Forestry strengthened its support for employees. It established a new department, the Workstyle Diversification Department, which is in charge of support for childcare and family care, career support and support for mental health, and it set up both internal and external mental health consultation services. The Company also plans to require all employees take an online Mental Health (Stress Check) Test once a year as a type of self-check, and will provide follow-up support for employees with apparent problems, such as encouraging them to seek medical advice. The Company also plans a mental health education program for management, run by the company counselor (clinical psychologist).

Comments

Makiko Nishimoto (clinical psychologist)
Workstyle Diversification Department

As the company counselor, I will endeavor to provide delicate care attuned to each individual employee by linking the person on mental health leave with their family doctor, occupational health physician, personnel staff and supervisor.

Initiatives for Regular Health Checkups and Extensive Examinations

Sumitomo Forestry provides regular health checkups to all employees once a year. In addition to making more extensive examinations also available to employees and dependents aged 35 and over upon request, metabolic syndrome tests have been added to the regular health checkups and extensive examinations for employees aged 40 and over. Moreover, the progress of these regular health checkups and extensive examinations is thoroughly managed at each place of business.

As a result, in fiscal 2012, for the fifth consecutive year, 100% of Sumitomo Forestry employees received a medical checkup (excluding those employees on long-term leave, such as maternity leave or convalescence leave). In addition, since fiscal 2009, a follow-up system has been in place for all patients requiring further examination, including consultations with an occupational health physician at each place of business and the delivery and collection of forms verifying second examinations.

Occupational Health and Safety in the Forestry and Environment Business

Basic Policy on Occupational Health and Safety

As of April 2013, forests owned by Sumitomo Forestry in the four regions of Hokkaido, Shikoku, Wakayama and Kyushu covered a total area of some 43,328 hectares (1/900 of Japan). Management of these vast company-owned forests is conducted by Sumitomo Forestry Wood Products Co., Ltd. based on a Forest Management Plan formulated by the Company.[1]

The company promotes the prevention of occupational injuries to contractors, such as those conducting harvesting operations, tree-planting operations, weeding operations, and improvement cutting and thinning operations. It has also strengthened its awareness-raising activities, such as education on accident prevention using examples of common forestry accidents, as well as lectures given by experts and on-site inspections.

1 On April 1, 2013 all of the forestry sections at Sumitomo Forestry Wood Products Co., Ltd. were transferred to Sumitomo Forestry Co., Ltd., and since then, Sumitomo Forestry Co., Ltd. has managed its forests directly.

Systems Promoting Occupational Health and Safety

At the forestry offices of Sumitomo Forestry Wood Products Co., Ltd., managers and safety officers play a pivotal role in working to ensure occupational safety. In addition, guidance and education is also provided for them to acquire the knowledge needed for managing the safety of employees and contractors. Safety officers' duties include: proposing improvements for safety management; conduct safety training; planning and carrying out safety patrols; acquiring, disseminating and providing guidance on the knowledge and skills necessary for safety management; and coordinating safety management between contractors and managers.

At the time of the internal reorganization, the company revised the Workplace Safety Manual, and has maintained the systems promoting occupational health and safety.

Activities for Occupational Health and Safety

As a measure for preventing occupational injuries, Sumitomo Forestry Wood Products Co., Ltd. holds Workplace Safety Conferences at each forestry office twice a year (once in each half of the year). By providing occupational safety education delivered by experts as well as on-site training by worksite patrols, the aim is to raise the awareness of employees and contractors for occupational safety. Furthermore, so as to prevent any decline in attentiveness to dangerous work due to getting accustomed to it, the company repeats safety training again and again.

A worksite patrol

The company also provides environmental education to these workers on such topics as forestry certification and biodiversity preservation.

Occupational Health and Safety in the Manufacture of Wood Building Materials

Basic Policy on Occupational Health and Safety for the Domestic Manufacture of Wood Building Materials

Sumitomo Forestry Crest Co., Ltd.'s basic policy is to move "from zero accidents to zero danger." Its goal is to achieve zero occupational injuries by nipping danger in the bud. As a result, the number of reported accidents (including accidents with no associated lost work time) has steadily decreased, from 21 in fiscal 2010, to 11 in fiscal 2011, and nine in fiscal 2012.

Furthermore, progress is being managed through a process of comprehensively identifying risks in routine work operations, planning and implementing measures to counter these risks, verifying the effects of these measures, and ascertaining any residual risks.

Systems Promoting Occupational Health and Safety

With an aim of facilitating the operation of occupational health and safety at Sumitomo Forestry Crest Co., Ltd., the President and Representative Director has been named as the person with the highest authority, and the managers of each plant have been nominated as General Safety Managers. They confirm the progress made in the OHS Promotion Plan established at the beginning of the period by the OHS Committee, and this is connected to the operation and maintenance of the occupational health and safety management system.

As for the implementation, management, maintenance and improvement of the Occupational Health and Safety Management System (OHSMS), operation of which was started in July 2012, this is conducted by the OHSMS Secretariat.

Occupational Health and Safety Management System (as of April 2013)

Operation of the Occupational Health and Safety Management System

Sumitomo Forestry Crest Co., Ltd. began operating the Occupational Health and Safety Management System (OHSMS) in July 2012 for the purpose of realizing the goal of occupational health and safety, namely, achieving zero occupational injuries by nipping danger in the bud.

Audit of occupational health and safety

This system works by repeating the PDCA management cycle, with employees actively brainstorming through small group activities in the workplace and using near miss reports. A feature of the system is that, at the same time as advancing production activities, it also promotes a reduction in risks. In January 2013, operation of the management system underwent an external review, and as a result, the company acquired OHSAS 18001 certification in February 2013.

Sumitomo Forestry Crest Co., Ltd. will continue to improve the OHSMS by steadily following the PDCA cycle. The company has also created a program for employees to acquire a range of qualifications from public institutions for the development of their own skills, so that they themselves can also oversee safety and health conditions at their own workplaces.

Main Courses Supporting Qualification and the Number of Employees Obtaining Qualification

Name of course	Number of employees obtaining qualification in fiscal 2012	Total number of employees with qualification
OHSAS 18001 internal auditors	4	13
RST trainers[1]	0	8

1 Based on the directive from the Ministry of Health, Labour and Welfare, this is an official qualification provided by the Japan Industrial Safety and Health Association that certifies the ability of the recipient to instruct forepersons at work sites on occupational health and safety.

Occupational Health and Safety in the Housing Business

Basic Policy on Occupational Health and Safety

At the beginning of every fiscal year, a notice on the OHS Management Policy is sent to each branch in the name of the Manager of the Housing Division. Based on this, each branch sets specific targets for reducing the risk of occupational injury, and promotes activities for enhancing awareness for the prevention of occupational injuries and for reducing risk. Subcontracted building contractors are also advised about these branch-specific targets, and they are requested to manage the targets and prevent accidents.

Furthermore, the results of each branch's activities are verified at monthly OHS meetings, and efforts are made to reinforce the activities by reviewing them from time to time.

Systems Promoting Occupational Health and Safety

OHS meetings are always held once a month at all branches, attended by the General Manager, the person in charge of production, the worksite manager and a representative of the contractors. Based on the results of safety patrols and worksite surveys, training programs promoting occupational health and safety are also held which include specific cases.

In addition, flow charts of emergency contacts have also prepared in case of an accident, and systems have been developed so that rapid action can be taken 24 hours a day in case of an emergency. In the unlikely event an accident has occurred, a OHS meeting for accident countermeasures is held, where an investigation is conducted to determine the cause of the accident and to consider countermeasures from the perspectives of people, objects and management, and the findings of this investigation are shared with all branches.

Activities for Occupational Health and Safety

Sumitomo Forestry believes that most accidents and disasters on construction sites can be avoided through awareness of the people engaged in the job. Based on this belief, the Company provides training aimed at improving awareness for occupational health and safety on construction sites using a case study approach. The training is targeted at the OHS managers of each branch or region, as well as the leaders (subcontractors) in each job category on construction sites. Training is also provided for branches nationwide, designed for maintaining safety when workers use grinders, which are fraught with great hazard, and circular saws, which are a common source for accidents due to misuse despite being simple to use.

Training for circular saw work

Furthermore, in fiscal 2012, the Worksite Access Control System was introduced for all construction sites, aimed at ensuring occupational health and safety and observing compliance. This system makes it easier to check the safety of workers when they are working alone on a worksite, and to check whether workers have the necessary qualifications for each work process, and thus enhances the certainty of on-site management. Furthermore, in order to ensure the occupational safety of the increasing number of older workers, Sumitomo Forestry also conducts an education program based on *Low-Rise Housing Construction: Safety Guide for Older Workers*, published by the Japan Federation of Housing Organizations.

Initiatives at Group Companies

Nelson Pine Industries Ltd. (New Zealand)

Enhancement of Occupational Health and Safety Systems

Nelson Pine Industries Ltd., which manufactures and markets such products as medium density fiberboard (MDF), conducts necessary safety training on an ongoing basis, such as training for ensuring safety when working in high places and training for responding to disasters and administering first aid.

The company has also placed occupational safety officers in each division, and regularly holds briefing sessions with plant managers also in attendance. In addition, whenever necessary, the occupational safety officers are called together such as to make changes to the occupational safety policy and operating procedures, to exchange information on crisis management and to investigate accidents, with senior management being briefed on the situation. In recognition of these proactive efforts, the company's initiatives have been presented as a case study in a special project established by the New Zealand Ministry of Business, Innovation and Employment for improving working environments.

Emotional and Physical Support for Workers Returning to Work

Nelson Pine Industries Ltd. has established guidelines for enabling employees on leaves of absence due to sickness or injury to make a quick and safe return to work. Based on these guidelines, the employee meets with support staff, managers and experts such as medical advisors, and a plan is drawn up which helps their return to work while also taking their state of health into account.

A barrier-free designed toilet

In terms of facilities, the company has also installed barrier-free toilets and showers as required, and it arranges for other facilities as necessary in line with each individual's rehabilitation plan.

Human Resources Development and Career Support

SOCIAL REPORT

Basic Policy on Human Resources Education and Career Support

Guided by the consistent policy for human resources development of "autonomy" and "support," Sumitomo Forestry aims to realize its Corporate Philosophy by developing employees with a strong sense of pride and motivation, and by creating a culture that is open and inclusive. At Group companies as well, the Company looks for individual workers to enhance their skills, by presenting the ideal type of worker it is looking for on the Sumitomo Forestry intranet. As for Group companies outside Japan, the Company instills the Sumitomo Spirit and its Corporate Philosophy such as through employee training. Moreover, the Company also actively employs foreign nationals in Japan and dispatches staff to local worksites. Going forward, it will reinforce training programs for management personnel overseas, and endeavor to reciprocally utilize the human resources of both the Company and Group companies.

Based on this approach, the Company formulated the Five-Year Human Resources Development Plan (FY2011-2015) for the purpose of efficiently and actively promoting investments in human resources education, and currently, it is implementing various measures in line with this policy.

The Five Year Plan Policies and Initiatives (fiscal 2011 to fiscal 2015)

(1) Taking the perspective that Group-wide human resource development is needed, standardize training across Group companies within and outside of Japan and accept employees from Group companies into the Company.

(2) Develop the Group's human resources by improving the support for language learning, the overseas trainee system, and training prior to being sent to an overseas post.

(3) Create a Sumitomo Forestry learning portal (a Japanese e-learning system accessible by all Group employees both within and outside of Japan), to ensure all employees fully understand Sumitomo Forestry's corporate philosophy and its stance on human rights and compliance with legislation, as well as to enhance their skills.

(4) Continue with training and programs that provide employees with career support. Use performance-based evaluation while enhancing on-the-job training to ensure their autonomous commitment to their work and to encourage their motivation.

Development of the Sumitomo Forestry Business Institute

In an effort to strengthen the Sumitomo Forestry Group's development of human resources, the Group has been improving and expanding the Sumitomo Forestry Business Institute since fiscal 2011 as a common Group platform for human resources development. Under a theme of "Supporting Motivated People," in fiscal 2012, the Group shifted emphasis, from "training for specific levels," which had previously been advocated across-the-board, to more "self-development" and "selective" training. The Group also expanded the content of e-learning. As a result, an awareness for "learning of one's own accord" has begun to sprout among employees, and the development policy of "supporting self-reliance" is gradually taking form.

Going forward, as well as broadening self-development training and selective training, by adding a Skills Development Sheet at the goal-setting interview conducted every half year, the Group aims for supervisors to strengthen their leadership ability, and for employees to improve themselves. Moreover, by further expanding the training programs which were conducted for Group companies in fiscal 2012, the Sumitomo Forestry Group aims to improve the entire Group's overall capacity for human resources development.

Sumitomo Forestry Business Institute Training Structure and Training Program

Level/grade		Training for specific levels	Selective training	Self-development training	e-learning
Management track	Officers		Training for middle management of reform Management strategy training Training for supervisors		Sumitomo Forestry Business Institute, e-learning
	General manager class	Training for new managers			
	Department manager class Section manager class	SM aptitude training ★ Follow-up training for management	Training for female managers Training for temporary dispatchment Overseas trainees Graduate studies programs	Sumitomo Forestry Business Institute courses (conducted in-house by Sumitomo Forestry instructors and by invited instructors) External public courses (external training, open university lectures, etc. conducted outside the company) Tuition support (support for external business and certification courses, etc., providing assistance for tuition fees) Language learning support (language instructors, language schools, language testing, etc.)	Shared learning (Sumitomo Forestry's history, compliance, corporate policies, environment, information, etc.) Common business skills (document writing, harassment, etc.) Common management skills (team management, coaching, etc.) Specific learning for Head Office Departments and each business division (Timber & Building Materials Division, Housing Division, etc.)
Staff track	Supervisor class	☆ PM pre-promotion training PM aptitude training	Cross-industry exchange training		
	Assistant supervisor class	Training for 5th year general management Training for 2nd year general management Shikoku forestry training Follow-up training for 1st year general management New employee training (graduates from earlier years) New employee training (new graduates) including housing engineers Follow-up training for 1st year general management			
Proposed recruits		Follow-up training for proposed recruits			

Shading indicates training courses that are also partly available to employees from Group companies.

★ indicates attendance only by employees who apply.
☆ indicates e-learning program.

Main Content of e-Learning

Area	Training categories
Common training	• Work + human rights • Compliance and risk management • Information security • History of Sumitomo Forestry • Policies of the Sumitomo Forestry Group • Environmental problems and corporate initiatives
Business models	• Document writing • Presentations • Framework for improving strategic thinking • Logical thinking • Marketing
Management skills	• Advice for managers • Basics of coaching • Mental health for management • Team management • Harassment for management • Providing evaluation feedback for developing staff
Knowledge	• Outline of the Sumitomo Forestry Group • Financial knowledge • Labor-related knowledge • Insider trading • Mental health for ordinary employees • Legal knowledge • Accounting knowledge • Intellectual property • Harassment for ordinary employees
Personnel systems	• Personnel evaluation system

Number of Employees Attending Main Training Programs (Fiscal 2012)

Training program	Number of people attending
Promotion training (2 courses)	238
Follow-up training for management (6 courses)	125
Training for specific levels (6 courses)	347
Selective training (6 courses)	72
Self-development training (27 courses)	346

1 From Group companies, 45 employees attended follow-up training for management, 102 attended new employee training, 15 attended cross-industry exchange training, and 221 attended self-development training.

Support for Obtaining Qualifications and Attending External Education

Sumitomo Forestry promotes independent efforts for capacity building and career development. For instance, the Company's Regulations for Assistance in Obtaining Qualifications and Attending External Education include provisions for assistance when an employee seeks to obtain qualifications or use an external educational institution.

With regard to obtaining qualifications needed for managing operations and qualifications recommended for capacity building, the regulations prescribe assistance limits for preparation costs, examination fees, registration costs, renewal costs and transportation costs for each qualification.

As for using external educational institutions approved by the Company, in addition to contributing up to 50,000 yen per person each fiscal year, the regulations also state that the Company will bear the costs of admission fees and tuition fees incurred by an employee who enrolls into a graduate school while continuing to work their scheduled working hours.

Furthermore, the Group has also established Regulations for External Study Opportunities for cases when an employee remains employed, but leaves their workplace to enroll in a graduate school in Japan or overseas. In fiscal 2012, four employees utilized this system to study at graduate schools.

Development of Global Human Resources

Sumitomo Forestry is expanding its comprehensive housing and wood products businesses globally, and so promotes the development of global human resources who can play an active role overseas. In fiscal 2012, the Company again concentrated support on language learning.[1] In addition to a total of 84 employees taking courses for English, Chinese and Indonesian, three employees were sent to China as overseas trainees to master the language. An intensive course[2] run by the International Education Center was also started, with participation by 25 employees.

The Company issues Overseas Travel Preparation Announcements with, in principle, a minimum of two months until a new appointment starts, and provides basic language training plus training in knowledge necessary for business (obtaining local working visas, legal affairs, labor, accounting, tax affairs, etc.). Furthermore, the Company also plans to dispatch overseas trainees for the purpose of not only mastering the language but also to learn business operations.

1 Eligibility: Sumitomo Forestry employees form groups of at least four, and secure an instructor themselves. Location: Meeting rooms at Head Office, etc.
2 Eligibility: Sumitomo Forestry employee with a TOEIC score of 500–700. Location: Meeting room at Head Office.

Career Consultation and Support

Sumitomo Forestry established the Career Support Desk in fiscal 2007 as a special consultation service for providing individual employees with assistance specific to their career development needs. Here, specialist career advisers provide expert advice to employees on career development for themselves and for their staff.

New Business Proposition Program—Power for the Future Project

In fiscal 2006, Sumitomo Forestry established the Power for the Future Project, a program for soliciting new business proposals, harnessing the ambitions and skills of employees to create new businesses. The project enables everyone who works in the Sumitomo Forestry Group to make new businesses proposals based on their own ideas. Since launching the project, four proposals have been commercialized.

Final judging during the 4th program

Since holding the first program in fiscal 2006, the program has been held once every two years. During the fourth round in fiscal 2012, 124 applications were received (from a total of 148 employees), and of these, four proposals made it through to the final judging. Feasibility studies for the four prize-winning proposals will be conducted at the responsible departments, and detailed studies will be undertaken aimed at their commercialization.

Commercialized Projects

Proposal	Description of business
Housing business for workers stationed overseas	Launched in 2008, this one-stop service can respond to customer's housing needs in Japan while they are overseas, including for custom-built detached housing, spec homes, renovation, land brokerage, rental brokerage, and monthly apartments.
Promotion of Wood declaration-MOCCA- Group operations that encourage greater use of timber resources through the use of wood in home structures and features, which communicate the appeal of wood	The Special Wood Construction Development Team began operations in 2009. In April 2011, the MOCCA[1](Wood-Use Integration) Department was formed under the direct control of the President, and based on the concept of "MOCCA, a future born from wood," it has promoted wooden construction and the use of timber in the non-housing sector. In April 2012, the team came under the umbrella of the Housing Division, and has since worked to promote the use of wood while utilizing the assets of this division. By encouraging greater use of timber, it communicates the appeal of wood, and contributes to the revitalization of the forestry business.
Distribution business utilizing the Housing Division's relay centers	In 2010, Home Eco Logistics Co., Ltd. was established to promote the Company's unique expertise in efficient distribution systems and their effectiveness in reducing CO_2 emissions.
Online sales targeting homeowners	In 2010, the Company launched an online store in *Club Forest*, a special website for owners of *Sumitomo Forestry Home* houses. Customers can order home maintenance products and services 24 hours a day.

1 The collective term for all businesses within the Group that aim to expand the use of timber through promoting wooden construction and the use of timber.

Handing Down the Techniques Used in Building Wooden Houses

Sumitomo Forestry recognizes that in order to preserve the way of building houses that makes best use of the traditional Japanese wooden post-and-beam construction method, it is important to pass on these skills and techniques to the next generation of workers. To achieve its objective of nurturing craftspeople (carpenters) who are well balanced in "mind, skill and body," Sumitomo Forestry founded the Sumitomo Forestry School of Professional Building Techniques in 1988 as a corporate boarding school for vocational training.

Practical training in buildng

Lesson on erecting framing

The Sumitomo Forestry School of Professional Building Techniques is an in-house educational institution certified by the Chiba Prefectural Governor. Incorporating a one-year training period, it is an in-house vocational training school for new employees at the Sumitomo Forestry Home Engineering Co., Ltd. who have graduated high school or technical school, and who aspire for a job in carpentry. In terms of construction-related subjects, students study classroom-based subjects such as an introduction to building, structure, drawing, methods of construction, materials and supervision, as well as practical subjects, such as tool operation and maintenance, marking timber with *sumi* ink and a carpenter's square, processing, safety work, model-based practical training, demonstration-based practical training and computing. On completion of their training, graduates are assigned to places all around Japan, and after a few years, they return to the school to undertake 7-10 days of training in Japanese-style rooms[1] and in a preparatory course for acquiring certification as a skilled worker.

There were 40 new enrolments and 40 graduates in fiscal 2012. In fiscal 2013, the school will welcome another 37 new enrolments.

1 Training designed to hand down time-honored techniques used around the tokonoma alcove from generation to generation. Studies include fitting cedar posts and cross-pieces.

Initiatives at Group Companies

Dalian Sumirin Information Technology Service Co., Ltd. (China)

Dalian Sumirin Information Technology Service Co., Ltd., a Group company responsible for housing design in China, has been enhancing its career support system, including Japanese and English language training and managerial training. It has established a commendation system for outstanding employees and sends some to training courses in Japan, providing an opportunity for employees to deepen their understanding of each other's culture through on-site training and through inspecting buildings. In fiscal 2012, seven employees were sent to Japan. In fiscal 2013, as well as training in Japan, the company also plans to send employees for training in Australia.

Training in Japan

In addition, at the weekly morning briefing, the President gives his message to employees in both Japanese and Chinese. This is not only a way of improving their language skills, but also a communication tool to share policies and raise their awareness as Group employees. These initiatives are helping to increase employee motivation and contributing to improved human resource development and longer periods of service.

PT. AST Indonesia

PT. AST Indonesia manufactures and sells products such as timber and building materials. With an aim of improving quality and developing human resources, the company has established an in-house program of skills certification, and it conducts leadership training and selective training in Japan.

PT. AST Indonesia employees participating on the study tour

In 2012, seven employees were selected from the company's approximate workforce of 500 to take part in an eight-day study tour in Japan on the subjects of pursuing cost reductions through improvements in quality and productivity and improving customer satisfaction. They toured the TOYOTA Commemorative Museum of Industry and Technology, one of the Toyota Motor Corporation's plants in Toyota City, and the Sumitomo Forestry Crest Co., Ltd.'s Kashima Plant, and they discussed the challenges facing their own company and improvement measures. The company will continue these training programs again in 2013.

Kutai Timber Indonesia

PT. Kutai Timber Indonesia manufactures and sells products such as plywood. Every year since 2008, it has paid for three or so employees to commence university courses in subject areas related to their work. As of April 2013, ten employees were taking courses.

Employees mostly attend lectures on the weekend while they continue to work normally during the week. Accordingly, they are given five years to complete their study. A wide range of options are available, such as courses in legal affairs, but most of the employees take courses in industrial technology. In the future, the company plans to continue this initiative in order to support the capacity building of the employees responsible for the company's business.

Work-Life Balance

SOCIAL REPORT

Basic Policy on Employee Work Styles

As a company involved in comprehensive housing and wood products business, Sumitomo Forestry recognizes employees' diverse work styles and strives to create a workplace where they can be motivated in their jobs, and still enjoy a fulfilling family life. Reflecting these aims, the Company established the Work & Life Group within the Personnel Department in 2008, and has since worked on provision of childcare and family care programs, promotion of greater participation by women, reduction of overtime and other such initiatives.

In fiscal 2012, five housing business branches trialed a work efficiency improvement program in order to encourage reduction of long working hours and use of paid leave. On completion of the trial, employees of the five branches were asked to fill in a questionnaire and findings are used to formulate measures. Efforts were also made to strengthen the Company's mental health support framework. Previously, employee mental health consultations were available only through a specialized toll-free telephone service provided by an outside organization. Calls relate to workplace concerns, relationships, dissatisfaction or anxieties about the workplace, information about healthcare providers, and other issues. In October 2012, external consultations were complemented by the placement of an employee who is a qualified clinical psychologist within the Personnel Department to serve as a mental health supervisor. This person liaises with external employee assistance program (EAP)[1] providers.

In fiscal 2013, the Workstyle Diversification Department has been newly established, bringing together the previously dispersed support desk functions to encourage easier access for matters relating to work styles and careers, including childcare and family care, career support, mental health and post-retirement re-employment. The Company will continue to enhance systems to support diverse work styles.

1 Employee assistance program (EAP): A workplace mental health service

Mental Health Care(P91)

Refresh Leave and Family Friendly Day Leave

So that employees can engage energetically in their jobs with healthy body and mind, Sumitomo Forestry is developing workplace environments that allow employees to take leave as they wish. As part of those efforts, employees are encouraged to take consecutive days of "refresh leave" at a time that suits them in addition to the summer and New Year holiday periods.
Each workplace is required to draw up refresh leave schedules for individual employees, and ratios showing the percentage of schedules formulated and the percentage of employees who take refresh leave are tabulated for each department and posted to the in-house Web. This has created an environment making it easy for employees to take leave.

At housing business branches, employees often meet with customers on the weekends, which sometimes makes it hard to take time off to participate in family events and other private occasions. This has been addressed with the introduction of Family Friendly Day leave, which allows employees to take either one Saturday or one Sunday off each month to spend with family or on a chosen pursuit. Branch employees are encouraged to cooperate on adjustment of job responsibilities and meeting schedules, thereby helping to create a workplace environment that makes it easy to take leave on the weekends.

In fiscal 2012, 38% of employees made use of refresh leave and 23% made use of Family Friendly Day leave. In fiscal 2013, further efforts are being made to create workplace environments that make it easy for employees to take time off after a policy was laid down recommending that employees take 10 days of paid leave each year, inclusive of refresh leave and the summer holiday period.

Support for Childcare

Sumitomo Forestry has put in place a number of support programs that give employees reassurance about working and raising children. For example, interviews are arranged for employees who are expecting a baby, allowing them to discuss with their supervisors and Personnel Dept. staff about childcare leave programs and work style options when returning to work, as well as to hear examples of other employees' experiences.

Discussion among female employees who are raising children

Information exchange meetings are also held about twice a year for female employees who are working and raising a child. The meetings are open to different groups each time depending on criteria such as the work area, time elapsed since returning to work, job type, children's ages and past participation. The main purpose of the meetings is to alleviate employees' concerns by having them exchange information with others in similar situations, and in the process boost their motivation and develop networks. In fiscal 2012, information exchange meetings were held in Osaka in October and Tokyo in November.

Information exchange meetings for male employees who are raising children

Childcare leave for male employees is also promoted through such measures as implementation of a questionnaire about childcare leave and distribution of a childcare leave guide. For the first time, a discussion was held in July 2012 among male employees currently raising children. Details of the meeting were posted to the in-house Web and the response was tremendous, leading to heightened awareness among employees.

Sumitomo Forestry formulates and implements actions plans for supporting employees who are raising families in accordance with the Act on Advancement of Measures to Support Raising Next-Generation Children (Next Generation Law). Three goals were set forth in the 5th Next Generation Law Action Plan covering fiscal years 2013 and 2014: create new in-house Web content encouraging employees to take paid leave; establish a new childcare grant program to support employees who are raising children; and create workplace environments that allow smooth implementation of childcare support programs.

The 4th Next Generation Law Action Plan (for Fiscal 2011 to 2012)

(1) Aim to achieve a work-life balance and continue to review ways of working

- Distributed overtime data to branch/department heads to raise awareness about reducing working hours
- Internally disclosed refresh leave usage records to foster the right mentality

The *Kurumin* mark of certification

(2) Encourage employees to take childcare leave

- Conducted a survey of supervisors relating to childcare leave taken by male employees with children
- Held information exchange meetings for female employees who have returned to work after childcare leave
- Held information exchange meetings for male employees with children

(3) Progress administrative reforms toward the smooth use of childcare support programs

- Briefed managers on the extent of awareness and usage of programs and good examples of program use at managers' meetings
- Formed a taskforce of female sales personnel to identify and explore solutions to issues for jobs in which it is difficult to make use of programs

Main Childcare Support Programs and Usage (FY2012)

Program	Description	Usage in FY2012
Childcare leave	Childcare leave may be taken by employees for the longer of the first 18 months of the child's life or until March 31st immediately following the child's first birthday.	● No. of female employees giving birth who took childcare leave: 15 (95%) ● No. of male employees who took childcare leave: 6
Shorter working hours	Until the child completes the sixth grade of elementary school, employees may begin or end work earlier or later, work shorter hours, or work a four-day week, and be exempted from overtime work.	
Leave to care for child and attend special events	Employees may take the equivalent of ten days a year in one-hour increments (with full pay) to care for a sick or injured child until their children have completed the sixth grade of elementary school. Of these ten days, up to five days may be used for attending special events with their children. Employees with two or more children are granted an additional five days.	

Support for Family Care

Sumitomo Forestry provides support to employees with family members who require nursing care. In fiscal 2010, family care leave was revised so that employees may take up to 365 days of leave per applicable family member, and provisions were introduced enabling employees to begin and end work earlier or later, work shorter hours, or work a four-day week. Family illness and injury leave, enabling employees to take up to 10 days of leave each year in hourly increments, was also revised. In fiscal 2012, one employee chose to start and end work earlier.

Main Family Care Support Programs and Usage (FY2012)

Program	Description	Usage in FY2012
Family care leave	This system allows up to 365 cumulative days of leave per family member requiring care, and is available to employees and contract employees.	● No. of family care support program users: 1 (earlier work start/end) ● No. of employees who took family care leave: 0
Shorter working hours	Participants may also begin and end work earlier or later, work shorter hours, or work a four-day week.	
Family illness and injury:	Regular and contract employees may take the equivalent of ten days a year (measured by the hour) to care for their family. Five of the days annually may be used to care for family members who are ill or injured. Employees with two or more family members requiring care are granted an additional five days.	

Telework Program

The validity of telework as a work style has been proven. The time saved from commuting can be spent on work or family activities, and working in a quiet home environment improves concentration and therefore productivity. Sumitomo Forestry introduced the telework option in fiscal 2009 to allow employees to work remotely from home or another location.

The program is limited to employees who are paid based on a deemed number of working hours and excludes managers and supervisors, but there is no limit to the length of the period of use. In fiscal 2012, 15 employees made use of the program. They were mainly employees needing to care for children or other family and employees with otherwise long commutes. In fiscal 2013, greater efforts will be made to explain program details and recommend their use to employees on an individual basis when they appear for childcare interviews or work style consultations.

Transfers to Accommodate Spouse Transfer

In fiscal 2008, Sumitomo Forestry established a program facilitating the transfer of employees to a certain destination for reasons limited to marriage or a spouse transfer accompanied by a change of residence. The program enables employees to continue working for the Company even after marriage or their spouse being transferred. To date, a total 14 employees have made use of this program to transfer to the same location as their spouse.

Initiatives at Group Companies

Sumitomo Forestry Home Engineering Co., Ltd.

At Sumitomo Forestry Home Engineering Co., Ltd., each section sets targets for curbing the practice of working for long hours and one day a month is designated as a day for ending work on time. In addition, employees who work more than 100 hours of overtime in one month, or more than 80 hours of overtime per month in consecutive months, are required to meet with a doctor. Furthermore, Head Office sends a list of all employees' compensatory leave entitlements to section heads each month and a companywide effort is underway to encourage employees to use up compensatory leave.

The company has also incorporated a "refresh leave" program allowing employees to take consecutive leave of five days at a period of their choosing each year and is working to encourage employees to use their paid leave. The percentage of paid leave taken in fiscal 2012 was 42%. In fiscal 2013, the company aims to increase that percentage to 50% by having employees make use of the refresh leave program.

Sumitomo Forestry Archi Techno Co., Ltd.

Around 45% of regular employees of Sumitomo Forestry Archi Techno Co., Ltd. (as of March 31, 2013) are women and the number of employees who took childcare leave has been gradually increasing, from one person in fiscal 2010 to six people in fiscal 2011 and seven in fiscal 2012. The female employee childcare usage ratio was 100%. In fiscal 2013, three employees (including two men) had used the childcare leave program by the end of May and many are planning on taking advantage of the program in the future.

Given the above trends, the company is directing efforts into providing follow-up support to help employees who take childcare leave return to the workplace. A range of systems are in place to facilitate the process of returning to work, including the "Wiwiw" program that allows employees to develop skills while they are on childcare leave, a time management e-learning course for completion prior to returning to work, and interviews with supervisors on their return to work. The company is making efforts to support balance between employees' work and family care responsibilities. In June 2013, it adopted "Kaigo Wiwiw," a service providing family care support, for example through consultations and introduction to nursing care facilities and services. Also during fiscal 2013, regulations will be revised to increase the number of days of family care leave that can be taken and programs available to employees needing to care for children or other family, such as shorter working hours, will be enhanced, thereby further improving support for work style diversity.

Communication with Employees

SOCIAL REPORT

Basic Policy on Communication with Employees

Sumitomo Forestry strives to create an environment that facilitates free and vigorous expression and exchange of opinions by employees, where they can perform their responsibilities with vigor, integrity and consideration for others. The Company wants each and every employee to grow within a corporate culture of respect for individual employees, and fair evaluation of accomplishments and efforts.

Communication in Employee Evaluation and Job Execution

Sumitomo Forestry requires that all employees are given feedback on their evaluation results with the main objective being to make employee evaluations contribute to the nurturing and development of human resources. Meetings between individual employees and supervisors must be held once every six months, providing an opportunity to set targets and receive an explanation of evaluation results. In addition, the Personnel Department conducts direct self-report hearings of all employees once a year to ascertain opinions on jobs and workplaces, transfer requests and family circumstances, among other matters.

Open Informal Discussions

Open informal discussions, in which the President engages in dialogue with groups of employees wishing to take part, have been held on a regular basis since 2007 as an initiative intended to assist the further development of the Sumitomo Forestry Group. In discussions held on two occasions during 2012, employees talked with the President about current issues, what they hope to realize as employees of Sumitomo Forestry, and other topics. As an opportunity for face-to-face dialogue between management and employees, discussions will be organized again in 2013.

An open informal discussion

Employee Satisfaction Survey

In July 2011, Sumitomo Forestry conducted its 5th Employee Satisfaction Survey among 4,880 employees, of whom 90% responded. The level of employee satisfaction increased by 2-point to 76% compared to the last survey conducted in fiscal 2008. The results of the survey were released within a report that also included a message from the President and a breakdown of the responses to each survey question. The next survey will be conducted in July 2013.

Relations with the Labor Union

As of April 2013, 100% of the 3,464 employees eligible (as of May 2013) under the collective labor agreement to join the Sumitomo Forestry Labor Union had done so. Within the labor agreement completed between the Company and the Sumitomo Forestry Labor Union, the Company recognizes the Labor Union's right to freely engage in activities and to collective bargaining, to guarantee the safety of labor-union members during their work activities, and to constantly strive to the best of its ability to maintain and improve labor conditions.

Liaison meetings are held between the Company and the labor union to discuss specific topics and opinions expressed in these meetings are reflected in the Company's measures. Union members also participate in the Safety and Health Committee, the establishment of which is required under the Industrial Safety and Health Act, and their opinions are reflected in health and safety initiatives. The labor agreement entered into by the Company and the labor union provides for health and safety with the Company promising to work to ensure the health and safety of union members as required by law.

In 2012, the Company discussed with the labor union about resolving the issue of long working hours, encouraging employees to take paid leave, and other issues. Other activities were pursued to resolve issues related, for example, to work-life balance, including revisions to various programs and the introduction of an attendance management system.

Initiatives at Group Companies

PT. AST Indonesia

PT. AST Indonesia (ASTI), which manufactures and sells timber and building materials among other products, directs energy into initiatives that improve employee skills and increase their motivation. The company provides training in areas including reporting, notification and consultation, safety management and business process improvements, and issues commendations to outstanding employees once a month.

Commended employees are also invited to luncheons with management personnel (Japanese expatriates), providing an opportunity for them to suggest improvements that ASTI should implement, make requests or otherwise convey thoughts and opinions to management in person.

Employee Data

SOCIAL REPORT

Employee Data Trends

Number of Employees

	FY2008	FY2009	FY2010	FY2011	FY2012
Non-consolidated	4,547	4,539	4,470	4,452	4,416
Consolidated	12,629	13,601	13,778	14,736	14,890

Employee Breakdown (Non-Consolidated)

	FY2012
Management level	1,983
Non-management level	2,303
Contract employees (interior coordinators)	8
Contract employees (non-interior coordinators)	106
Hosted from other companies	16
Total	4,416

Number of New Employees — New Graduates[1] (Non-Consolidated)

		FY2008	FY2009	FY2010	FY2011	FY2012	FY2013
Housing sales	Male	80	98	71	56	55	55
	Female	17	19	16	15	15	16
Housing engineering	Male	24	22	22	16	19	22
	Female	13	14	7	4	6	7
General management	Male	22	27	21	20	14	20
	Female	10	7	9	5	6	7
Clerical	Male	0	0	0	0	0	0
	Female	26	14	1	6	1	0
Total		192	201	147	122	116	127

1 Tabulated based on the number of new employees joining on April 1 the following year.

Employment and Promotion of Woman[1] (Non-Consolidated)

	FY2008	FY2009	FY2010	FY2011	FY2012
Female employees including contract employees	16.4	16.9	16.8	17.2	17.1
Female employees in management positions	1.3	1.3	1.4	1.5	1.6
Female new graduates[1]	26.9	22.4	24.6	24.1	23.6

1 Calculated based on the number of new employees joining on April 1 the following year.

Average Length of Service (Non-Consolidated)

	FY2008	FY2009	FY2010	FY2011	FY2012
Average length of service	11 years and 10 months	12 years and 3 months	12 years and 8 months	13 years and 6 months	14 years and 0 months

Job Turnover Rate (Non-Consolidated)[1]

	FY2008	FY2009	FY2010	FY2011	FY2012
Voluntary turnover rate (%)	2.9	2.3	3.0	3.4	3.3
Turnover rate[2](%)	4.2	3.7	4.6	4.2	4.2

1 Calculated by dividing the number of people who left during the year by the number of employees at the beginning of the year.
2 Includes voluntary turnover.

Employment of People with Disabilities (Non-Consolidated)

	FY2008	FY2009	FY2010	FY2011	FY2012
Ratio of Disabled Employees (%)	1.54	1.83	2.04	1.93	1.95

Rate of Local Employment in Group Companies Outside of Japan[1]

	FY2008	FY2009	FY2010	FY2011	FY2012
Rate of Local Employment in Group Companies Outside of Japan[1] (%)	99.2	99.2	99.3	99.3	99.2

1 Calculated by dividing the number of employees hired locally by consolidated subsidiaries and working for the company at the end of the year by the total number of employees at the end of the year.

Hours of Training and Expenditure on Training (Non-Consolidated)

	FY2008	FY2009	FY2010	FY2011	FY2012
Hours of training received per employee	3.5	2.8	2.6	4.7	6.9
Expenditure on training per employee (Yen)	136,000	111,000	98,000	105,000	103,000

Work-Life Balance Program Usage (Non-Consolidated)

		FY2008	FY2009	FY2010	FY2011	FY2012
No. of childcare leave users	Male	13	16	20	15	6
	Female	7	11	20	20	15
No. of reduced hours program users[1]	–	12	15	18	24	29
No. of telework program users[2]	–	–	8	10	12	15

1 Calculated by adding the number of reduced hours program users and the number of four-day week program users.
2 The program was introduced in April 2009, therefore no results are available for fiscal 2008.

Paid Leave Usage Ratio (Non-Consolidated)

	FY2008	FY2009	FY2010	FY2011	FY2012
Paid Leave Usage Ratio (Non-Consolidated)[1] (%)	–	34.6	32.4	30.7	30.4

1 Paid leave entitlements are issued each year in January, therefore the table shows figures for December 31. Calculated by dividing the number of days of paid leave taken by the number of days of paid leave issued.

Work-Related Accidents (Non-Consolidated)[1]

	FY2008	FY2009	FY2010	FY2011	FY2012
No. of work-related accidents	1	0	3	6	0

1 No work-related accidents resulting in death occurred during the reporting years shown.
2 The number of work-related accidents resulting in payment of compensation benefits for absence from work in accordance with the Industrial Accident Compensation Insurance Act is disclosed.

Labor Union Membership (Non-Consolidated)[1]

	FY2008	FY2009	FY2010	FY2011	FY2012
Labor union membership rate (%)	100	100	100	100	100

1 The scope of eligibility for labor union membership is stipulated in the labor agreement.

Promotion of Social Contribution Activities

SOCIAL REPORT

Policy on Social Contribution Activities

The Sumitomo Forestry Group advances a wide range of social contribution activities to protect our abundant forests into the future and to contribute to sustainable use of timber resources and local community development. Fostering greater understanding about forests over a large section of society is particularly important for forest preservation. This motivates Sumitomo Forestry to dedicate resources to environmental education such as lectures for elementary and middle school students, as well as on-site training at forests. The Company is also actively involved in restoring forests damaged by disaster. Sumitomo Forestry also supports volunteer activities undertaken by individual employees in local communities to create a workplace environment that encourages people to contribute to their local communities.

Introducing a Volunteer Leave Program

To support its employees' volunteering activities, in May 2011 the Company established a volunteer leave program that allows employees a total of five days of leave a year for volunteer activities. Moreover, the Company provided special support for volunteer activities for the Great East Japan Earthquake, setting a time period within which it would pay the travel expenses and volunteer insurance premiums of employees who wanted to help.

Community Beautification Initiatives

Business sites and plants of Sumitomo Forestry across Japan regularly carry out cleanup campaigns in the surrounding community together with business partners and other stakeholders.

Cleanup campaign

In fiscal 2012, cleanup activities were implemented at 15 business sites and eight affiliated companies nationwide. As an activity immediately relevant to the Company's role as a member of the local community, cleanup activities will be continued to help keep our communities beautiful.

Cleanup Campaign and Nature Watching by Sumitomo Forestry School of Professional Building Techniques

The Sumitomo Forestry School of Professional Building Techniques, located in Yotsukaido, Chiba Prefecture, includes environmental preservation activities in its annual curriculum for trainees and has carried out cleanup activities and nature watching within the city together with a local volunteer community beautification organization since fiscal 2006. The school also cleans up roads in the vicinity of the school as part of its cleaning time each morning, an activity carried out since the school opened in 1988. The program was extended in fiscal 2012 to cover a larger area of the community in the early morning once a month. Yotsukaido's mayor bestowed an award and commemorative items upon the school in June 2012 in recognition of these regular activities.

The awards presentation ceremony

The school will continue carrying out environmental activities in cooperation with people in the community.

Social Contribution Donations

Breakdown of Social Contribution Donations by Category (FY2012: Non-Consolidated Sumitomo Forestry)

Expenditure on Social Contribution Activities (FY2012: Excerpt)

Activity description	Expenditure (million yen)
Heritage and precious tree R&D	26
Manabi no Mori project management and operation	22
Forester House management and operation	8

Examples of Activities Supporting Post-Disaster Reconstruction

SOCIAL REPORT

Reconstruction Cooperation Agreement with Higashimatsushima City (Miyagi Prefecture)

Sumitomo Forestry and Higashimatsushima City, Miyagi Prefecture in Japan, signed a reconstruction cooperation agreement in July 2012. The agreement forms the basis for advancing activities aimed at generating new industry and rebuilding the city with a focus on the use of timber resources, as concrete plans for the Higashimatsushima environmental "FutureCity" urban reconstruction initiative. Drawing together the integrative strengths of the Sumitomo Forestry Group to support activities contributing to the city's wood-based development, the Company will provide knowledge and expertise acquired through its extensive experience in timber and housing businesses as it works closely with Higashimatsushima through information exchange.

Areas of Cooperation

- Promotion of revegetation (tsunami-buffer forests) of flatlands (coastal areas struck by the tsunami)
- Promotion of forestry in flatlands (coastal areas struck by the tsunami)
- Promotion of wood-based construction of public facilities (e.g., public housing, educational facilities, tourism facilities, sports facilities)
- Tasks related to fuel procurement and combustion technology for wood biomass-related businesses
- Other tasks related to public policies for promoting forestry (e.g., formulation of the overall design of the city's wood-based development plan)

Support for the "Books for Two" Campaign

Sumitomo Forestry supports the Books for Two campaign run by NPO Shapla Neer by supplying items, such as books, CDs and magazines, owned and no longer required by the Company or individual employees. Under the campaign, secondhand goods store operator Bookoff Corporation Ltd. purchases used books and other items and donates 10% of the value of the purchases. Those donations go toward provision of assistance for people in areas hit hard by the Great East Japan Earthquake, as well as people in Bangladesh and Nepal.

Examples of Community Development and Community Contribution Activities

SOCIAL REPORT

Contributing to Communities where Sumitomo Forestry Operates

Sumitomo Forestry aims to contribute to sustainable local development through its operations. When starting new businesses or expanding its overseas business sites, the Company's policy is to consider the environment, revitalize local economies and promote employment and thereby operate in harmony with local communities.

Improving Social Infrastructure in Indonesia

Initiatives at PT. Rimba Partikel Indonesia

PT. Rimba Partikel Indonesia (RPI), which manufactures and sells particle board, distributes seedlings to local residents free of charge and then buys them back once they have grown for harvesting and use as raw material. This contributes both to the local economy and to revegetation in the community. In fiscal 2012, a group of residents from Banjarnegara Regency in Central Java, Indonesia, to whom RPI had supplied seedlings won the highest award in an Indonesian environmental forest contest.

Seedlings supplied to local residents

RPI also provides support for mosques and repairs to community roads. In fiscal 2012, the company delivered supplies for mosque construction and carried out repairs to community roads.

Initiatives at PT. Wana Subur Lestari

PT. Wana Subur Lestari (WSL) runs a large-scale plantation operation in Indonesia and works to ensure that it can continue operating the business together with local residents by providing support for construction of schools and roads in communities with inadequate infrastructure, and opening up the plantation site's medical center to local residents. In fiscal 2012, WSL provided support for construction of a kindergarten.

Improving Social Infrastructure in Papua New Guinea

Open Bay Timber Ltd. (OBT), which is engaged in plantation forestry in Papua New Guinea, started plantation forestry operations in 1984 and has made significant contributions to the economic development of the local community. OBT became a member of the Sumitomo Forestry Group in April 2007 and continues to develop plantation timber resources in a responsible manner and to use those resources effectively.

The Nesai Bridge constructed by OBT

OBT also runs a medical center, a kindergarten and a supermarket for use by employees and local children to supplement government-provided social infrastructure.

In fiscal 2012, the company continued contributing to local infrastructure improvements in conjunction with regular road and bridge maintenance, for example through the construction of two reinforced concrete low-water bridges (approx. 30m and 10m).

In accordance with the wishes of the local people, in fiscal 2011 the company constructed two reinforced concrete low-water bridges (approx. 70m and 30m).In fiscal 2008, OBT built six wooden bridges (approx. 20m long) over rivers in preparation for the rainy season floods. The bridges are still used today by local residents.

Support for Children's Hospitals in Australia and the United States

The Henley Properties Group builds and sells detached and multi-unit housing and spec homes in Australia and the United States. The Group's social contribution activities include the donation of money raised from auctioning a spec home, built with the cooperation of business partners including residential land developers and materials suppliers, to children's hospitals and other facilities.

Detached house auction

Combined with business partners, more than 200 people participate in this activity, for example through the provision of land, cost estimation, manufacturing and procurement of materials, work management and construction. Money raised during fiscal 2012 came to $605,000, bringing the total value of donations made since the activity began in 1993 to $18 million. The donations go, for example, toward coverage of medical costs for children suffering from intractable diseases. In fiscal 2013, the 20th year of the activity, a two-story house in Clyde North in southwest Melbourne, Victoria, Australia, was auctioned in March 2013.

Examples of Activities Supporting Education and Development of the Next Generation

SOCIAL REPORT

Work Experience for School Students

Branches of Sumitomo Forestry's Housing Division and Group companies accept school students for work experience and plant tours and provide them with instruction on practical skills. Major activities in fiscal 2012 included the acceptance of elementary school students on community discovery visits, and design system demonstrations as a work experience exercise for junior high school students. Woodwork classes are also held, giving people in the community the chance to make wooden toys, for example.

A silver medalist employee provides instruction on techniques

In addition, at a manufacturing skills workshop organized by Kagoshima Prefecture, an employee of Sumitomo Forestry Home Engineering Co., Ltd. who in October 2011 won a silver medal at the WorldSkills Competition in London, the United Kingdom, demonstrated his skills and provided instruction on techniques to high school students intending to become carpenters.

Support for Construction of Elementary School Rabbit Hutch

In June 2012, the Housing Division's Hamamatsu Branch helped rebuild a rabbit hutch on the premises of an elementary school in Hamamatsu City, Shizuoka Prefecture. The branch supported the project by applying Sumitomo Forestry know-how acquired through social contribution activities, specifically the provision of miniature wooden house building workshops to children, to ensure that children played a central role in the rebuild. Following instructions given by Sumitomo Forestry employees and building contractor employees, the children used wooden mallets to assemble the Japanese cypress posts and beams.

The new rabbit hutch has an area of 10m2 and is designed to prevent intrusion by other animals and provide good drainage. Fitted with a sash window and other features, which added to the splendid design, the children were amazed at the result, exclaiming that it appeared to be more than just a rabbit hutch.

Employees giving instructions for building the hutch

The finished rabbit hutch

Support for Children Through the KTI Educational Foundation

To commemorate the 30th anniversary of its founding, Sumitomo Forestry Group company PT. Kutai Timber Indonesia (KTI) established the KTI Educational Foundation in 2000 to provide scholarships to elementary and middle school students living in the vicinity of the KTI plant and plantation forests. The Foundation also provides relief donations for natural disasters such as earthquakes and floods. In fiscal 2012, the Foundation provided 37,070,000 rupiah (approximately 333,630 yen) to 68 elementary, middle, and high school students.

Children at a kindergarten that received desks and other items donated by the KTI Educational Foundation

Clothing and Stationery Donations by Employees

Clothes, stationery, musical instruments and other items donated by Sumitomo Forestry employees are collected and delivered to Open Bay Timber Ltd. (OBT), which operates plantations in Papua New Guinea. Launched in 2008, the initiative is carried out each year as part of OBT's social contribution activities within the local community.

Children receiving the donated items

In fiscal 2012, 19 cardboard box-fuls of clothes, stationery and other items were collected and delivered to local associations and kindergartens. Clothes and children's toys are always particularly well received as they can be used on a daily basis.

Support for the Next Generation in the United States Through Joint Efforts with Local Residents

Group company Canyon Creek Cabinet Company, which manufactures and sells cabinets, is actively supporting students in its local area. It provides scrap timber to local boy scouts to help them practice and improve their carpentry skills, and also provides them with a meeting room for their monthly leadership meetings. In addition, it offers local students tours of its factory facilities, during which the factory employees help the students have a try at carpentry to gain a better understanding of the company's activities.

A factory tour for local students

Canyon Creek Cabinet Company also supports young people to learn business skills through the regional Business Week program, for which it offers bursaries, and also provides offcuts to a local toy manufacturer which uses them to make wooden toys and puzzles to donate to a local childcare facility and a children's hospital. In June 2012, it received the Community Service Award from the Washington State Chamber of Commerce and Industry for its ongoing initiatives to support the local region.

Examples of Global Environmental Conservation Activities

SOCIAL REPORT

Mt. Fuji Manabi no Mori Project

National forest cloaking the foothills of Mt. Fuji was extensively damaged when a typhoon struck southern parts of the Kanto region in 1996. In 1998, setting out to restore the vitality of the original forest, Sumitomo Forestry launched a natural forest restoration project as a commemorative project marking the 50th anniversary of the Company's founding; encompassing around 90 hectares of the damaged forest named *Mt. Fuji Manabi no Mori*. The *Mt. Fuji Manabi no Mori* is opened up not only for the volunteer activities and environmental education programs, but also for NPOs and other organizations. Between the start of activities in 1998 and the end of fiscal 2012, a total of 19,070 people had visited the *Mt. Fuji Manabi no Mori*; in fiscal 2012, a total of 1,175 people from both inside and outside the Company visited the *Mt. Fuji Manabi no Mori*.

Volunteer Activities (Planting, Underbrush Clearing, Thinning, Etc.)

Tree-planting activities carried out by many volunteers from both inside and outside the Company since the start of the project in 1998 have already been completed and the project is now in the cultivation stage. Cultivation activities such as underbrush clearing, pruning and thinning will be continued. Volunteer activities were implemented on 13 occasions with 428 visitors participating during fiscal 2012.

Underbrush clearing

Environmental Education Program

Sumitomo Forestry has been implementing an Environmental Education Program for local elementary and junior high school students since fiscal 2006 in collaboration with the NPO Whole Earth Institute. Activities include wildlife watching and games incorporating the five senses. The aim of these opportunities to rediscover the natural world is to teach children about the importance of nature and get them to consider new ways in which we can coexist with nature in the future. In fiscal 2012, a total of 583 students participated in the program. An Environmental Education Program for children living in children's homes was also launched in fiscal 2007, and 17 children participated in fiscal 2012.

Environmental Education Program

Vegetation Monitoring and Wildlife Censuses

Experts have been carrying out surveys, including vegetation monitoring and wildlife censuses, since fiscal 2000, providing valuable data for understanding the biodiversity of the region. Cultivating a forest is a neverending job and Mt. Fuji Manabi no Mori, too, is a 100-year project.

To ensure that the project is still running 100 years from now, forest management and environmental activities will be continued as a way to communicate the importance of nature to as many people as possible.

Forest Maintenance Partnership Agreement with Gunma Prefecture

In July 2012, Sumitomo Forestry and Gunma Prefecture signed a prefectural forest maintenance partnership agreement. Gunma Prefecture works to maintain and preserve prefectural forests through prefectural forest maintenance partnership projects pursued together with corporations and organizations that display a high level of interest in forest and environmental conservation. The Company's Gunma Branch, which undertakes environmental conservation activities together with Sumitomo Forestry Home owners, has set up the Gunma *Manabi no Mori* within the prefectural forests and will collaborate with the prefecture on forest maintenance.

Gunma *Manabi no Mori*

In fiscal 2012, forest maintenance activities, involving tasks like pruning and thinning, were carried out in August and October. Around 320 people took part in the two activity installments, including families living in *Sumitomo Forestry Home* houses, employees of Sumitomo Forestry and cooperating building contractors, and their families. Ongoing care is an essential part of forest preservation and maintenance activities will be undertaken twice again in fiscal 2013.

Development of Technologies to Ensure the Survival of Heritage and Precious Trees

To help ensure the survival of heritage trees and precious trees into the future, Sumitomo Forestry is directing efforts into the development of cloning techniques that enable cultivation of trees with the very same qualities as the original trees.

Sumitomo Forestry is working toward propagation of historically and culturally important trees around Japan using the latest cloning technique, plant tissue culture, in addition to cloning techniques already acquired, such as cutting and grafting. The Company is working with the Forestry and Forest Products Research Institute (FFPRI), the National Institute of Genetics (NIG) and the Association for Propagation of the Knowledge of Genetics on building a DNA database for cherry trees and advancing a sophisticated program to identify individual varieties. A proper understanding of individual varieties, species diversity, history and other aspects can be used to preserve precious trees for future generations.

Omurozakura cherry trees with new roots in artificial soil

Omurozakura seedlings after removal from aseptic containers

Elementary and Junior High Schools in the Tohoku Region Participate in the *Omurozakura* Research Project

The Ninna-ji temple in Kyoto, Chiba University and Sumitomo Forestry launched the *Omurozakura* Research Project in January 2010 under the guidance of Kyoto Prefecture's Cultural Properties Division. To ensure that unique and culturally important *Omurozakura* cherry trees survive into future generations, it is necessary to shed light on the biology of *Omurozakura* trees. Aspects of the trees' growth, such as why they bloom late and why they grow no taller than a person, have remained a mystery until now. Management techniques also need to be developed based on the scientific knowledge learned.

The *Omurozakura* Research Project

In February 2012, the first seedlings cloned by the Sumitomo Forestry Tsukuba Research Institute from *Omurozakura* trees using plant tissue culture were returned to Ninna-ji, and in December research planting began in multiple locations under varying soil and climate conditions. Because seedlings propagated by plant tissue culture all share identical traits, cultivating them in locations with varying soil and climate conditions should offer insight into why the trees do not grow very tall. Planting is being trialed right across Japan, from Hokkaido in the north and as far south as Miyazaki Prefecture. In the Tohoku region, which was hit hardest by the Great East Japan Earthquake and resulting tsunami, a number of elementary and junior high school students are participating in the research project. The students' involvement encourages them to look ahead to the future and provides an opportunity to ponder the significance of passing down history to future generations and to encounter the cutting-edge science of plant tissue culture.

Support for the *Kyo no Mori* Project Linking Communities through Cherry Trees

As supporter of the *Kyo no Mori* Project for linking communities through cherry trees, run by the Daigo-ji temple in Kyoto, Sumitomo Forestry donated cherry tree seedlings to a school in March 2013. The project aims to contribute to the creation of a recycling-oriented society by making effective use of the large volume of leaves that fall off trees at temples and shrines in Kyoto. Specifically, fallen leaves are turned into compost, which is then used to cultivate new vegetation.

Enlisting the help of children from the adjacent Daigo Elementary School to gather leaves, make compost and cultivate the cherry trees, Daigo-ji plans to deliver grown trees to elementary schools in Miyako, Iwate Prefecture, an area devastated by the Great East Japan Earthquake and resulting tsunami. Sumitomo Forestry sponsored public announcements relating to the project and is supporting students of Daigo Elementary School in the cherry tree growing process through employee participation in leaf gathering, donation of two *Taiko-chiyoshidare* seedlings, which are clones of the *Taiko-shidarezakura* weeping cherry tree, and the provision of lessons on the environment. The Company will continue to support ties between the children of Kyoto and Miyako through the donation of one grown tree to Miyako's Sakiyama Elementary School.

Reforestation Project in Indonesia's Bromo National Park

In 2008, Sumitomo Forestry began working with the Republic of Indonesia's Ministry of Forestry to carry out a reforestation project (Project EARTH) in Bromo Tengger Semeru National Park in East Java, parts of which had been devastated by repeated forest fires and sulphur dioxide gas emitted by Mt. Bromo. The aims of the plantation forest operations are to recover the forest's natural functions and to return the precious and vital forests in the national park for the benefit of local people. The project also contributes to job creation in the community as local residents are actively employed for planting operations.

By the end of fiscal 2012, 395 hectares of forest had been planted. Sumitomo Forestry plans to continue restoration of the forest with additional planting and by cultivating trees already planted. In addition, further studies will be conducted to determine the connection between plantation operations and populations of rare species which earlier surveys had confirmed inhabited the area. Findings will be applied to future planning.

The reforestation project

The Javan leopard, a rare species, was discovered in the area

Contributions to Public Policy

SOCIAL REPORT

Recommendations for Improvement and Resolution of Environmental and Social Issues

The Sumitomo Forestry Group coordinates and cooperates with national and local governments, the business community and others, making recommendations toward the improvement and resolution of worsening environmental and social issues.

Main Public Policy Contributions in FY2012

Name of organization	Position	Name
Wooden Home Builders Association of Japan	Chairperson	Ryu Yano, Chairman / Representative Director
Japan Federation of Housing Organizations	Vice-chairperson	Ryu Yano, Chairman / Representative Director
The Building & Housing Center of Japan	Outside director	Ryu Yano, Chairman / Representative Director
Long-Use Housing Materials Standardization Promotion Council	Chairperson	Hitoshi Hayano, Director
Consortium for Building Research & Development	Director	
The Machinami Foundation	Director	
Japan 2x4 Home Builders Association	Director	
Japan-China Association for Building and Housing Industry	Director	
Serviced Housing for the Elderly Association	Auditor	
Organization for Landscape and Urban Green Infrastructure	Chairperson	Ryu Yano, Chairman / Representative Director
Japan Greenery Research and Development Center	Director	
Keidanren Committee on Nature Conservation	Vice-chairperson	Akira Ichikawa, President / Representative Director
Japan Federation of Housing Organizations – Environment Committee	Committee chairperson	Hideki Nose, Adviser

Name of organization	Position	Name
Japan Project-Industry Council – Study Group on Creation of Forest Regeneration Business	Committee member	
Forestry Agency (Ministry of Agriculture, Forestry and Fisheries) – Conference to Consider Forest-Related Countermeasures to Global Warming	Committee member	
Forest Management Association of Japan	Vice-chairperson	Hideki Nose, Adviser
Japan Overseas Plantation Center for Pulpwood	Director	
Japan Forest Tree Breeding Association	Director	
Council for Promotion of Wood Biomass Energy Use	Secretary	
Central Japan Plywood Manufacturers' Association	Director	
Japan Composite Flooring Industry Association	Director	
Japan Printed & Colored Plywood Industry Association	Director	
Keidanren (Japan Business Federation)	Permanent member,Director	
Japan Association for the World Food Programme	Council member	
The Tokyo Chamber of Commerce and Industry	Special adviser, Council member	
Osaka Chamber of Commerce and Industry	Representative	
The Tokyo Chamber of Commerce and Industry – Japan Committee for the Japan-New Zealand Business Council	Committee chairperson	Ryu Yano, Chairman / Representative Director

Environmental Philosophy and Environmental Policies

ENVIRONMENTAL REPORT

Environmental Management of the Sumitomo Forestry Group

The Sumitomo Forestry Group lists "Environmental Responsibility" as one of the Action Guidelines of its Corporate Philosophy and states, "We are dedicated to effectively addressing environmental issues with the aim of achieving a sustainable society." The Group established its Environmental Philosophy in December 1994 and Group-wide Environmental Policies in October 2000.

In fiscal 2009, the Group formulated a Medium-Term Environmental Management Plan setting out medium-term environmental targets. The plan is incorporated into environmental budgets as numerical targets for each fiscal year and environmental activities are steadily enhanced through Group-wide implementation of the PDCA (plan-do-check-act) cycle.

To share and raise awareness of the Environmental Philosophy and Environmental Policies among Group employees, they are printed in employee handbooks. Opportunities to read through and discuss them are also arranged, for example as part of new employee training, ISO 14001 internal environmental auditor training courses or departmental meetings.

Sumitomo Forestry Group Environmental Philosophy Framework

Environmental Philosophy

With many years of practical experience in silviculture, the Sumitomo Forestry Group has an appreciation of the wonderful renewable resource that forests represent and the benefits that nature provides. Environmental protection is imperative in the 21st century. As a corporate group with a close affinity with nature, the Group is aware of the potential impact of its activities on the environment, and it contributes to society through the vigorous pursuit of business operations in harmony with conservation principles.

Environmental Policies

As a positive contribution to the creation of a sustainable society that achieves a balance between the environment and economy and gives due consideration to such issues as biodiversity and the prevention of global warming, the Sumitomo Forestry Group shall ensure conformance of its business operations to the following policies.

1. **Develop a business domain centered on trees and wood**
   Cultivate forests as a way to preserve and enhance natural environments and forest functionality while seeking to actively utilize those timber resources.

2. **Develop and sell environmentally friendly products**
   Pursue the development, design and sale of products and technologies that are environmentally superior in terms of the entire product lifecycle.

3. **Minimize environmental impact**
   Make efforts to prevent environmental pollution through accurate assessment of direct and indirect influences on the environment.

   Promote green procurement of timber and other building materials and green purchasing of office products and other goods.

   Achieve and maintain zero emissions through proper waste treatment and 3R (reduce, reuse, and recycle) initiatives.

4. **Make ongoing improvements to environmental activity and the environmental management system**
   Establish environmental budgets to ensure implementation of the Environmental Policies.

   Make ongoing improvements to environmental budgets and the environmental management system through reviews conducted at least once a year.

5. **Ensure strict legal compliance**
   Adhere to all environmental laws, rules and regulations, voluntary standards, accords with stakeholders and other environmental conventions.

6. Promote environmental education

Provide environmental education for all people involved in the business operations of the Sumitomo Forestry Group and encourage voluntary environmental activities.

7. Place emphasis on communication

Actively disclose information and respect the opinions of stakeholders while pursuing environmental initiatives.

8. Publicly disclose and ensure implementation of the Environmental Policies

Make the Environmental Policies available to the general public and ensure familiarization with the policies by all people involved in the business operations of the Sumitomo Forestry Group.

Akira Ichikawa, President and Representative Director
(Revised April 1, 2010)

Environmental Management Structure

ENVIRONMENTAL REPORT

Environmental Management Structure

To ensure that management is practiced in accordance with the Environmental Policies, whose objective is to contribute to the creation of a sustainable society, the Sumitomo Forestry Group has established an environmental management structure with the President of Sumitomo Forestry assuming overall responsibility.

Beneath the President are the Executive Officer in Charge of Environmental Management and the General Manager of the Environmental Management Department. Regular checks on the progress of environmental activities advanced by divisions and departments within the Group and related issues are conducted to raise the effectiveness those activities.

Environmental Management Structure (as of April 2013)

Roles of Environmental Management Personnel

- Group Overall Environmental Representative: President
- Group Environmental Management Officer: Executive Officer in Charge of Environmental Management
- Group Environmental Manager: General Manager, Environmental Management Dept.
- Division Environmental Management Officers: General Manager, Administration Dept. (Timber & Building Materials Div.); General Manager, Administration & Planning Dept. (Housing Div.); General Manager, Overseas Administration Dept. (Overseas Business Div.)
- Department Environmental Managers: General managers
- Environmental activity personnel (appointed by general managers): Environmental promotion personnel

ISO 14001 Certification

Sumitomo Forestry introduced an environmental management system in fiscal 1995 and acquired ISO 14001 certification for its housing operations in fiscal 1997 ahead of other players in the housing industry. Certification was subsequently acquired for other operations with the entire Company achieving integrated ISO 14001 certification in fiscal 2002.

Integrated certification is also being extended to Group companies. Sumitomo Forestry Home Tech Co., Ltd. was added in March 2013. The integrated certification now covers Sumitomo Forestry and four Group companies in Japan.

Separate progress is being made on certification of overseas Group companies. Five companies had acquired the certification by the end of fiscal 2012 and efforts are currently underway to certify three companies in Asia and the United States.

As of March 2013, the certification rate for consolidated organizations was 79.1% (based on sales).

Sumitomo Forestry Group ISO 14001 Certification

Company	Date acquired
Sumitomo Forestry Co., Ltd. (excl. overseas operations)	August 2002[1]
Sumitomo Forestry Landscaping Co., Ltd.	November 2002[2]
Sumitomo Forestry Home Service Co., Ltd.	November 2002[2]
Sumitomo Forestry Crest Co., Ltd.	September 2003[2]
Sumitomo Forestry Home Tech Co., Ltd.	March 2013[2]
PT. Kutai Timber Indonesia (KTI)	July 2001
Nelson Pine Industries Ltd. (NPIL)	July 2003
PT. Rimba Partikel Indonesia (RPI)	October 2005
PT. AST Indonesia (ASTI)	January 2007
Alpine MDF Industries Pty Ltd. (Alpine)	February 2007

1 Certification was acquired by individual departments and divisions from 1997 before integrated certification was acquired for the entire Company.

2 Acquired by inclusion in Sumitomo Forestry's integrated certification

Audits by External Certification Bodies

Companies covered by the integrated ISO 14001 certification in Japan undergo routine reviews conducted once a year by certification body JIC Quality Assurance Ltd. In fiscal 2012, 27 departments of four companies underwent reviews between June and July, and 25 departments of Sumitomo Forestry Home Tech Co., Ltd. were subject to a change examination in February 2013 as part of the process of extending coverage to that company.

While the audits uncovered no irregularities, the annual review recommended 21 improvements. The change examination recommended 35 improvements. Methods were examined and action was taken for each one of those recommendations. Efforts were also made to identify issues that likewise affected Group companies and to share that information through notices and other forms of communication.

Internal Environmental Audits

In addition to reviews conducted by external certification bodies, companies covered by the integrated ISO 14001 certification periodically carry out internal environmental audits. These audits are implemented by employees who have passed an exam upon completion of an in-house training course to become internal environmental auditors.

In fiscal 2012, internal environmental auditors evaluated initiatives, recommended improvements and checked compliance systems for 107 departments. No major irregularities were discovered. In regard to minor irregularities and improvement recommendations, audited departments took corrective action and submitted reports on those actions to the audit department. Audit results were reported to management by the General Manager of the Environmental Management Department and a review was conducted.

Also in fiscal 2012, internal environmental auditor training courses were held on two occasions, with 58 employees completing the program. A total 1,250 employees (including 453 Group company employees) had completed the course as of the end of fiscal 2012.

Environmental Education and Training

ENVIRONMENTAL REPORT

Promoting Environmental Education and Training

The Sumitomo Forestry Group implements a number of environmental education programs to heighten the environmental awareness of employees. All Group employees are obliged to take an e-learning course teaching them about environmental issues and the Group's environmental initiatives. This course and a combination of training tailored to specific job categories and independent training programs run by individual divisions or Group companies are intended to encourage employees to engage in environmental activities of their own accord.

Main Environmental Education Programs and Number of Participants in Fiscal 2012

Program	Target	Objective	Main components	No. of participants
e-learning	All Sumitomo Forestry Group employees (incl. management)	To ensure that employees working for the Sumitomo Forestry Group possess the minimum required knowledge	General environmental issues and Sumitomo Forestry Group initiatives	10,846
New employee training	New Sumitomo Forestry Group employees New Sumitomo Forestry employees	To give employees the opportunity to consider the environment through firsthand experience of a regenerated forest	• General environmental issues and Sumitomo Forestry Group initiatives (lecture) • Visit Company-owned forest around Besshiyama in Niihama, Ehime Prefecture (implemented as 2nd-year training from fiscal 2012 new graduates)	• New graduate training: 218 • Graduate training: 74 (Company-owned forest visit: 84)
ISO 14001 internal environmental auditor training course	Employees of Sumitomo Forestry Group companies in Japan covered by integrated ISO 14001 certification	To have employees acquire the qualifications and skills for conducting internal environmental audits	• Explanation of ISO 14001 and environmental manuals of the Sumitomo Forestry Group • Environmental management case study using manuals • Internal environmental audit role playing	58

Education About Industrial Waste Processing

It is said that around 70% of illegally dumped industrial waste in Japan is construction waste[1]. Viewing the appropriate disposal of such waste as an extremely important environmental theme, the Sumitomo Forestry Group held lectures on appropriate disposal and recycling on 12 occasions during fiscal 2012. Participants included Group employees responsible for managing industrial waste and building contractors. A total 182 Group employees and 51 people from outside the Group attended.

1 Source: Report on the status of illegal dumping of industrial waste in 2011, Ministry of the Environment, Japan

Environmental Education for Housing Division Employees

Sumitomo Forestry is working to strengthen human resources development and has established the Training & Education Department, responsible for education and training within the Housing Division, in fiscal 2011. The Training & Education Department also puts effort into environmental education for managers, employees in their first four years, and other Housing Division personnel so that employees can accurately communicate the environmentally friendly features of Sumitomo Forestry Home houses to customers. Seeking to raise the level of knowledge of all Housing Division employees, training programs conclude with a test to confirm the results, which are reported back to the participants and their superiors.

Environmental Education for Housing Division Employees and Implementation in Fiscal 2012

Program	Target	Description	No. of implementations
Group training	Managers of sales, design, production and general administration groups, and branch deputy general managers	Lecture and test on environmental topics	10
	1st- to 4th-year employees in sale, design and production groups		25

Environmental Risk Management

ENVIRONMENTAL REPORT

Environmental Risk Countermeasures

The Sumitomo Forestry Group identifies key environmental risks affecting business activities, such as risks associated with climate change, processing of industrial waste, biodiversity and illegal logging, and implements countermeasures accordingly.

Climate Change

The Sumitomo Forestry Group sets forth Group-wide targets for reducing CO_2 emissions under its Medium-Term Environmental Management Plan. Various initiatives are undertaken to achieve these targets. For example, the Group is implementing power-saving measures in offices and exhibition venues and it is switching over to use of fuel-efficient vehicles and tires for company vehicles.

Sumitomo Forestry applies its *Ryouonbou* design concept, making use of natural energy, to provide houses equipped with facilities for saving, creating and storing energy, and is working to develop Life Cycle Carbon Minus (LCCM) homes that enable negative CO_2 emissions over the entire life cycle of a house.

The Group is also conducting research and development relating to fast-growing and other plantation tree species in anticipation of a potential increase in timber procurement costs resulting from the effects of climate change on timber resources, while readying for the eventuation of risks through sustainable plantation forest operations overseas, such as in Indonesia and Papua New Guinea.

- Reducing Greenhouse Gas Emissions from Business Activities(P174)
- Helping to Mitigate Global Warming through Products and Services(P190)
- Preserving Forests— Through the Use of Timber(P228)

Examples of Business Risks Presented by Climate Change

Risks Associated with Emissions Trading Schemes

New Zealand, one of the countries where the Sumitomo Forestry Group has business sites, started a cap-and-trade emissions trading scheme in 2008. Australia introduced a carbon pricing mechanism (carbon tax) in July 2012 and plans a transition to an emissions trading scheme in 2015. China and Indonesia are also looking into introducing similar systems. Once underway, emissions trading schemes will require Group companies with business sites in those countries to make mandatory reductions. Failure to meet the requirements will necessitate the purchase of emission credits, putting them at risk of higher operating costs. In Japan, the Tokyo Metropolitan Environmental Security Ordinance forces places of business using more than the specified amount of energy to make mandatory CO_2 emission reductions. This applies to six office buildings occupied by the Group. If emissions of a place of business exceed the mandatory reduction amount, the building operator has an obligation to purchase emission credits and could potentially pass the cost of those credits on to the Group as a tenant.

Risks Associated with Climate Change Mitigation Taxes

The Tax for Climate Change Mitigation (environmental tax) introduced in Japan in 2012 is levied on all fossil fuels at a rate corresponding to the amount of CO_2 emissions. All Sumitomo Forestry Group companies in Japan face the risk of an increase in operating costs as a result.

Risks Associated with Adaptation of Products and Services

Demand for LCCM homes, which can reduce the CO_2 emissions over their entire life cycle, from construction and occupancy through to dismantling and disposal, to zero or less, is expected to rise. If the Sumitomo Forestry Group cannot respond quickly to that demand, it risks losing market share to competitors. There is also the risk that the Group will need to be make houses stronger and provide additional after-sales service in anticipation of dramatic changes in climate.

Risks Associated with Changes to Ecosystems, etc.

Because timber is the main material used by Sumitomo Forestry, there is a risk that the Company will need to change suppliers if climate change leads to depletion of timber resources or changes to forestland and associated controls are put in place. There is also a danger that Company-owned forest preservation and tree growth will be affected by factors such as changes to average temperature, annual rainfall and other weather conditions, storm and flood damage, and changes to ecosystems.

Risks Associated with Energy Supply Shortages

In countries like New Zealand, where hydroelectric power is used, there is a risk that a change in the amount of rainfall will cause dam levels to fall and lead to a disruption of supply from hydroelectric power stations, forcing Sumitomo Forestry Group sites in those countries to suspend plant operations.

Processing of Industrial Waste

It is said that around 70% of illegally dumped industrial waste in Japan is construction waste. Viewing the environmental risks presented by the processing of industrial waste as the biggest in terms of the potential impact on society and business, the Sumitomo Forestry Group works to ensure that industrial waste is disposed of appropriately. Specifically, the Group has established a set of industrial waste management regulations with the chief purpose of ensuring compliance with the Waste Management and Public Cleansing Act and other related laws and regulations, and promoting appropriate disposal, reduction, recycling and reuse of industrial waste. In keeping with these regulations, voluntary audits of waste manifests and terms of outsourcing agreements with waste processors are carried out twice a year for each Group facility emitting industrial waste. If an audit concludes that corrective action is required, appropriate action is taken and it is subsequently confirmed through reports submitted in line with the industrial waste management system that waste is being properly treated.

In addition, industrial waste managers at each facility conduct site inspections of contractors' waste treatment plants at least once a year. In the Housing Division, personnel from the Environment & Safety Division plan to carry out site inspections of around 410 waste treatment plants across Japan during fiscal 2013. Business facilities of Group companies outside the Housing Division will be instructed to continue using waste treatment plants which the Housing Division has already inspected.

To be able to determine whether industrial waste is being processed in an appropriate manner, the Group asks waste treatment contractors to employ electronic manifests. All contractors accepting industrial waste from Housing Division branches and new housing construction sites have already introduced electronic manifests. In fiscal 2012, 99.9% of all manifests, including those for housing demolition waste, were electronic.

Industrial Waste Management Structure (Revised April 1, 2010)

Effective Use of Resources(P209)

Biodiversity

The Sumitomo Forestry Group pursues biodiversity initiatives having established its Declaration on Biodiversity, Biodiversity Action Guidelines and Biodiversity Long-Term Targets in March 2012. Each department incorporates these long-term targets into environmental plans, or environmental budgets, created each year and works to ensure compliance with related laws and regulations in accordance with ISO 14001.

In fiscal 2012, a guidebook for employees was created to communicate to them the biodiversity declaration, action guidelines and long-term targets. The declaration, guidelines and targets also appear in the employee handbook for 2013.

▶ Preserving Biodiversity(P249)

Examples of Business Risks Presented by Biodiversity Change

Risks Associated with Changes in Timber Quality and Volume

Ever since its founding, the Sumitomo Forestry Group has engaged in wood-related business and the volume of the Group's timber procurement from forests is one of Japan's largest. Trees are a product of biodiversity and without them the Group risks losing its business foundations. Changes to the quality and volume of timber alone are a major contributor to higher costs as they require countermeasures.

Risks Associated with Related Laws and Regulations

Laws and regulations for preventing loss of biodiversity are being strengthened and unless the company responds to related laws and regulations, compliance risks will eventuate. Anticipated risks include effects on operation of Company-owned forests, having to adapt timber procurement in terms of regions, tree species and volume, and having to adapt housing construction business in terms of regions, scale and greening.

Risks Associated with Corporate Image Deterioration

Any mistake in addressing biodiversity may be detrimental to the corporate image, directly affecting sales and other performance indicators.

Risks Related to Procurement of Funds

Financial institutions and similar organizations are making the implementation of environmental assessments and biodiversity initiatives a condition of lending. Corporate credit rating agencies and investors, too, are adopting increasingly detailed assessment criteria for credit rating and socially responsible investment (SRI), including biodiversity initiatives as an assessment category. These growing trends may potentially affect funds procurement.

Illegal Logging

To ensure that illegally logged timber is not handled, the Sumitomo Forestry Group performs thorough checks, for example through the Timber Procurement Committee, to confirm the legality of timber following an action plan based on the Timber Procurement Philosophy and Policy. Since the July 2012 meeting of the Timber Procurement Committee, a CSR survey of all suppliers of timber and timber products directly imported from overseas has been carried out to determine conditions of human rights and occupational health and safety. Findings are used as reference when assessing legality. Coinciding with the introduction of the CSR survey, revisions to the Timber Procurement Standards in January 2013 established human rights and occupational health and safety as additional reference parameters for use when evaluating suppliers, complementing the existing parameters of product legality and environmental performance. Furthermore, the Third Action Plan for Timber Procurement, which sets out targets to achieve by fiscal 2015, calls for surveying of CSR activity within the supply chain.

- Enforcement of CSR in the Supply Chain(P64)
- Preserving Forests— Through the Use of Timber(P228)

Examples of Business Risks Presented by Use of Illegally Logged Timber

Risks Associated with Related Laws and Regulations

As illustrated by the European Union Timber Regulation (EUTR) and amendments to the Lacey Act in the United States, countries around the world are strengthening laws and regulations with the goal of eradicating illegally logged timber. If unable to comply properly with these related laws and regulations, the Sumitomo Forestry Group will face compliance risks and may be liable to pay damages.

Risks Associated with Corporate Image Deterioration

Use of illegally logged timber by the Group may be detrimental to its corporate image, directly affecting sales and other performance indicators.

Soil Contamination

Soil contamination is difficult to discover as contaminants build up and spread underground out of sight. The Sumitomo Forestry Group addresses this risk by implementing soil contamination countermeasures for land owned or administered by the Group and standardizing procedures for voluntary soil contamination studies prior to new land purchases in the spec home business, and in fiscal 2011, the Guidebook on Soil Contamination Risk Countermeasures was created.

In fiscal 2008, the Kashima Plant of Sumitomo Forestry Crest Co., Ltd. carried out a voluntary soil contamination study and confirmed that volatile organic compound (VOC) contamination of groundwater slightly exceeded the statutory limit. Soil remediation was undertaken in fiscal 2009. After ongoing monitoring, analysis of water samples in October 2012 found that contamination had fallen below the lower limit of detection (the minimum level that can be measured even if contaminants are present).

Water Pollution

Water pollution creates the risks of human health being directly affected by contamination of drinking water and of contamination affecting the habitats of organisms living in rivers, lakes and seas. The No. 2 Kyushu Plant of Sumitomo Forestry Crest Co., Ltd., which is a specified facility under the Water Pollution Control Act of Japan, performs its own water quality inspections twice a week and has a third-party organization conduct inspections twice a month. Inspection results are reported to local government authorities every six months. Water is also sampled and analyzed by the prefecture twice a year and by the city several times a year. In fiscal 2012, all inspections found the level of water pollution to be inside the statutory limit for wastewater.

Leak response drills are also carried out as part of annual emergency response training.

▶ Managing Hazardous Chemicals Substances(P263)

Contamination by Hazardous Chemicals

Contamination caused by hazardous chemicals leads to risks of a major impact on human health or the environment and the risk of a disaster. The Sumitomo Forestry Group ascertains the amount of hazardous chemicals it uses and emits and makes an effort to manage such chemicals appropriately and reduce usage.

The Group also works to prevent air pollution, taking appropriate action in response to the Air Pollution Control Act. Nagoya, Niihama and Kyushu Plants of Sumitomo Forestry Crest Co., Ltd., which are all equipped with boilers, comply with the law by regularly measuring emissions and concentrations of NOx, SOx and soot and dust and ensuring that statutory limits are observed.
In fiscal 2011, there was an occasion when soot and dust concentrations in a boiler at Sumitomo Forestry Crest's Niihama Plant slightly exceeded the statutory limit. Treating this as an abnormal situation, the plant responded by promptly reporting whenever the statutory limit was exceeded in accordance with prescribed reporting lines and conducted studies and took measurements to determine the optimum combustion conditions for limiting soot and dust generation. In addition, an operation manual and a manual for application during environmental measurements were prepared. The vent was repaired in fiscal 2012 and concentrations are currently below the designated level.

Managing Hazardous Chemicals(P263)

Noise and Vibrations

Sumitomo Forestry makes an effort to prevent noise and vibrations during housing construction. When complaints about noise or vibrations are received, the circumstances are recorded and the information is shared with the rest of Group to prevent the occurrence of similar incidents.
Sumitomo Forestry Crest Co., Ltd. confirms that noise levels within the site boundaries of plants are below the statutory limit by taking regular measurements.
No complaints about noise or vibrations having a major impact on the environment were received from local residents during fiscal 2012.

Promoting Green Purchasing

ENVIRONMENTAL REPORT

Improving the Green Purchasing Ratio

Having established the Sumitomo Forestry Group Office Product and Company Vehicle Purchasing Guidelines (Green Purchasing Guidelines) in 2006 based on the objectives of the Law on Promoting Green Purchasing in Japan, the Group promotes purchasing of stationery, office equipment and company vehicles with a low environmental impact. Green purchasing ratios within the Group are ascertained on a regular basis and efforts are made to improve the green purchasing ratio of the Group as a whole, for example through awareness activities targeting departments with low ratios.

Green Purchasing of Office Supplies

Besides setting annual green purchasing ratio targets for the procurement of office supplies, achieved levels are posted to a bulletin board within the in-house Web portal so that departments can advance initiatives accordingly. The Company's green purchasing ratio in fiscal 2012 was 70.1%.

Green Purchasing of Company Vehicles

Hybrid vehicles and other fuel-efficient vehicles have been designated as standard models for Group-owned vehicles (all passenger vehicles, excluding freight vehicles) and the fleet is gradually being replaced. The Group is also actively introducing fuel-efficient tires. Standard models are reviewed about once a year based on cost and environmental considerations. In March 2012, fuel-efficient gasoline vehicles, otherwise known as "third eco-cars," were added to the list of standard models.

As a result of these initiatives, the percentage of standard models among new vehicles purchased by the Sumitomo Forestry Group during fiscal 2012 was 92.0%, a 4.2-point improvement from the previous year. As of March 2013, standard models accounted for 71.7% of all Group-owned vehicles, including existing vehicles, a nine-point improvement from the previous year.

Increase of Allowance for Business Use of Fuel-Efficient Private Vehicles

In March 2013, Sumitomo Forestry decided to increase the allowance paid to employees who use fuel-efficient private vehicles for their housing sales, based on its own criteria[1], by 15,000 yen to 40,000 yen, to promote the use of fuel-efficient vehicles.

1 Vehicles (incl. gasoline or hybrid vehicles) with an internal combustion engine achieving fuel economy of 25.0km/L or more under JC08 mode (30.0km/L or more under 10·15 mode) as indicated in catalogs.

Environmental Impact of Business Activities

ENVIRONMENTAL REPORT

Balance of Input and Output

1 The Sumitomo Forestry Group offsets its CO_2 emissions from housing display centers, which were 3,056 tons in FY2012, using forest sink credits issued under the Offset Credit (J-VER) Scheme.

Method for Disclosing CO_2 Emissions

Since fiscal 2012, the Sumitomo Forestry Group has been ascertaining the volume of CO_2 emissions generated by business activities for different scopes[1] in accordance with the Greenhouse Gas Protocol (GHG Protocol), a set of widely used international greenhouse gas calculation tools.

1 Scope 1: Direct GHG emissions of a company, including emissions from fuel consumption. E.g. CO_2 emissions from the use of gasoline for company vehicles.
Scope 2: Indirect GHG emissions from the generation of purchased electricity and heating. E.g. CO_2 emissions from the use of electricity by offices.
Scope 3: GHG emissions occurring in the supply chain. E.g. CO_2 emissions generated during the use of products sold.

Reducing CO_2 emissions in business activities(P174)

Environmental Impact from the Construction of a New House

INPUT

Energy ..... 25,192 MJ[1]	Raw materials ..... 75.83 t
Electricity 282.1kWh	Timber ..... 14.16 t
Gasoline 415.6L	Metal ..... 2.49 t
Light oil 213.7L	Plastic ..... 1.08 t
	Paper/fiber ..... 0.15 t
	Concrete ..... 44.75 t
	Glass/ceramic ..... 13.18 t

OUTPUT

CO_2 ..... 1,658 kg-CO_2	Waste from new housing construction ..... 4.53 t
	Plastic ..... 0.39 t
	Paper ..... 0.49 t
	Wood ..... 0.97 t
	Metal ..... 0.08 t
	Glass/ceramic ..... 0.66 t
	Rubble ..... 0.80 t
	Gypsum boad ..... 0.86 t
	Composite waste (controlled) ..... 0.27 t

Implementation of Life Cycle Assessments

In fiscal 2006, the Sumitomo Forestry Group carried out life cycle assessments (LCA)[1] with the help of the Tokyo University of Agriculture and Technology (TUAT) to ascertain the environmental impact of its products. Since then, the Group has introduced carbon footprint (CFP)[2] labels for individual products and carried out LCAs of detached housing among other initiatives. For example, Group company PT. Rimba Partikel Indonesia (RPI) conducts LCAs of particle board (PB) that it manufactures and sells, covering the production and transportation of the raw materials through to manufacturing of the products. The company also voluntarily displays CFP labels on PB products based on LCA results.

RPI started displaying CFP labels on PB products in 2009
(a first for an Indonesian company in the timber products market)

In fiscal 2012, the Group conducted LCAs of wood fiber insulation material and heat-treated timber at the Tsukuba Research Institute with the cooperation of TUAT and building material manufacturers for the purpose of developing detached houses with a lower environmental impact.

In fiscal 2013, results obtained during fiscal 2012 will be used to evaluate housing models employing wood materials that were assessed.

1 A method of evaluating the overall environmental impact of a product throughout its life cycle (all stages, including raw material procurement, manufacturing, transportation, sale, use, reuse and disposal)
2 A measure indicating of the amount of greenhouse gases emitted over the entire life cycle of a product or service converted into CO_2

Inventory Analysis of Log Production and Transportation

Timber is considered an environmentally friendly material as it is a renewable resource and the amount of energy consumed for processing is low compared to other materials. However, there is limited quantitative data to support this assumption, making it difficult to draw detailed comparisons with other materials.

Sumitomo Forestry has therefore been undertaking inventory analysis[1] of logs produced in Company-owned forests together with the graduate school laboratory of Professor Nobuaki Hattori at the Tokyo University of Agriculture and Technology (TUAT) since 2003. The objectives are to calculate the average environmental impact of logs produced in Japan and to build up fundamental knowledge about how to reduce that impact. Gradual progress on inventory analysis has been made and a summary of findings to date was presented to the Japan Wood Research Society in March 2012.

1 Studies undertaken to calculate the inputs of energy and material and the outputs of gases and waste over a product's life cycle (all stages, including raw material procurement, manufacturing, transportation, sale, use, reuse and disposal)

Inventory Analysis Outline

・Target area of the survey

20 locations covering a total 359 hectares in the Mombetsu district, Hokkaido, the Niihama district, Ehime Prefecture, and the Hyuga district, Miyazaki Prefecture.

・Main findings

1. CO_2 emissions generated during harvesting operations account for the majority of emissions generated during the production process for Japanese logs.
2. The volume of CO_2 emissions generated during harvesting operations is influenced by differences in work methods (equipment), the volume of timber harvested per unit of harvested area, and the operators.
3. The average volume of CO_2 emissions generated per $1m^3$ of Japanese logs is 11.1kg.
4. The average cost to society[1] of producing $1m^3$ of Japanese logs is 70.6 yen.

1 The cost resulting from a product's environmental impact during its life cycle

Medium-Term Environmental Management Plan

ENVIRONMENTAL REPORT

Positioning of the Medium-Term Environmental Management Plan

In December 2009, the Sumitomo Forestry Group set out its environmental management targets in the Medium-Term Environmental Management Plan, replacing the Medium-Term Environmental Management Policy established in December 2005. Having determined where the Group should be in five years' time, the plan, unlike the earlier "policy," specified targets that the Group as a whole, Sumitomo Forestry individual divisions and the main Group companies needed to achieve. The Group will realize true environmental management by advancing measures developed from a variety of perspectives, including products (customers), business process reforms (in-house/business partners), human resource development (employees/business partners) and communication (industry/general public).

Medium-Term Environmental Management Plan (Excerpt of Major Objectives)

Sumitomo Forestry Group(shared targets)					
Responsible	Area of Environmental Impact	Basic Strategy (Objectives)	Evaluation Metrics / Targeted Values	FY2012 Results	FY2014 Targeted Values
Environmental Management Department	Global warming	Reduction of CO_2 emissions (Offices; excluding manufacturing subsidiaries)	Percentage of reduction of total CO_2 emissions compared with FY2006 (%)	11.6% reduction	−12% (2010 target value continues)
		Reduction of CO_2 emissions (manufacturing subsidiaries in Japan)	(Old target)[1]Percentage of reduction of CO_2 emissions per sales unit compared with FY2006 (%): All manufacturing subsidiaries in Japan, including offices * Each plant uses voluntarily-set base units * The percentage reduction of total CO_2 emissions compared with FY2006 (%) is used concurrently as a progress management indicator.	16.7% increase	−8%
			(New target)[1] Percentage of reduction of total CO_2 emissions compared with FY2006 (%): All manufacturing subsidiaries in Japan, including offices	13.7% reduction	−12%
		Reduction of CO_2 emissions (manufacturing subsidiaries outside Japan))	Set for each company in consideration of national policy on CO_2 reduction targets, etc., in each country.	–	–

Responsible	Area of Environmental Impact	Basic Strategy (Objectives)	Evaluation Metrics / Targeted Values	FY2012 Results	FY2014 Targeted Values
Envirtbl-data-02onmental Management Department	Resource consumption, resource recycling, and industrial waste	Attainment of zero emissions	Attainment of zero emissions * Definition: No incineration or landfill of industrial waste generated by domestic manufacturing facilities and new construction sites. * Target units: Housing Division, Sumitomo Forestry Landscaping Co., Ltd. (residential greening), Sumirin Sash Co., Ltd., Sumikyo Co., Ltd, Sumikyo Wintec Co., Ltd., Sumitomo Forestry Crest Co., Ltd., Sumirin Agro-Products Co., Ltd., Sumitomo Forestry Home Engineering Co., Ltd.	89.6%	Attainment of zero emissions

Forestry & Environment Division					
Responsible	Area of Environmental Impact	Basic Strategy (Objectives)	Evaluation Metrics / Targeted Values	FY2012 Results	FY2014 Targeted Values
Forestry & Environmental Business Department	Resource consumption, resource recycling, biodiversity, and others	Promotion and expansion of sustainable forests	Percentage of certified forests in newly acquired forests managed by the Group	100%	100%
	Biodiversity, and others	Establishment of forestry management that enables both preservation and conservation of biodiversity and forestry businesse	Implement monitoring surveys in Company-owned forests (Collect and review fundamental materials: 2008-2011) From 2012, set specific numeric targets by region based on comparative analysis of data collected.	Deliberated on numeric targets	4 out of 4 locations Set specific numeric targets from 2012.

Timber & Building Materials Division and Major Affiliated subsidiaries					
Responsible	Area of Environmental Impact	Basic Strategy (Objectives)	Evaluation Metrics / Targeted Values	FY2012 Results	FY2014 Targeted Values
International Marketing Department	Resource consumption, and biodiversity	Increase sustainable timber handled[2]	Percentage of certified timber handled and percentage of plantation timber handled.	–	All directly imported timber: 68% (FY2015)
				Logs: 69%	Logs: 80% (FY2015)
				Products: 66%	Products: 70% (FY2015)
				Imported plywood: 42% MDF (plantation timber)99%	Imported plywood: 50% MDF 97% (FY2015)
	Resource consumption	Make effective use of wood resources[2]	Volume of wood chips handled as fuel, including for biomass power generation (compared to FY2011)	3% increase	10% increase (FY2015)
Timber & Building Materials Department	Global warming, resource consumption, and resource recycling	Increase environmentally sound building materials handled	Volume of environmentally sound building materials handled	3,198 EcoCute units	6,000 EcoCute units
Sumitomo Forestry Wood Products Co., Ltd	Resource consumption, and global warming	Promote use of Japanese timber[2]	Volume of Japanese timber handled (compared to FY2011)	6% decrease	71% increase (FY2015)
Sumitomo Forestry Crest Co., Ltd.	Global warming, resource consumption	Promote use of sustainable timber[2]	Percentage of plantation timber, certified timber and Japanese timber used	55%	64% (FY2015)

Overseas Business Division and Major Affiliated subsidiaries					
Responsible	Area of Environmental Impact	Basic Strategy (Objectives)	Evaluation Metrics / Targeted Values	FY2012 Results	FY2014 Targeted Values
Overseas Resources & Manufacturing Department	Resource consumption, resource recycling, and biodiversity	Expand use of sustainable raw materials * Sustainable raw materials: plantation timber, certified timber, and waste wood	Percentage of sustainable timber used for wooden raw materials (total for NPIL, Alpine, KTI, RPI, FSW)	90%	100%
Overseas Housing & Real Estate Department	Resource consumption, resource recycling, and living environments (others)	Promote environmentally friendly housing	Percentage of houses sold that meet certain environmental standards (total for SFC Homes, Paragon, DSH, Henley) * Certain environmental standards:North America, Australia: Standards in each country China: Company's own standards	Proportion: 95%	Proportion: 90%

Housing Division and Major Affiliated subsidiaries					
Responsible	Area of Environmental Impact	Basic Strategy (Objectives)	Evaluation Metrics / Targeted Values	FY2012 Results	FY2014 Targeted Values
Building Materials Procurement & Logistics Department Marketing Strategy Department Product Development Department	Global warming, resource consumption, resource recycling, and others	Promote and expand the use of Japanese timber[2]	Percentage of Japanese timber used in all products (based on the total volume of timber used) Scope: Timber used for custom-built detached housing (structural members + non-structual)	55%	60% (FY2015)
Residential Property Development Department	Resource consumption, resource recycling, and global warming	Promotion of environmentally symbiotic residential property development	Percentage of housing units using next-generation energy-conservation standards (Base: construction starts)	100% (178 out of 178 houses)	100%
Sumitomo Forestry Landscaping Co., Ltd.	Biodiversity, and living environments (residential greening)	Promotion of residential greening conscious of biodiversity	Number of garden vegetation species that are native to the region	27,680 trees	35,000 trees
Sumitomo Forestry Home Service Co., Ltd	Resource consumption, resource recycling, and industrial waste	Promotion of re-use of housing	Number of SumStock house transactions	22units	12units

1. To enable management using numeric targets appropriate to the actual conditions, the target was changed in fiscal 2013 to "Achieve a 12% reduction in overall CO_2 emissions compared with FY2006 by FY2014"
2. The year for achieving targets for these strategies is fiscal 2015 as they are the same as under the 3rd Action Plan for Timber Procurement.

Reduction of Greenhouse Gas Emissions from Business Activities

ENVIRONMENTAL REPORT

Sumitomo Forestry Group CO_2 Emissions in Fiscal 2012

In recent years, companies have been asked to include in disclosure of information about greenhouse gas (GHG) emissions not only their direct GHG emissions, such as emissions from fuel consumption, and indirect GHG emissions from the generation of purchased electricity and heating, but also information about emissions occurring across entire supply chains to which they belong. The Greenhouse Gas Protocol (GHG Protocol), a set of widely used international greenhouse gas calculation tools, also calls for disclosure of emissions according to these categories, labeled "Scope 1[1]", "Scope 2[2]" and "Scope 3[3] ".

In keeping with the international trend, the Sumitomo Forestry Group has been ascertaining the volume of its emissions according to the different scopes of the GHG Protocol since fiscal 2012. The Group plans to gradually expand the categories and boundary of Scope 3, covering CO_2 emissions occurring in the supply chain.

1. Direct GHG emissions of a company, including emissions from fuel consumption. E.g. CO_2 emissions from the use of gasoline for company vehicles.
2. Indirect GHG emissions from the generation of purchased electricity and heating. E.g. CO_2 emissions from the use of electricity by offices.
3. GHG emissions occurring in the supply chain. E.g. CO_2 emissions generated during the use of products sold.

Sumitomo Forestry Group CO2 Emissions (Fiscal 2012)

Scope 1 and Scope 2 CO_2 Emission Trends

The Sumitomo Forestry Group offsets its CO_2 emissions from model homes, which were 1,590 tons in FY2010, 2,542 tons in FY2011 and 3,056 tons in FY2012, using forest sink credits issued under the Offset Credit (J-VER) Scheme.

Scope 3 Emissions by Category (Fiscal 2012)

Category[1]	Scope of calculation for the Company	Emissions
Category 4 (Upstream transportation and distribution)	Transportation from timber logging sites, transportation in timber distribution businesses	5,576t-CO_2
Category 11 (Use of sold products)	During occupancy of detached houses (60 years)	1,983,147t-CO_2
Category 12 (End-of-life treatment of sold products)	Dismantling and disposal of detached houses	28,473t-CO_2

1. Of the 15 categories of Scope 3 emissions, the Sumitomo Forestry Group has, to begin with, commenced calculation of categories with the greatest relevance to the Group's business.

▶ Boundaries and Methods of CO_2 Emissions Calculation(P186)

Sumitomo Forestry Group CO_2 Emission Reduction Targets

The Sumitomo Forestry Group made the reduction of CO_2 emissions by fiscal 2014 a Group-wide objective under the Medium-Term Environmental Management Plan. Emission reduction measures are being advanced toward achieving numerical reduction targets set for each of three categories: offices, manufacturing companies in Japan, and manufacturing companies outside Japan.

Medium-Term Environmental Management Plan: CO_2 Total Emission Volume Reduction Targets

Offices:	By FY2010, achieve a 12% reduction in overall emissions compared with FY2006, and maintain this level to 2014
Manufacturing companies in Japan[1]:	By FY2014, achieve an 8% reduction in the per sales unit compared with FY2006 Each plant independently sets the base units for targets. In addition, as a method of collectively managing progress toward achieving targets, the plants also use the rate of reduction of total CO_2 emissions from the base year of FY2006.
Manufacturing companies outside Japan:	Set targets for each plant in consideration of local laws and regulations, including overall emissions, emissions per unit sold, and / or other targets as appropriate to each plant

1. To enable management in the same way as for offices, using overall emissions, the target was changed in fiscal 2013 to "By FY2014, achieve a 12% reduction in overall CO_2 emissions compared with FY2006."

Offices (Group Companies Excluding Manufacturing Companies in Japan and Outside Japan)

CO_2 emissions in fiscal 2012 were 32,189 t-CO_2, an 11.6% reduction compared to the base year achieved as a result of power savings and switching company vehicles to fuel-efficient cars and fuel-efficient tires.

In fiscal 2013, efforts to reduce gasoline usage will be advanced as CO_2 emissions resulting from gasoline use account for around half the total emissions of the offices category. For example, fee assistance will be provided to further encourage participation in eco-driving courses and raise employee awareness. At Sumitomo Forestry, a decision was made in March 2013 to increase allowances paid to employees who use a fuel-efficient private vehicle for housing sales activities and the Company will continue efforts to promote use of fuel-efficient vehicles.

▶ Promoting Green Purchasing(P162)

Emissions at offices (t-CO_2)

FY2006 (base year)	FY2007	FY2008	FY2009	FY2010	FY2011	FY2012
36,418	36,857 (+1.2%)	34,841 (−4.3%)	33,403 (−8.3%)	34,055 (−6.5%)	32,539 (−10.7%)	32,189 (−11.6%)

Figures in parentheses indicate the percentage change compared with FY2006.
Figures are aligned with organizations in the base year (FY2006).

Power and Energy Saving in Summer and Winter Periods

During the three months from July to September 2012, when power usage typically reaches its peak, all Group companies in Japan undertook energy-saving measures at office-type sites, including model homes, with the target of achieving "a 15% reduction in power usage compared with FY2010." In western Japan, where power supply was forecast to be particularly tight, efforts were strengthened. At Sumitomo Forestry, the Environmental Management Department recommended measures to the main branches in the Kansai region based on the results of power-saving initiatives implemented during fiscal 2011. The Company also designated the four months covering the Government-designated Environment Month in June and the summer power -saving period (July to September) as a period for enforcing No Overtime Day efforts. During this period, a Complete No Overtime Day was held on one day each month, the main aim being to save electricity by turning off all lighting in business sites. Head Office departments made additional efforts in summer by switching one of the workdays to Saturday when the power demand is lower and also taking holidays at the same time, just as in fiscal 2011.

In winter, all power companies were able to secure reserve capacity for their respective areas and so the Group did not implement activities based upon specific numerical targets. However, all office-type Group sites in Japan did continue power-saving efforts, for example by turning off lights in unused zones and limiting use of standby power.

As a result, the Group achieved a 12.6% reduction in power usage at office-type sites in fiscal 2012 compared with fiscal 2010. However, due to the worsening of the CO_2 emission factor for electricity in Japan, CO_2 emissions increased 0.1% compared to fiscal 2010 and 13.5% compared to fiscal 2011.

Offices will continue to implement basic power-saving activities throughout the year and make efforts to achieve numerical targets set in reference to information such as government forecasts of power supply and demand.

Use of Fuel-Efficient Vehicles and Tires and Encouragement of Eco Training Participation

In fiscal 2009, the Sumitomo Forestry Group began a transition to use of fuel-efficient tires for vehicles (passenger vehicles, excluding freight vehicles) owned and used by each Group company in order to reduce gasoline usage.

Eco Training

At the same time, the Group is switching over to hybrid vehicles and fuel-efficient gasoline vehicles, known in Japan as "the third eco-cars", which have been designated standard models in the Sumitomo Forestry Group Office Product and Company Vehicle Purchasing Guidelines (Green Purchasing Guidelines). The percentage of company vehicles replaced during fiscal 2012 with standard models was 92%. In addition, employees are encouraged to take outside training courses, such as the Eco Training eco-driving course provided by the Japan Automobile Federation (JAF). A total of 30 employees have participated since fiscal 2009.

Offsetting CO_2 Emissions through the Japan Verified Emission Reduction (J-VER) System

In 2008, Japan's Ministry of the Environment set up the Offset Credit (J-VER) Scheme[1] as a way to promote global warming countermeasures. The scheme certifies carbon offset credits corresponding to the volume of greenhouse gas emissions reduced or absorbed through domestic projects. Later in March 2009, CO_2 absorption amounts achieved through domestic projects established with the purpose of revitalizing the forestry industry were recognized as eligible for J-VER credits.

Sumitomo Forestry decided to take part in the J-VER Scheme in order, among other objectives, to heighten the evaluation of sustainable forest management by the Company, adding new value to Company-owned forests, and to use credits to enhance the economic viability of forest management in Japan. Since then, the Company has been using the scheme to offset CO_2 emitted not only by other companies, but also during its own business activities.

1. The J-VER Scheme was integrated with Japan's Domestic Clean Development Mechanism as the J-Credit Scheme in April 2013.

Offsetting the CO_2 from Model Homes

Since October 2010, Sumitomo Forestry has been implementing an independent initiative to offset CO_2 emitted through its use of electricity and other sources at around 300 model homes nationwide using J-VER credits generated by Company-owned forests. The offset period for credits is from October 2010 to March 2014. In April 2012, the Company offset 2,542 t-CO_2 for fiscal 2011.

Offsetting CO_2 Emissions from Sumai Haku

In February 2012, the Company held Sumai Haku 2012, its interactive wooden housing fair, in Tokyo, Nagoya, and Osaka. It used the credits it acquired in the J-VER system to offset the CO_2 emissions (63 tons at the three locations) that were generated at the venues through their use of electricity, gas, and water.

Helping to Mitigate Global Warming through Products and Services(P190)

Manufacturing Subsidiaries in Japan (Sumitomo Forestry Crest Co., Ltd. and Sumirin Agro-Products Co., Ltd.)

Fiscal 2012 results for Sumitomo Forestry Crest Co., Ltd. and Sumirin Agro-Products Co., Ltd. were a 16.7% increase in emissions per sales unit compared to the base year, and a 13.7% reduction in total CO_2 emissions.

A switch to in-house manufacturing of previously outsourced fittings at Sumitomo Forestry Crest's Kashima Plant, and the start of full-year operation of oil-fired boilers at its Niihama Plant increased emissions. Combined with the effects of decreased earnings, this led to a result deviating considerably from the target of an 8% reduction in emissions per sales unit compared to the base year.

Emissions Per Sales Unit at Manufacturing Companies in Japan (t-CO_2/mil. yen)

FY2006 (base year)	FY2007	FY2008	FY2009	FY2010	FY2011	FY2012
188.8	210.9 (+11.7%)	221.1 (+17.1%)	231.6 (+22.7%)	234.1 (+24.0%)	216.7 (+14.8%)	220.3 (+16.7%)

Figures in parentheses indicate the percentage change compared with FY2006.

Use of Energy-Efficient Lighting and Energy Audits

Sumitomo Forestry Crest's Kashima Plant has replaced lighting on the first floor of the plant with trough lights employing high-performance reflectors and installed cold cathode fluorescent lamps (CCFL)[1] in the experimental building completed in fiscal 2012. As a result, power consumption on the first floor of the plant was roughly halved, and the power consumption and operating life of lights in the experimental home were now on a par with LED lighting.

Energy saving at Sumitomo Forestry Crest's Kashima Plant

The Kyushu Plant underwent an energy audit conducted by the Energy Conservation Center, Japan (ECCJ) in April 2012. The plant implemented the following three measures based on the advice received.

1. Reviewed dust collection ducts during production facility layout changes and reduced the number of dust collection motors from three to two.
2. Repaired air leaks in air piping and reduced the frequency of compressor operation.
3. Replaced some lighting in the office and the plant with high-efficiency lighting.

As a result of these measures, the plant was able to reduce losses during electricity use and lower the maximum power demand at peak hours. Each plant's achievements will be applied as measures are gradually extended to facilities in other areas.

1. Cold cathode fluorescent lamps (CCFL) can reduce power consumption and CO_2 emissions by between around 20-40% compared to ordinary fluorescent lamps.

Review of Raw Material Transfer Methods and Use of Fuel-Efficient Forklifts

Sumirin Agro-Products produces and sells potting mix using soil generated at water purification plants as a raw material. After the nuclear accident triggered by the Great East Japan Earthquake in March 2011, the company's Sakura Plant, in Chiba Prefecture, suspended use of soil from the water purification plant nearby because the level of radiation exceeded the government's standard. Instead, soil is transported to Sakura Plant from Tobishima Plant in Aichi Prefecture. In February 2012, the company reviewed methods for transporting this soil and switched from the use of flexible intermediate bulk containers (FIBC)[1], which required filling, to loading the soil directly onto trucks for transport as bulk cargo. This eliminated power and kerosene consumption for FIBC filling at the Tobishima Plant. Furthermore, in November 2012, Tobishima Plant introduced forklifts with higher fuel efficiency to reduce diesel consumption. As a result of these initiatives, CO_2 emissions from the Tobishima Plant in fiscal 2012 were 172,150 kg-CO_2, around 14,000 kg-CO_2 lower than the previous year. Besides these efforts, in October 2012, the number of fluorescent lamps used at the Head office and the laboratory were reduced and awareness about energy conservation increased among all employees.

Looking ahead, energy-saving initiatives will be actively pursued at Sakura Plant, too, for example with the introduction of work vehicles with higher fuel efficiency when it is time for existing vehicles to be replaced.

1. Flexible intermediate bulk container

Manufacturing Companies Outside Japan

At PT. Rimba Partikel Indonesia (RPI), CO_2 emissions increased 27.8% in fiscal 2012 compared to the previous year due to an increase in diesel consumption after the company's biomass generation facility broke down.

At PT. Kutai Timber Indonesia (KTI), CO_2 emissions increased 0.8% in fiscal 2012 compared to the previous year due to an increase in diesel consumption resulting from trouble with the supply of natural gas, which the company is adopting as a fuel to replace diesel.

At Alpine MDF Industries Pty Ltd. (Alpine) in Australia, CO_2 emissions decreased 15.3% in fiscal 2012 compared to the previous year due to a drop in output after the number of operating days per week was reduced from seven to five.

Reduction of Wood Use as Fuel and Power Consumption

NPIL

Nelson Pine Industries Ltd. (NPIL) was highly commended in two out of nine categories in the EECA Awards 2012[1] announced in May 2012. The company was recognized for its achievement in reducing both the amount of wood used as fuel and power consumption through improvements to the combustion efficiency of combustion furnaces used in the MDF[2] manufacturing process and the introduction of motor systems providing power-saving benefits. NPIL commenced these initiatives in April 2010 and, as a result, CO_2 emissions in fiscal 2012 were approximately 20% lower than before the initiatives were introduced.

Furthermore, investing around 45 million yen has returned annual energy cost reductions of as much as around 78 million yen.

This project was also praised for its contribution to the region. NPIL is located in New Zealand's South Island, which is almost entirely dependent on hydroelectric power plants for its electricity supply and therefore prone to power shortages in the winter when rainfall is low and power demand is high due to the cold temperatures. By reducing its own power consumption, the company takes pressure off the region's energy supply.

1. The EECA Awards are administered by the Energy Efficiency and Conservation Authority (EECA), an organization set up by the New Zealand Government to promote energy efficiency. They are held once a year and are sponsored by both private and government sectors. The awards recognize excellence and innovation in energy efficiency and renewable energy.
2. Medium density fiberboard

▶ News Release: "Sumitomo group building materials manufacturing company won awards in two divisions at the New Zealand EECA Award 2012"

Fuel Switching

KTI is making efforts to reduce CO_2 emissions by switching the fuel used at its particle board (PB) plant from diesel to natural gas.

From 2013, KTI will look to reduce use of fossil fuels by advancing sorting of wood waste emitted by the PB plant and using it as a heat source.

Introduction of Biomass Power Generation

Due to the unstable power supply in Indonesia, RPI used to generate power for its own plant using a diesel generator. But in April 2008, given the growing need to reduce CO_2 emissions and climbing diesel prices, the company installed a biomass power generation system using mainly wood waste as fuel. As a result, CO_2 emissions fell dramatically from levels prior to the system's introduction. In fiscal 2012, the annual reduction in CO_2 emissions was approximately 5,500 tons and the total reduction from fiscal 2008 came to 38,400 tons.

Biomass Power Generation

RPI is also working to reduce CO_2 emissions during transportation inside the plant with the acquisition of an electric forklift in August 2012. This reduced annual diesel consumption by around 6,000 liters.

Reducing CO_2 Emissions from Transportation

Under the revised Act on the Rational Use of Energy in Japan, consigners are required to reduce per-unit energy consumption by an annual average of 1% or more in the medium to long term in relation to the transportation of goods. Sumitomo Forestry and Sumitomo Forestry Crest Co., Ltd. fall under the category of "specified consigner" (annual freight transportation volume is 30 million ton-kilometers[1] or more), obligating them to submit reports to the Japanese Government. Sumitomo Forestry therefore sets a target each fiscal year to reduce per-unit energy consumption[2] in transportation by 1% or more compared to the previous year. Sumitomo Forestry Crest also sets targets to reduce per-unit energy consumption compared to the previous year.

In fiscal 2012, Sumitomo Forestry's per-unit energy consumption was 107.1% compared to the previous year and Sumitomo Forestry Crest's was 92.0%.

Ongoing efforts will be made to reduce CO_2 emissions through cooperation with transportation partners on such measures as improving loading efficiency, improving transportation route efficiency and shifting from land to sea transport. Progress will also be made on examination of methods for ascertaining CO_2 emissions across the entire supply chain, which includes both domestic and international transportation.

1. Freight transportation volume (ton-kilometers) = freight weight (tons) × distance travelled (km)
2. Sumitomo Forestry measures energy consumption per unit of volume handled. Sumitomo Forestry Crest measures energy consumption per unit of net sales.

Energy Consumption from Transportation, CO_2 Emissions and Per-Unit Energy Consumption (Fiscal 2012)

	Energy consumption (crude oil equivalent)	CO_2 emissions	Per-unit energy consumption
Sumitomo Forestry Co., Ltd.	2,517kL	6,706t-CO_2	0.00209kL/m^3
Sumitomo Forestry Crest Co., Ltd.	2,270kL	6,029t-CO_2	0.0000624kL/1,000 yen

New Distribution Center with Inventory Stocking and House-by-House Sorting Functions

In September 2012, Sumitomo Forestry Crest opened its Kanto Distribution Center, which has stocking and house-by-house sorting functions. For line-haul transportation[1] from the Nagoya Plant to the Kanto region, products used to be separated for each house beforehand. The problem with this was the low loading efficiency. By transporting the same type of products together to the Kanto Distribution Center and sorting them according to the target house there, loading efficiency is expected to improve from 50% to 77%. Sumitomo Forestry Crest will continue efforts to reduce CO_2 emissions through loading efficiency improvements achieved by implementing joint delivery of products to both exclusive dealers and house construction sites.

Kanto Distribution Center

1. Line-haul transportation entails collecting a large volume of cargo from one area at a transportation hub in that area and transporting the cargo to another hub using a means of mass transportation.

Establishment of an Efficient Delivery System

Sumitomo Forestry made improvements in 2007 to the system the Company used to deliver materials for *Sumitomo Forestry Home* houses from the manufacturer to individual construction sites. Seeking to reduce CO_2 emissions during transportation, the Company established a system whereby materials from multiple manufacturers would first be gathered at relay centers, of which there are 30 nationwide, and then delivered together in mixed loads. As a result, a reduction of around 1,440 tons of CO_2 emissions was achieved in fiscal 2012 compared to levels prior to the new system's introduction.

In April 2010, the Company made use of distribution efficiency know-how acquired over the years to establish Home Eco Logistics Co., Ltd. Home Eco Logistics takes on logistics operations for the Sumitomo Forestry Group's housing business and also actively puts forward proposals for logistics operations to material manufacturers, housing manufacturers, housing construction companies and building material distributors.

As of March 2013, Home Eco Logistics provides logistics operations to more than 20 companies and will continue active proposal-based sales aiming for standardization of logistics functions in the industry, while at the same time contributing to further reductions in CO_2 emissions.

Boundaries and Methods of CO_2 Emissions Calculation

ENVIRONMENTAL REPORT

1. Boundaries relating to CO_2 emissions (range of organizations included in aggregate)

Except where special explanatory notes are added, all Group companies both in Japan and overseas are included in the aggregates for CO_2 emissions stated in this report.
The range of applicable organizations and the bounds of the calculation for each scope are as described below.

・Scopes 1 and 2
All Group companies, including affiliates in Japan and overseas
・Scope 3
Category 4: Transportation of harvested timber from company-owned forests to purchasers, etc., and transportation of imported timber from storage to purchasers, etc.
Categories 11 and 12: Detached wooden houses sold by Sumitomo Forestry's Housing Division
(see 2. for further details)

2. Calculation of Scope 3 "CO_2 emissions during occupancy and during demolition for houses sold in fiscal 2012"

CO_2 emissions during occupancy

Σ(Annual energy usage per house × CO_2 emission factor for each type of energy) × Years of occupancy × Number of houses completed in FY2012

1 Regarding the amount of emissions during occupancy, emissions related to "renovation" have been excluded since some of the Scope 1 and 2 emissions of the affiliates engaged in the business of renovations (Sumitomo Forestry Home Tech Co., Ltd.) could be double-counted.

【Conditions and details】

・Energy usage per house (electricity and city gas):

Calculated using the Building Research Institute's Program for Calculating Primary Energy Consumption (Residential) according to the following conditions.

Plan: Sumitomo Forestry standard plan (total floor area 147m^2)※ Slightly larger than Sumitomo Forestry's average total floor area (134m^2)

Specifications: Standard *MyForest* specifications for 2010 ※ Sumitomo Forestry's main product

Structure: Multi-Balance Construction Method, Big-Frame Construction Method, Two-by-Four Construction Method

Building site: Tokyo

1 According to a survey conducted by the Architectural Institute of Japan on actual energy consumption, the figures for Tokyo are almost the same as the national average

Heat loss coefficient (Q-value): 1.93W/m^{2}K ※ Calculated separately using the Heat Loss Coefficient Calculation Chart

2 For the basic unit of emissions, reference was made to the LCA database "IDEA" published by the Japan Environmental Management Association for Industry and to data published by the Ministry of the Environment.

・CO_2 emission factor

Electricity: Calculated using the weighted average of the electricity sales of nine power companies, excluding the Okinawa Electric Power Company which does not service the areas where any Sumitomo Forestry Group business sites are located, based on the FY2011 Emission Factors for Electricity Power Companies (Actual Emission Factors) published by the Ministry of the Environment.

City gas: 2.23kg-CO_2/m^3

1 Source: *Manual for Calculating and Reporting Greenhouse Gas Emissions (Ver. 3.3)*, Ministry of the Environment and Ministry of Economy, Trade and Industry

・Years of occupancy: 60 years

2 Sumitomo Forestry uses its 60-Year Support Program as standard, and assumes houses will be occupied for 60 years.

CO_2 emissions during demolition

Σ (Fuel usage during demolition per house × CO_2 emission factor for each type of fuel) × Number of houses completed in FY2012

【Details】

・Fuel usage during demolition per house (diesel, gasoline):
Fuel usage for demolition of Sumitomo Forestry model home (Estimates calculated from standard plan and floor area and based on 2006 survey of use of heavy equipment in demolition (diesel) and vehicles for transport of workers (gasoline).

・CO_2 emission factor:
Diesel 2.58kgCO_2/L
Gasoline 2.32kgCO_2/L
1 Source: *Manual for Calculating and Reporting Greenhouse Gas Emissions (Ver. 3.3)*, Ministry of the Environment and Ministry of Economy, Trade and Industry

・Number of houses completed in fiscal 2012: 8,989 (number of houses completed, excluding 10 non-wooden properties)

CO_2 emissions during disposal (including transportation)

Σ (Amount of waste generated during demolition per house ×・Final disposal ratio for each type of waste × Basic unit of emissions for each type of waste and for each method of disposal) × Number of houses completed in FY2012

【Details】

・Amount of waste generated during demolition per house:
Calculated by estimating an average value per unit of area based on the annual amount of waste generated during demolition by Sumitomo Forestry in fiscal 2006, and converting it to a building weight equivalent for the Sumitomo Forestry standard plan (floor area: 147m^2) in fiscal 2010.

・Final disposal ratio for each type of waste:

Glass/ceramic 21%

Concrete rubble・1 4%

Scrap metal 2%

Wastepaper 4%

Wood waste 5%

Waste fiber 10%

Composite waste・2 100%

Waste gypsum・3 21%

Waste plastic 19%

Sludge 3%

Source: *Emission and Processing of Industrial Waste, etc. (Actual Results for FY2010)*, Ministry of the Environment

・1 Assumed to be 4%, the same as "rubble."

・2 Composite waste, such as swept up refuse, comprises a mixture of items that cannot be individually separated. Assumed to be 100% because it eventually ends up in landfill.

・3 Assumed to be 21%, the same as "glass, concrete and ceramic waste."

・Basic unit of emissions for each type of waste and for each method of disposal:

Glass/ceramic 85.1kgCO_2/t

Concrete rubble 85.1kgCO_2/t

Metal 85.1kgCO_2/t

Wastepaper 2,510kgCO_2/t

Wood waste 1,830kgCO_2/t

Fiber 2,760kgCO_2/t

Other composite waste・1 85.1kgCO_2/t

Waste gypsum・1 85.1kgCO_2/t

Waste plastic 85.1kgCO_2/t

Sludge 728kgCO_2/t

Source: *Database of Basic Units of Emissions for Calculating an Organization's Greenhouse Gas Emissions through the Supply Chain, Ver. 2.0* (basic unit of emissions at landfill), Ministry of the Environment

・1 Applied the same factors such as "glass, concrete and ceramic waste" and "rubble" which have similar properties.

・Number of houses completed in fiscal 2012: 8,989 (number of houses completed, excluding 10 non-wooden properties)

Helping to Mitigate Global Warming through Products and Services

ENVIRONMENTAL REPORT

Reducing Energy Consumption in Homes

CO_2 emissions from Japan's household sector keep rising and in fiscal 2011 were 48.1%[1] higher than fiscal 1990 levels. Besides realizing energy savings during occupancy, there is an expectation that the environmental impact of homes will be reduced in all stages from construction through to dismantling and disposal. As a supplier of around 9,000 custom-built detached houses in Japan each year, Sumitomo Forestry employs the *Ryouonbou* design method, which makes use of the power of nature, as well as equipment such as solar power generation systems and fuel cells. The Company is also building up its plantation forest operations to offset CO_2 emitted during the process from logging of trees for manufacturing principal structural members through to construction, while developing Life Cycle Carbon Minus (LCCM) homes that enable negative CO_2 emissions over the entire life cycle of a home.

Developing Homes Based on the LCCM Concept

CO_2 emission reduction initiatives in the construction industry principally focus on reducing emissions during occupancy, such as through energy-efficient homes, while little progress has been made to conserve energy during actual construction. Improving energy efficiency during occupancy also creates a number of issues. For example, using more insulation materials leads to higher energy consumption during construction, dismantling and disposal stages, and extending the life of a house increases energy consumption due to a need for more frequent repairs and upkeep.

Sumitomo Forestry Home houses are wooden custom-built detached houses that make intensive use of timber, especially Japanese timber. As timber does not require large amounts of energy to produce or process, its use allows an enormous reduction in CO_2 emissions during stages from materials procurement and transportation through to construction compared to steel-framed and concrete houses. Features including a super-insulated structure, high-efficiency housing systems and equipment, and energy-generating equipment make it possible to minimize CO_2 emissions in the occupancy stage, too. In addition, the provision of household energy consumption and other environmental data encourages proactive energy savings by home occupants.

While advancing these initiatives, Sumitomo Forestry is working to develop Life Cycle Carbon Minus (LCCM) homes that make total CO_2 emissions negative over the entire life cycle of the home, encompassing construction, occupancy, renovation, dismantling and disposal.
During fiscal 2012, the Company advanced research and development relating to elemental technology for making LCCM homes a reality, and a model LCCM home will be completed within fiscal 2013, for the purpose of evaluating and verifying the results of research using a real house.

Reducing CO_2 Emissions During Housing Construction

As trees grow, they absorb CO_2 and continue to store it as carbon even after they are processed. Timber is therefore a natural resource that contributes to the prevention of global warming. In addition, using Japanese timber allows greater reductions in CO_2 emissions during timber transportation than when imported timber is used.

To ensure active use of Japanese timber in houses, Sumitomo Forestry has set a target of achieving a Japanese timber ratio of 60% for timber used in custom-built detached housing under the Third Action Plan for Timber Procurement covering the fiscal years 2013 to 2015.

- Ensuring Implementation of CSR Activity Within the Supply Chain(P64)
- Preserving Forests Timber Utilization(P228)

Project EARTH

The volume of CO_2 emitted during the process of harvesting timber used for principal structural members through to the processing, transportation and construction of *Sumitomo Forestry Home* houses is around six tons per home. Sumitomo Forestry is implementing an initiative to offset this CO_2 through reforestation activities as part of Project EARTH.

The initiative will offset CO_2 emissions for all custom-built and spec homes sold over the five-year period beginning fiscal 2009 and involves planting around 1.5 million trees on a total 1,500 hectares of land and managing cultivation of those trees for 10years after planting. Reforestation will take two forms—environmental reforestation aiming to revive ecosystems on degraded land, and industrial reforestation to be advanced together with the community to both realize sustainable forest management and contribute to the region.

Environmental Reforestation in an Indonesian National Park

In fiscal 2009, Sumitomo Forestry commenced an environmental reforestation project on degraded land in Bromo Tengger Semeru National Park, located in East Java, Indonesia. In 2010, volcanic ash and gases emitted during the eruption of Mt. Bromo, which located inside the national park, caused damage to the plantation area. All the trees that died as a result were replaced and it has been confirmed that the new trees have mostly taken root. By 2012, a total 263 hectares of forest had been planted.

Site of the environmental reforestation project in Bromo Tengger Semeru National Park

Industrial Reforestation in East Java, Indonesia

In fiscal 2010, Sumitomo Forestry launched an industrial reforestation project, to be advanced together with the community, centered on Supiturang village at the foot of Mt. Semeru in Lumajang Regency, East Java, Indonesia. This is a sustainable forestry project whereby part of the profits from harvesting matured trees will be distributed to improve the livelihoods of community residents, while the remainder is used to cover the costs of replanting and cultivation and other expenses. By fiscal 2012, a total 827 hectares of forest had been planted.

Site of the industrial reforestation project in Lumajang Regency

Honorable Mention at 1st Carbon Offset Awards

In February 2012, Sumitomo Forestry received an honorable mention in the 1st Carbon Offset Awards, which recognize excellent carbon offsetting initiatives contributing to the establishment of a low-carbon society. Sumitomo Forestry was recognized for its program to offset CO_2 emissions in Japan resulting from construction of detached houses through reforestation activities in Indonesia. Set up and administered by the Carbon Offset Network (CO-Net) and sponsored by Japan's Ministry of the Environment, the Carbon Offset Awards aim to foster understanding across society about the significance of carbon offsets and related initiatives through the introduction of case examples.

An Expert's Opinion about this initiative can be viewed here:

▶ An Expert's Opinion(P207)

Reducing CO_2 Emissions During Occupancy

Sumitomo Forestry strives to reduce household energy consumption by enabling households to use energy wisely. This is achieved by combining technology for saving, creating and storing energy for households with IT-based visualization and optimization of energy use.
For example, solar power generation systems and home fuel cells[1] (Ene-Farm) are energy-creating technologies that can be used in the home to generate electrical and heat energy. Lithium-ion batteries of electric vehicles (Nissan LEAF) are an energy-storing technology that can be turned into a high-performance, highly durable home storage battery system that stores surplus power. Visualization technologies include home energy management systems (HEMS), which can be used to make household energy usage visible to the occupants, encouraging them to conserve energy. Going a step further, HEMS can be used to optimize energy usage by automatically controlling environmentally friendly equipment in the home that is connected to the HEMS network. All these technologies are intended to reduce CO_2 emissions during the occupancy stage.

1 Fuel cells generate electricity through a chemical reaction between hydrogen extracted from gas and oxygen in the air.

Ryouonbou Design Concept

The *Ryouonbou* design concept draws on the wisdom and techniques of Japan's traditional houses to effectively take advantage of nature's blessings and offer a housing style that enables people to live comfortably while limiting energy consumption.

The *Ryouonbou* concept is based on three design principles for creating housing that is cool in the summer and warm in the winter: *Design of wind*, *Design of sun*, and *Design of greenery*. Research on a model house demonstrated that the *Ryouonbou* design concept could reduce CO_2 emissions during occupancy by about 40%[1] compared to houses built to specifications mandated by 1992 energy conservation standards.

1 This figure only applies to emissions attributable to heating and cooling

Calculation Details

- Calculations are based on data from the Automated Meteorological Data Acquisition System (AMeDAS) observation point for a model house with a total floor area of 132.49 m² and located in Saitama City, Saitama Prefecture, using Region IV building insulation specifications
- Average annual maximum temperature: 19.6°C
  Average annual minimum temperature: 10.8°C
  Average annual temperature range: 8.8°C

Note: Eco Assessment Chart: Assessment record of CO_2 emissions and air-conditioning expenses for each house plan calculated based on the insulation specification used and other assumptions, and on regional AMeDAS climate data for the house location. Environmental design is carried out based on this assessment record.

Comparison of CO_2 Reduction (for Air-Conditioning and Heating Only) during Occupancy Using Eco Assessment

Case Study Plan for Placement of Greenery and Channels for the Airflow

Proactive Recommendations for Installation of Environmentally Friendly Equipment

Sumitomo Forestry is proactive in recommending installation of environmentally friendly equipment, such as solar power generation systems, home fuel cells (Ene-Farm) and home storage battery systems, to customers. The Company draws attention to the benefits of installing such systems and how they work on websites and in catalogs and other media, and exhibits the equipment in model homes and showrooms, as well as at events like the Sumai Haku housing fair, which allows visitors a broad interactive experience of the Company's housing solutions. Installation rates for new orders in fiscal 2012 were 45% for solar power systems and 41% for Ene-Farm units. The Company aims to improve the installation rates in fiscal 2013 by continuing proactive recommendations to customers.

Energy-saving solutions on display at *Sumai Haku*

Solar Power Generation System and Ene-Farm Installation Rate Trends (for New Orders)

	FY2008	FY2009	FY2010	FY2011	FY2012
Solar power generation systems	4%	22%	28%	36%	45%
Ene-Farm units	–	3%	11%	30%	41%
Environmentally friendly equipment installation rate	4%	23%	34%	51%	62%

Use of Housing Equipment with High Energy Efficiency

Housing equipment with high energy efficiency is essential for reducing energy consumption during the occupancy stage. Sumitomo Forestry makes an effort to adopt highly efficient equipment, staying up to date with the latest developments.

Energy-saving housing equipment

In fiscal 2012, the Company sold houses incorporating home storage battery systems, which can be linked to a solar power system, and vehicle-to-home (V2H) systems that enable supply of power from an electric vehicle to the home.

Sumitomo Forestry will step up efforts to adopt high-efficiency equipment and advance development of systems that can be linked efficiently to the various types of equipment.

Visualization of Energy Usage Using HEMS

In fiscal 2012, Sumitomo Forestry started using home energy management systems (HEMS) to enable visualization of household energy usage. Also during the year, the Company included a HEMS manufactured by Sharp Co., Ltd. as a standard accessory with Sharp solar power generation systems, and included an HEMS-compatible monitor as a standard accessory with solar power systems manufactured by Solar Frontier K.K. Co., Ltd.

HEMS display

Not stopping at visualization, Sumitomo Forestry looks to advance development of systems enabling the automatic optimization of energy use by environmentally friendly equipment in the home that is connected to an HEMS network.

Provision of Environmental Information and Services to Encourage Energy Savings

Besides the use of solar power generation systems, home fuel cells, home storage battery systems and other technologies that reduce CO_2 emissions, Sumitomo Forestry also views proactive energy-saving efforts of customers living in *Sumitomo Forestry Home* houses as vital for reducing CO_2 emissions during occupancy.

Club Forest, a website for customers living in *Sumitomo Forestry Home* houses is used to introduce eco-related ideas submitted by owners.

The home screen for *Club Forest*'s "eco-encyclopedia"

Developing Energy-Efficient Homes

Smart House *Smart Solabo*

In 2007, Sumitomo Forestry launched *MyForest-Solabo*, the Company's first home incorporating a solar power generation system. The product was a platform for recommending to customers ways to use energy according to their lifestyles based around energy-efficient wooden houses that make use of nature's blessings.

Smart Solabo

Since then, the Company has readily introduced environmentally friendly equipment, including Ene-Farm home fuel cells and home energy management systems (HEMS), and in February 2012 launched the *Smart Solabo* home, which is equipped with a 12kWh home storage battery system, the largest class of such a system for residential use. In July 2012, a new *Smart Solabo* home was launched and a wide range of environmentally friendly equipment was made available with the home, including a solar power system, home storage battery systems and a vehicle-to-home (V2H) system.

Systems available with the new Smart Solabo include two types of home storage battery—a large-capacity 12kWh system of the kind used for the Nissan LEAF electric vehicle, and a 4.8kWh system that can be linked to the solar power system.

Dual power generation, if both a solar power system and Ene-Farm home fuel cell are installed, will dramatically increase the amount of power generated and make an enormous contribution to the reduction of CO_2 emissions.

As well as continuing to promote Smart Solabo smart houses, Sumitomo Forestry aims to develop in the future Life Cycle Carbon Minus (LCCM) houses that make CO_2 emissions negative over the entire life cycle of the home.

Installation of Solar Power Generation Systems in All *Smart Kodachi* Homes

In January 2013, Sumitomo Forestry launched *Smart Kodachi*, a new detached housing product that lets customers select an ideal floor plan from a total 388 varieties, at the same time realizing the characteristics of a smart house. All *Smart Kodachi* homes are equipped with a solar power system. A wide range of other environmentally friendly equipment, including Ene-Farm home fuel cells, HEMS and home storage battery systems, is also available for selection according to the customer's lifestyle and preferences.

Smart Kodachi

Economical and Environmentally Friendly: *ENETOMO Home*

In October 2012, the INOS Group, comprising 240 of the best local construction companies nationwide to which Sumitomo Forestry provides materials and technical assistance, launched the *ENETOMO Home* (an energy-friendly home) as a net zero-energy house (ZEH) product. ZEH refers to housing whose objective is to realize a net zero balance of annual household primary energy consumption by minimizing energy consumption through energy efficiency improvements and, at the same time, generating energy with equipment such as a solar power system.

ENETOMO Home

Besides harnessing renewable energy through solar power systems, for example, insulation and airtightness have been maximized. This, along with the use of a total heat exchange ventilation system that channels fresh air into the house from outside after bringing it close to room temperature, realizes a home influenced little by the outside temperature.

The INOS Group will continue to deliver outstanding comfort and new value through houses like the *ENETOMO Home.*

Planning Example

Overseas Development of Energy-Efficient Housing

Henley Properties of Australia supplies housing designed under the concept of zero emissions. In April 2010, the company became the first in Australia to make available a zero-emissions demonstration house that is expected to achieve energy-saving benefits of more than 70% compared to existing homes of a similar size. In March 2012, the company constructed a community place, under a zero-emissions model, in a residential lot in Southeast Melbourne in cooperation with local government. The facility will be used both as a place for people from the community to gather and for communicating the concept of environmental housing. The building makes effective use of solar energy for power generation and water heating, has a 6,000-liter rainwater tank, and employs a HEMS. Combined with double-glazed windows and concrete slab and walls providing excellent insulation, the building has earned an eight-star energy rating[1].

Community place based on the zero-emissions model

In December 2012, the company completed and handed over a house with a nine-star energy rating to a general customer.

With environmental awareness increasing, the need for environmentally friendly houses in Australia is mounting and Henley Properties is working to promote their widespread adoption.

1 An evaluation of the energy burden of heating and cooling needed to maintain a comfortable living environment within a building. Insulation, windows, the type, size and orientation of the building, and the climatic zone are all factors. The highest rating is 10 stars, indicating that no heating or cooling whatsoever is needed to maintain a comfortable indoor living environment. A five-star rating indicates that the building has high insulation performance, but that a minimum of energy is required for heating and cooling.

Promotion of Energy-Efficient Retrofitting

Sumitomo Forestry Home Tech Co., Ltd. created a brochure, "Energy-Efficient Renovation Professionals," and uses it as a guideline for proposing super-insulated building retrofits.

"Energy-Efficient Renovation Professionals" brochure

In fiscal 2012, Sumitomo Forestry Home Tech set out its recommended insulation specifications and started a service providing "performance evaluation charts." The company conducts energy efficiency assessments of existing buildings and buildings as they will be after planned renovations. To calculate the Q value[1], the company uses Integral Corporation's assessment software: *Energy-efficient assessments by Det. Homes*, which can determine energy efficiency classifications as required, for example, under Japan's Housing Performance Indication System. In addition, the Company held an earthquake resistance and insulation retrofit fair over the two months of October and November 2012, whereby the dual assessments of seismic resistance and insulation/energy efficiency were conducted for customers wanting to renovate.

Sumitomo Forestry Home Tech will continue to promote energy-efficient retrofitting through efforts to raise the energy efficiency assessment implementation rate and by aiming for a 90% or higher percentage of assessed renovation plans with a Q value of 4.2 or lower. The company will also put forward proposals for performance visualization, continuing the use of performance evaluation charts to convey to customers the difference in insulation performance before and after renovation in a straightforward manner.

1 Coefficient of heat loss. The smaller the value, the better the insulation.

Government and Third-Party Assessments (Next-Generation Energy Conservation Standards and Housing Performance Indication System)

In March 1999, Japan established next-generation energy conservation standards[1] to improve the insulation performance, airtightness and other factors in building energy efficiency, thereby assisting the reduction of household energy consumption. Sumitomo Forestry has been using specifications compliant with these standards as a general rule since fiscal 2005. The standards were employed in 98.9% of detached houses built in fiscal 2012, an improvement on the previous year. The Company's houses also correspond to the highest level (level 4) under Japan's Housing Performance Indication System in terms of energy-saving measures.

1 Refers to the Standards of Judgment for Construction Clients, etc. and Owners of Specified Buildings on the Rational Use of Energy Pertaining to Housing (Ministry of Economy, Trade and Industry (METI) and the Ministry of Land, Infrastructure and Transport (MLIT) Notice No. 3, 2006) and the Guidelines for Design, Construction and Maintenance for the Rational Use of Energy Pertaining to Housing (MLIT Notice No. 378, 2006). Used as the general term for current insulation standards.

Sale of Offset Credit (J-VER)

The Japan Verified Emission Reduction (J-VER) system, an offset credit promoted by the Ministry of the Environment as a measure to combat global warming, certifies carbon offset credits for domestic projects that reduce emissions of or absorb greenhouse gases, in an amount equivalent to the amount of emissions reduced or gases absorbed. The use of J-VER offset credits, a business model of utilizing offset credits to improve profitability of forestry management, contributes to the revitalization of Japan's forests.

In fiscal 2012, Sumitomo Forestry sold 3,005 tons of the J-VER forest sink offset credits issued for Company-owned forests.

1 The J-VER Scheme was integrated with Japan's Domestic Clean Development Mechanism as the J-Credit Scheme in April 2013.

J-VER Offset Credits Sold to Ochisangyo Co., Ltd.

In July 2012, continuing an initiative from fiscal 2010 and 2011, Sumitomo Forestry sold J-VER offset credits worth 30 t-CO_2 to Ochisangyo Co., Ltd. These credits were used to offset 1kg of CO_2 per visitor to Ochisangyo's "I Love Home Fair" events, which it held at various locations in West Japan. In total, 26.45t-CO_2 was offset for 26,450 people. The remaining credits will be used at other events and conferences sponsored by the company.

Carbon Offsets through Japan PostDonations

Japan Post Co., Ltd. uses donations accumulated through sales of New Year's cards to help fund the acquisition of J-VER credits by organizations contributing to greenhouse gas reductions. One candidate for receiving donations collected from carbon offset New Year's card sales for 2012 was a carbon offset project submitted by the NPO Whole Earth Institute. The project planned to make use of 350 t-CO_2 of J-VER credits created by Sumitomo Forestry. The submission was accepted in March 2012 and the carbon offset was implemented in May.

▶ Reduction of Greenhouse Gas Emissions from Business Activities(P174)

Contributing to Reduction of Greenhouse Gas Emissions Through New Business Models

The Sumitomo Forestry Group applies know-how acquired in areas including sustainable forest management and afforestation over the years to projects that contribute to the reduction or absorption of greenhouse gas (GHG) emissions. The Group will actively advance projects complying with new systems, such as the anticipated REDD+[1] mechanism and the Joint Crediting Mechanism (JCM)/Bilateral Offset Credit Mechanism (BOCM), and gathering of knowledge required for those projects.

1 Reducing Emissions from Deforestation and Forest Degradation in developing countries; and the role of conservation, sustainable management of forests and enhancement of forest carbon stocks in developing countries Currently frameworks are under consideration by the United Nations and other entities for the international promotion of REDD+

Feasibility Studies for Overseas Projects to Regenerate Forests and Reduce Greenhouse Gas Emissions

Sumitomo Forestry is conducting feasibility studies for GHG emission reduction projects in Vietnam and Indonesia that involve deforestation and forest degradation prevention activities and regeneration of forests degraded or destroyed by fire. These are highly promising projects that should contribute to ongoing deliberation of REDD+ by the United Nations and the Joint Crediting Mechanism (JCM)/Bilateral Offset Credit Mechanism (BOCM), a new mechanism which the Japanese Government proposes for introduction in 2013.

Investigating New Mechanisms for Regeneration of Forests and Biomass Power Generation in Vietnam

Japan's Ministry of the Environment has contracted the Global Environment Centre Foundation to implement a JCM/BOCM feasibility study program. In fiscal 2012, Sumitomo Forestry conducted a feasibility study for a project in Dien Bien Province, northwestern Vietnam that would reduce GHG emissions through the preservation and regeneration of forests degraded due to slash-and-burn cultivation and biomass power generation using timber supplied from those sustainable forests.

Study being conducted in Vietnam

The region is vital as a water source with the area being home to a number of dams used for power generation. It is also one of Vietnam's poorest regions. A new project here would contribute to environmental conservation and sustainable community development and also to the establishment of a framework for acquiring emissions credits for Japan. The Company will continue to conduct studies while coordinating and cooperating with Japanese Government officials, government authorities in Vietnam, Vietnam Forestry University and the Japan International Cooperation Agency (JICA).

Measures to Regenerate Forests in Indonesian Peatlands

Indonesia has much peatland, where large volumes of carbon have accumulated. However, as the land dries due to drainage of water to develop the land for agriculture, decomposition by micro-organisms progresses and releases the stored carbon into the atmosphere as CO_2. A fire breaking out on dried peatland would also lead to a large volume of CO_2 emissions.

Revegetation study in Indonesia

In fiscal 2012, Sumitomo Forestry undertook development of rapid revegetation methods, using indigenous species suited to peatland, together with Hokkaido University and commenced a study looking into the development of revegetation methods that incorporate considerations for local residents and the local economy. The Company has set out to establish new mechanisms for contributing to global warming prevention through the preservation and appropriate use of peatland.

Hosting a Seminar for the Promotion of Global Warming Countermeasures Through Forest Preservation

In September 2012, Sumitomo Forestry hosted a seminar for the promotion of global warming countermeasures through forest preservation. The purpose of the seminar was to provide easy-to-understand explanations of the latest trends in global warming countermeasures and market mechanisms, as well as CO_2 credits, as they relate to forest preservation, and REDD+.

The seminar was attended by 34 CSR and environmental activity personnel from within the Company and 10 participants from outside the Company. Specialists and NGOs gave explanations on topics including the latest trends in global warming countermeasures and market mechanisms, their outlooks for the future, and the relationship between forest preservation and CO_2 credits, raising the awareness among attendees.

Wood Biomass Power Generation

The Sumitomo Forestry Group engages in biomass power generation utilizing such materials as wood waste, generated when buildings are dismantled, and forest thinnings in order to promote timber recycling, and thereby achieve efficient use of forest resources, and to contribute to global warming prevention efforts by reducing CO_2 emissions.

In fiscal 2013, Sumitomo Forestry set up a new Environmental Energy Group within the Forestry & Environmental Business Department to promote wood biomass power generation and other businesses supplying renewable energy. The Company aims to promote wood biomass power generation by utilizing its networks and wood resources collection know-how.

Establishing a Biomass Power Generation Facility Installed with Environmental Equipment

Kawasaki Biomass Electric Power Co., Ltd. operator of a biomass power generation business utilizing wood chips as fuel, and wood chip supplier Japan Bio Energy Co., Ltd. were established in Kawasaki, Kanagawa Prefecture as joint ventures between Sumitomo Forestry, Sumitomo Joint Electric Power Co., Ltd. and Fuluhashi EPO Corporation. The biomass power generation facility, Japan's biggest, started operating in February 2011.

Kawasaki Biomass Electric Power Co., Ltd. and Japan Bio Energy Co., Ltd

The facility is able to generate 33MW of power, which means it can supply power for approximately 37,000 households consuming a typical amount of power, or for about 100,000 people. Moreover, the facility is contributing to society by supplying power to help alleviate the power shortages that have occurred in Japan following the Great East Japan Earthquake of March 2011. In order to clear the strict environmental standards established by Kawasaki City, Kawasaki Biomass Electric Power Co., Ltd. has installed environmental equipment that no other regional biomass power facility uses, including flue gas desulfurization equipment, an exhaust gas denitrizer, and a bag filter. Moreover, as a city-type biomass power generation facility it is working to improve the atmospheric environment.

Building a System that Supplies Wood Waste as a Fuel

A system has been put in place whereby Japan Bio Energy Co., Ltd. processes wood waste collected from housing construction sites into wood chips and then supplies the chips as fuel to the power generation facility of the adjacent Kawasaki Biomass Power Co., Ltd. Because the chip factory and power plant are located side by side, energy consumption associated with transporting the chips is dramatically reduced.

To secure biomass fuel so that stable power generation at maximum capacity can continue, efforts will made to develop other biomass fuels from forest resources and unused sources such as food waste.

Turning Wood Left Over from Logging into Biomass Fuel

Branches, twigs, offcuts and other wood left behind after the harvesting of trees in a forest become a source of greenhouse gas emissions and can also be a remote cause of a natural disaster, such as a landslide. But even though forestry operators saw that they had to do something with the wood left over from logging, the costs of recovering the materials were too high for the business to be feasible.

Since 2008, Sumitomo Forestry Wood Products Co., Ltd. has been devising a system enabling stable and low-cost recovery of leftover wood. With the assistance of a government grant, Sumitomo Forestry Wood Products Co., Ltd. has been supplying leftover wood as a fuel for biomass power generation to the Niihama Nishi Thermal Power Plant of Sumitomo Joint Electric Power Co., Ltd. and the Kochi Plant of Sumitomo Osaka Cement Co., Ltd. In fiscal 2012, the company started a similar operation in Oita Prefecture. The combined volume supplied in fiscal 2012 was around 20,000 tons.

In Japan, a feed-in tariff for renewable energy was introduced in July 2012 and it is expected that a string of new plants will be constructed to make use of the scheme. Anticipating growth into a full-scale business, Sumitomo Forestry Wood Products Co., Ltd. plans to supply around 35,000 tons of wood left over from logging in fiscal 2013, mainly to power plant operators making use of the feed-in tariff.

CDM Business Using Wood Biomass Power Generation

To heighten the environmental value of particle board (PB) it manufactures, PT. Rimba Partikel Indonesia (RPI) applied to register its wood biomass power generation business, which primarily uses timber milling offcuts and sawdust as fuel, as a Clean Development Mechanism (CDM) project[1]. It was accepted and registered by the United Nation's CDM Executive Board in May 2008, becoming Indonesia's first CDM employing wood biomass power generation.

In March 2011, the UN issued Certified Emission Reductions (CER)[2] as credits for reducing greenhouse gas emissions through the project. These CER credits amounted to 10,982 t-CO_2 in the year spanning January to December 2009. During fiscal 2011 and 2012, credits worth 6,600 tons and 3,920 tons of CO_2, respectively, or a total 10,520 tons, were sold to companies in Japan.

1 Clean Development Mechanism (CDM): A system whereby advanced nations provide technical, financial or other assistance to developing nations for projects that either reduce GHG emissions or increase absorption, and in exchange are able to allocate a portion of a certain amount of the reductions achieved toward GHG emission reductions in their own country.

2 Certified Emission Reductions (CER): UN-certified credits issued based on the volume of GHG emissions reduced in accordance with CDM rules.

Expert Opinion

ENVIRONMENTAL REPORT

Prevention of global warming and forest conservation activities overseas

As part of the Project EARTH—an initiative promoted by the Sumitomo Forestry Group—the Company conducts plantation activities in Indonesia which offset the CO_2 emissions that are generated in building *Sumitomo Forestry Home* houses, from harvesting the timber to be used in the principal structural members to actual construction. Since 2000, Sumitomo Forestry has also been conducting social forestry in Indonesia, whereby free seedlings are distributed to local residents to plant, and then once they have grown, Group companies Kutai Timber Indonesia (KTI) and Rimba Partikel Indonesia (RPI) promise to purchase them. An expert was asked to provide his opinions on these two initiatives.

Opinions on the activities of the Sumitomo Forestry Group

Shinobu Yabu, PhD., Faculty of Systems Engineering, Wakayama University

The forest plantation operations conducted as part of Project EARTH and the social forestry initiative conducted in collaboration with local residents help the Company ensure a sustainable and stable supply of wood material while also improving the lives of local residents. Such efforts are worthy of high acclaim. For example, with the social forestry initiative, given the plantations of the reforestation cooperative set up with local residents have gained forest certification, through sustainable and comprehensive forest management, they are contributing to local communities by producing high-value-added timber. Furthermore, as well as the plantation forest operations helping to return devastated areas to their original state and to conserving the local natural environment, under the social forestry initiative, trees are being planted and harvested in a systematic fashion in cooperation with local residents, and this is leading to conservation of local ecosystems. These pioneering initiatives set a precedent for using globally expanding business activities to balance environmental conservation with improving the lives of local residents in developing countries. As such, they can be regarded as an important source of information.

For this reason, these initiatives ought to be communicated extensively both in Japan and overseas. They need to be given universal publicity as exemplars, not only for future industrial reforestation, but also for resources development in Southeast Asia and other regions around the world.

Going forward, as the Company lives and raises seedlings together with local residents and resident groups, it should monitor the actual conditions, identify any problem areas and issues, and work to continually improve them. In addition, the Company should check the dissemination of these initiatives to surrounding areas and verify their effectiveness. The results of this should then be systematically packaged together with accumulated information and knowledge, and presented widely to the general public both in Japan and overseas. When doing so, I suggest that the individual initiatives be released in print so that a definite record can be handed down to posterity.

Interviews with local residents

Effective Use of Resources

ENVIRONMENTAL REPORT

Promotion of Zero Emissions Initiatives

The Sumitomo Forestry Group is working to reduce environmental impact and ensure that resources are used effectively by promoting zero emissions initiatives through the reduction, reuse and recycling of industrial waste.

The Medium-Term Environmental Management Plan defines zero emissions as: "No incineration or landfill disposal of industrial waste generated by domestic manufacturing facilities or new housing construction sites."

Based on this definition, the Group achieved zero emissions at manufacturing facilities in Japan in fiscal 2009. With regard to new housing construction sites[1], the Group first set out to achieve zero emissions in the Tokyo Metropolitan Area by the end of December 2012. The target was achieved in November 2012.

While maintaining zero emissions at manufacturing facilities in Japan, the Group will look to use the success of initiatives in the Tokyo area as momentum in aiming for zero emissions at new housing construction sites nationwide by expanding such initiatives as the recovery of resources, making use of the the National Permit System[2].

1 Includes residential greening.

2 A special system allowing manufacturers to outsource collection, transportation, intermediate treatment and final disposal of recovered waste from across multiple prefectures without having to obtain a waste processor license from each municipality. It is certified by the Minister of the Environment as complying with certain strict criteria such as processing capacity.

Recycling Rate Trends Under the Sumitomo Forestry Group's Definition of Zero Emissions

Recycling Rate for New Housing Construction Sites

Volume of Industrial Waste from New Detached Housing (FY2012)

Volume of Industrial Waste from Plants (FY2012)

Initiatives at New Housing Construction Sites

Start of Full Operations at the Metropolitan Area Recycling Center

In December 2010, Sumitomo Forestry obtained the National Permit System for waste processing from the Ministry of the Environment. This made it possible to use the return journey of trucks transporting materials to new housing construction sites to recover waste and collect it at relay centers registered as collection points under the National Permit System.

The Metropolitan Area Recycling Center

The Company took advantage of the system to establish the Metropolitan Area Recycling Center with capability for advanced sorting of waste in Kazo, Saitama Prefecture. The center started operating in July 2012 and covers all areas of seven prefectures including Tokyo, Kanagawa, Chiba, Saitama, Ibaraki, Tochigi and Gunma.

The recycling center's establishment makes it possible to collect and analyze waste-related data. Analyzed data, including information on the amount of waste generated according to the product, specifications or contractor, will be communicated to departments of product development, materials, design, production, logistics to promote the reduction of waste emissions. In fiscal 2013, as the performance and benefits of the Metropolitan Area Recycling Center are verified, similar initiatives will be explored for areas including Hokkaido, Southern Kinki, Chugoku, Shikoku and Northern Kyushu.

Flow of materials distribution and collection of industrial waste

Recycling of Glass and Ceramic Waste

One issue in recycling for the Sumitomo Forestry Group has been the recycling of siding (glass and ceramic waste). In fiscal 2012, the Group established recycling routes for these materials, taking advantage of the National Permit System held by manufacturers. In fiscal 2013, these routes will be actively used as efforts to recycle siding and other glass and ceramic waste continue.

Initiatives at Manufacturing Companies in Japan

Sumitomo Forestry Crest Co., Ltd. and Sumirin Agro-Products Co., Ltd. managed to achieve zero emissions at all plants in fiscal 2012 as a result of each plant persisting with efforts to reduce waste emissions, for example by strengthening sorting of industrial waste and selling it for a profit.

Initiatives to Promote Recycling at Manufacturing Companies Outside Japan

The five main manufacturing companies outside Japan[1], besides complying with local laws, are advancing initiatives based on the Sumitomo Forestry Group's definition of zero emissions. In fiscal 2012, three of the five companies—KTI, RPI and Alpine—achieved zero emissions. The other two companies, ASTI and NPIL, will make additional efforts to reduce waste emissions, reuse materials and ensure thorough sorting and collection.

1 Indonesia: PT. Kutai Timber Indonesia (KTI), PT. Rimba Partikel Indonesia (RPI), PT. AST Indonesia (ASTI); Australia: Alpine MDF Industries Pty Ltd. (Alpine); New Zealand: Nelson Pine Industries Ltd. (NPIL)

Examples of Initiatives by Manufacturing Companies Outside Japan

- PT. Kutai Timber Indonesia (KTI)
  KTI reuses wood waste generated during the particle board manufacturing process as boiler fuel and as raw materials.
- PT. Rimba Partikel Indonesia (RPI)
  Besides using combustion ash as a base course material, RPI pelletizes wood powder for use as a fuel in-house. In fiscal 2012, the company produced 1,684 base course material units and 312 tons of pellets.

Proper Disposal of Demolition Waste

Sumitomo Forestry was promoting resource recycling even before the enactment of the Construction Material Recycling Act implemented in 2002 by ensuring that materials were properly sorted during dismantling prior to the construction of a new house and that waste remained sorted for processing afterwards. Since the enactment the Company recycles certain items as required under the same law.

The recycling rate for concrete and metal was almost 100% in fiscal 2012, as it was the previous year. A 100% recycling rate was achieved for wood waste through measures including thorough removal of adhered matter. Efforts will now be made to further improve recycling rates and to develop recycling routes for roofing tiles, glass, ceramics, gypsum board and other composite waste.

Volume and Breakdown of Demolition Waste

Waste Management Strengthening Using the Process Management System

Sumitomo Forestry used to confirm categories and volumes of demolition waste using electronic manifests submitted by waste processors, and then check that information against photographic records received from the contractors to confirm that the waste had in fact been properly processed.

In fiscal 2011, a new system was developed to improve the reliability of process management systems for demolition waste. The system allows real-time confirmation of waste emissions at demolition sites and delivery of waste to waste treatment plants with a mobile phone, using images to check against the Company's process management system. Introduction of the system was completed in fiscal 2012 for almost all demolition contractors. A framework was in place for monitoring the proper delivery to waste treatment plants of all waste emitted from demolition sites.

Resource Recycling

Recycling of Wood Resources into Chips

Sumitomo Forestry contributes to resource recycling through its wood chip operations, whereby offcuts generated during the timber milling process and waste wood from new housing construction and demolition sites are turned into wood chips to be used as a raw material for products such as paper and particle board, and also as a fuel for power-generating boilers or other equipment.

In fiscal 2012, the volume of wood chips handled decreased given a lack of growth of demand for chips to be used as a raw material for products such as paper and board. However, demand for chips to be used as a fuel increased steadily due to the spread of biomass boilers and biomass power generation. In fiscal 2013 and beyond, the Company aims to maintain the volume of wood chips handled for use as a raw material the previous year and increase the amount handled for use as a fuel.

Volume of Wood Chips Handled

Development of Wood Wall Materials Reusing Shochu Barrels

Sumitomo Forestry has been using wood wall materials made from liquor aging barrels in its *Sumitomo Forestry Home* houses since February 2013. The barrels were previously used during the production of *shochu* (an alcoholic beverage) by Sanwa Shurui Co., Ltd., known for its *Iichiko* brand.

Wall tiles made from processed oak timber

The barrels used were made from carefully selected oak timber from trees more than a hundred years old, known as "lords of the forest." The same timber is also used for premium furniture. After applying proprietary technologies to process timber from barrels which have reached the end of their life after repeated use over many years, the Company reuses the timber for interior walls. This reduces the environmental impact and realizes housing where the occupants can enjoy the texture and atmosphere of the wood brought out over the years.

Use of Scrap Glass for Karuido Rice Seedling Growing Medium

Scrap glass and used glass bottles are turned into foamed glass at high temperature and recycled. However, while large granules are used mainly for applications such as drainage fill for landscaping, previously there was very little use for smaller granules. Sumirin Agro-Products Co., Ltd. developed a next-generation, lightweight growing medium for rice seedlings using small-granule scrap glass and has been selling a new product, *Karuido*, since March 2011.

Karuido

Karuido is made of recycled materials—scrap housing glass turned into foam glass at high temperature—and granular activated carbon. Conventional medium for growing rice seedlings consisted of reddish soil. Because the soil had to be extracted from mountainous areas, manufacturing the medium had a large impact on the environment. The weight of the product was also becoming a problem given the aging farming population. *Karuido* helps to address these issues as recycled materials are used and it weighs approximately only 40% of the weight of existing products.

In fiscal 2012, sales of *Karuido* came to 425 tons (315 tons more than the previous year) and 140 tons of scrap glass was recycled, a 100-ton (250%) increase from the previous year.

Effective Utilization of Used Activated Carbon from Water Purification Plants

The Tokyo Metropolitan Government (TMG) Bureau of Waterworks uses an advanced water treatment system combining ozonation and the use of biological activated carbon. The system uses as much as around 5,000m^3 of activated carbon annually for reduction of organic matter and deodorization.

Potting media

Group company Sumirin Agro-Products Co., Ltd. is making effective use of this used activated carbon to develop and market potting media for agriculture and horticulture and a soil improvement agent for landscaping. Joint research conducted with the TMG found that these items were effective in promoting plant growth, and the two parties applied for a joint patent based on the research results.

In fiscal 2012, the company focused on the issue of securing supply of used activated carbon. Supply routes were expanded across Tokyo, Chiba Prefecture, Osaka Prefecture, Gifu Prefecture and other regions. As a result of sales promotion, mainly for potting media products, some 1,449 tons of used activated carbon was recycled, a 21-ton (1.5%) increase compared to the previous year.

In fiscal 2013, the plan is to recycle 1,478 tons of used activated carbon, or 2% increase compared to fiscal 2012.

Study into Commercialization of Steelmaking Slag Fertilizer

Sumitomo Forestry was contracted by the Japan International Cooperation Agency (JICA) to conduct a feasibility study on sales of fertilizer using steelmaking slag, a by-product of the iron production process, as a raw material in Indonesia and Vietnam. The study was completed in March 2013.

Acidic soil is widespread across Southeast Asia, including in Indonesia and Vietnam, and this is an obstacle to the growth of crops such as rice. Steelmaking slag is drawing interest as a potential soil improvement measure as it contains a large amount of fertilizer components such as phosphoric acid, magnesium and iron, and calcium oxide, which neutralizes soil acidity.

Data acquired from a rice cultivation experiment conducted in the Mekong Delta area in southern Vietnam showed that the harvest was 1.8 times bigger when using the steelmaking slag with adjustments. Steelmaking slag has been used as a fertilizer in Japan and basic safety has been confirmed. The slag is also a by-product and produced in large amounts in Japan, making a stable, low-cost supply possible.

Sumitomo Forestry will continue looking into commercialization of steelmaking slag uses jointly with local research institutes in order to promote the effective use of resources created as industrial by-products and to help raise the productivity of agriculture in developing nations.

Preserving Forests—Sustainable Forest Management

ENVIRONMENTAL REPORT

Sustainable Forest Management (Flow of Appropriate Management)

Forests perform a variety of functions for the public good, including erosion control, water control, cultivating water resources, curbing global warming by absorbing CO_2, and preserving biodiversity.

The Sumitomo Forestry Group advances sustainable forest management both in Japan and overseas to ensure that timber resources will be available in perpetuity while preserving the public functions of forests.

Forest Management and Timber Usage

Cultivation
—Preserving the Public Functions of Forests Through Appropriate Management

The Sumitomo Forestry Group manages a total 43,328 hectares of its own forests in Japan and a total of around 200,000 hectares of forests overseas. The Group works to maintain and enhance the public functions of these forests by carrying out underbrush clearing, pruning, thinning and other appropriate management required for them to grow.

Carbon stocks[1] of the Group's forests in Japan were 11 million t-CO_2 in fiscal 2012, and that of overseas plantations were 3.79 million t-CO_2.

1 The amount of CO_2 absorbed by forests and stored as carbon

Carbon Stock in Japan and Overseas

Harvesting
—Supplying Timber Products Through Systematic Harvesting

In fiscal 2012, the Group harvested 45,777m^3 of trees in Japan and 991,705m^3 of trees overseas based on medium- to long-term harvesting plans. Harvested trees are milled and processed before finally reaching the market as products such as housing and furniture. In the case of timber turned into structural members for housing, the products are used for several decades. Trees retain CO_2 as carbon even after they are turned into products. Using timber products and constructing wooden houses can therefore be likened to building forests in the city.

Carbon Stock in Housing

The Sumitomo Forestry Group helps to increase carbon stocks even in cities by advancing MOCCA (wood use integration)[1] activities, thereby contributing to global warming prevention efforts.

1 A collective term for Sumitomo Forestry Group activities that aim to expand the use of timber resources through the promotion of wooden buildings and the use of wood.

Usage
—Timber Can Be Reused and Does Not Increase CO_2

Even after being dismantled or at the end of their product life, wooden houses and timber products can be reused as wood materials, such as fiberboard, and as wood fuels, such as wood chips. Timber is a useful resource that can be used repeatedly and completely and also retains CO_2 throughout this process until it is ultimately burned as a wood fuel to generate new energy, for example in the form of electricity. The CO_2 released when timber is burned is what has been absorbed as trees grow, and therefore it does not represent an increase in CO_2 in the atmosphere over the timber life cycle.

Planting
—Contributing to Preservation of Forest Resources and Global Warming Countermeasures

Harvesting and using timber alone will lead to a diminishing of forest resources. The Sumitomo Forestry Group works to preserve forest resources and achieve sustainable forest management by planting and nurturing new trees after harvesting.

In fiscal 2012, the Group planted approximately 94 hectares of forests in Japan and around 8,412 hectares overseas. The newly planted trees will better absorb CO_2 during their growth and store it as carbon.

Forest Preservation in Japan

Planted forests in Japan are becoming devastated in places. This is because they have been left unmanaged for long periods due to such factors as declining economic feasibility in light of competition from low-cost imported timber, a dwindling and aging forestry labor force, and delays to structural reform of Japanese timber distribution.

In order to overcome this situation, the Japanese Government reviewed its Forest and Forestry Basic Plan in July 2011, setting down measures that include ensuring implementation of suitable forest management; promoting consolidation of forestry operations; accelerating road network improvements and mechanization; improving forests through public-private collaboration; and developing human resources.

The Sumitomo Forestry Group is playing an active role in advancing the national plan, thereby promoting preservation of forests in Japan. For example, besides engaging in appropriate forest management, the Group is introducing high-performance forestry equipment, improving road networks, consolidating forestry operations and providing assistance with training expenses to personnel working in Company-owned forests.

Preserving and Increasing Forest Resources through Management of Company-Owned Forests

Sumitomo Forestry owns a total 43,328 hectares of forest in Japan (around 1/900 of the country's land area). Company-owned forests are categorized as either "economic forests," where the production of timber is the priority, or "environmental forests," where the preservation of forests is the focus.

Sumitomo Forestry acquired forestry certification from Japan's Sustainable Green Ecosystem Council (SGEC)[1] for all Company-owned forests[2] in 2006 and third-party evaluations have confirmed that the forests are being properly managed, including with regard to measures to preserve biodiversity.

Forest operations include appropriate thinning, which helps to preserve and increase forest resources, while taking into consideration the surrounding environment including the ecosystem. Sumitomo Forestry also aims for highly productive management of its forests based on operations plans that follow the principle of performing the right job for the right tree on the right site. In addition, the Company runs a forest management consulting business applying know-how acquired through management of its own forests in Japan.

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 Forests purchased in fiscal 2012 (459 hectares) are expected to acquire SGEC forest certification in September 2013.

Distribution and Area of Company-Owned Forests (as of March 31, 2013)

Introduction of Advanced Tower Yarders for Extracting Harvested Timber

Through a project supported by the New Energy and Industrial Technology Development Organization (NEDO), Sumitomo Forestry is developing a next-generation tower yarder that will modernize cable yarding systems and therefore raise the operational and labor efficiency of harvesting timber in Japanese forests. The next-generation tower yarder is a high-performance timber yarder consisting of a mid-sized Japanese truck fitted with an Austrian (Konrad) tower yarder modified to suit Japan's steep, hard-to-access forests. The aims include improving the efficiency of installation and removal with simple cabling, and improving safety and labor efficiency by allowing workers to operate the equipment with a remote controller.

A next-generation tower yarder being used at a Company-owned forest in Kyushu

Following on from demonstration testing carried out up until the previous year, the next-generation tower yarder was put into actual operation in fiscal 2012 and was used to harvest around 7,000m^3 of timber, mainly in Company-owned forests in Kyushu, Japan. Harvesting demonstrations using the tower yarder were also carried out in Totsukawa Village, Nara Prefecture, and Shirahama, in Wakayama Prefecture's Nishimuro District. Besides being an open harvesting exercise, the demonstrations doubled as an on-site training program for local forestry workers, thereby contributing to local forestry development.

Low-Density Reforestation Using Tree Shelters

Japanese forests are troubled by devastation caused by issues such as slumping log prices, a dwindling forestry labor force and feeding damage caused by wild deer. To help resolve these issues, Sumitomo Forestry Wood Products Co., Ltd. is developing a new forestry approach that involves the use of tree shelters[1] for low-density afforestation.

Plantation employing "Height Shelter S" (private land in Sukumo, Kochi)

Tree shelters eliminate the need for site preparation, underbrush clearing, improvement cutting and thinning and are also resistant to deer-induced damage. This makes it possible to reduce the number of trees planted per hectare, thereby improve labor efficiency compared to the conventional method of encircling the planted trees by deer nets.

There has been a notable rise in deer populations in Japan's forests in recent years and consequently a jump in cases of deer eating newly planted saplings. However, conventional tree shelters were expensive and not widely used.

Sumitomo Forestry and Sumitomo Forestry Wood Products have now jointly developed "Height Shelter S," a new type of tree shelter suited to Japanese forestry. The product costs less than half the price of existing products and requires less work to install. In fiscal 2012, 35,000 trees with the newly developed tree shelter "Height Shelter S" were planted on around 13 hectares of forestland owned by Sumitomo Forestry. In addition, around 27,000 trees were planted on around 17 hectares of private land in areas including Tokushima and Kochi Prefectures after fully launching sales to parties outside the Group. More than 100,000 "Height Shelter S" were supplied during fiscal 2012. In fiscal 2013, the plan is to supply more than 300,000 "Height Shelter S" and also to expand the area of forests planted using "Height Shelter S" to Kyushu and Kinki regions.

In February 2013, "Height Shelter S" was awarded the Japan Forest Technology Association (JAFTA) President's Prize for its economic viability and superiority at a conference on forest and forestry research in Shikoku.

1 A plastic tube covers the sapling

Climate-Controlled Sapling Nursery

The Sumitomo Forestry Group is working to modernize the production of saplings and improve the efficiency of forest cultivation work as a way of stimulating Japanese forestry. As part of these efforts, in May 2012 the Group established Japan's largest climate-controlled sapling nursery, for growing Japanese cedar (*Cryptomeria japonica*) saplings inside greenhouses, at its Togo Tree Breeding Center in Hyuga, Miyazaki Prefecture.

Climate-controlled sapling nursery

Using the conventional method of growing saplings in an outdoor nursery, planting was limited to early spring. At this facility, cuttings are planted in containers inside a greenhouse to encourage root development before they are planted, thereby enabling production and shipping of saplings all year round. As a result, sapling output can be increased dramatically, making it possible to improve work efficiency and minimize sapling production costs by maintaining a stable labor force, which otherwise would have fluctuated with the seasons.

In fiscal 2012, the Group conducted DNA analysis of stock trees[1] in the budwood nursery[2], which is the source of budwood cuttings, and enabled budwood cutting and container sapling production and shipping for each species. Container saplings were also shipped to Company-owned forests. In fiscal 2013, the Group will address issues such as improving the cutting rooting success rate and aim to increase sapling output and shipment volume.

1 A stand of trees used exclusively for producing budwood 2 Parent trees for sourcing budwood

Improving Efficiency Through Joint Operations

Appropriate maintenance of forests, which includes underbrush clearing, pruning and thinning, is vital for enhancing the various functions of forests. However, a large proportion of forest owners in Japan own only small forests, making it difficult to carry out operations efficiently. This is a major problem as it leads to deterioration of forest functionality and hinders the use of domestic timber.

To overcome this situation, the Sumitomo Forestry Group is advancing initiatives whereby multiple owners engage in joint operations to improve efficiency.

Joint Operations with Owners of Large Private Forests

Sumitomo Forestry aims to fulfill its social responsibility as a corporate owner of large-scale private forests in Japan, and thereby helps to revive domestic forestry by developing new business models for the private sector. In keeping with this policy, Sumitomo Forestry signed a memorandum of understanding with Oji Paper Co., Ltd. and Oji Forest & Products Co., Ltd. in 2009 in pursuit of joint projects that would make use of resources from forests owned by each of the three companies. This is the first collaborative initiative of its kind undertaken by corporate owners of large forests in Japan. Since then, the three companies have been jointly advancing two projects to make active use of SGEC-certified timber from Hokkaido, and to create a joint forestry operations area in Ehime Prefecture, leveraging forest management expertise and initiatives that integrate processes from forest maintenance through to production and sales of timber and timber products developed over the years by each of the companies.

In fiscal 2012, Sumitomo Forestry purchased around 236m^3 of processed SGEC-certified Japanese larch lamina[1] from forests owned by the Oji Paper group under the project to make active use of SGEC-certified timber from Hokkaido. Some of this lamina was used to produce around 83m^3 of engineered wood (for posts) for custom-built detached housing of Sumitomo Forestry's Sapporo Branch. In fiscal 2013, the aim will be to expand use of species other than Japanese larch under the same project.

1 Dried timber sheet used for making engineered wood

Achieving Efficient Forest Maintenance through Cooperation between Public and Private Sectors

In fiscal 2009, Sumitomo Forestry signed an agreement with owners of state-owned forests on the promotion of forest maintenance in relation to Company-owned forests in Wakayama, Kochi and Kumamoto Prefectures in Japan. Forest owners have established joint operations areas where they carry out operations together and have worked to maintain forests through public and private sector cooperation. This has made it possible, for example, to efficiently lay out forestry roads, leading to improved efficiency of operations and cost reductions.

In September 2012, a new agreement was signed in relation to forest maintenance in the area around Shiiba Village, in Miyazaki Prefecture's Higashi-Usuki District. Sumitomo Forestry will continue to promote road network improvements and forest maintenance activities, such as thinning, efficiently through cooperation between state-owned and privately owned forests.

Sustainable Plantation Operations Overseas

Related initiatives are covered in the section "Preserving Forests:Through the Use of Timber"

▶ Preserving Forests:Through the Use of Timber(P228)

Preserving Forests: Through the Use of Timber

ENVIRONMENTAL REPORT

Promotion of "The Action Plan for Timber Procurement"

There continues to be a decline in the world's forests due to illegal logging and excessive slash-and-burn farming. At the same time, with no progress being made in the development of Japan's forests, especially its plantations, due to a decline in price competitiveness compared to imported timber and to the aging forestry workforce, they continue to be devastated without adequately fulfilling their intrinsic functions for the public good.

In view of these circumstances, in June 2007, the Sumitomo Forestry Group formulated the Group's philosophy and policy on the procurement of timber, and later on the activity targets "the Action Plan for Timber Procurement."

Under "the First Action Plan for Timber Procurement," which covered fiscal 2007-2009, the Company surveyed all suppliers of timber imported directly from overseas by Sumitomo Forestry and Sumitomo Forestry Crest Co., Ltd. (directly imported timber), and in fiscal 2009, it verified the legality of all timber and timber products.

Under "the Second Action Plan for Timber Procurement," which covered fiscal 2010-2012, the Company continued verifying legal compliance, including for new suppliers, in order to ensure that 100% of the directly imported timber and timber products checked in fiscal 2009 remained legally compliant. Furthermore, in fiscal 2010, the company verified the legality of domestically produced timber sold on the Japanese market, and in fiscal 2011, the Company also completed confirming the legality of timber procured by the Housing Division from outside the Sumitomo Forestry Group.

In fiscal 2012, the Company formulated "The Third Action Plan for Timber Procurement," with a target year of fiscal 2015. Based on this plan, the Company will work on achieving four targets: Maintain timber procurement that is 100% legally compliant and continue to verify environmental and social considerations; Increase handling of timber from certified forests and plantation forests and timber grown in Japan; Expand new areas for using timber; and Advance activities to promote understanding among stakeholders.

▸ Enforcement of CSR in the Supply Chain(P64)

Details and Results of the Second Action Plan for Timber Procurement (fiscal 2010-2012)

Segment	Department	Action Plan・FY2012 Target	Results	Notes
Group-wide		With the objective of contributing to the global environment, expand the use and handling of timber from forests certified as legal and sustainable (FSC™, PEFC, SGEC); timber from sustainable plantation forests; and timber from forests in Japan to promote revitalization of the domestic forestry industry.	○	Implemented initiatives in each department.
		Do not use, handle or purchase illegally logged timber. Continue handling 100% certified legal directly imported timber and timber products.	○	Timber Procurement Committee conducted inspection to confirm legality.
Domestic Forestry / Domestic Distribution	Forestry & Environmental BusinessDepartment of Forestry & Environment Division	Maintain 100% certification of Company-owned forests (SGEC certification).	○	Achieved maintenance of 100% certification.
		Preserve and protect biodiversity in Company-owned forests.	○	Conducted annual monitoring surveys at Company-owned forests.
	Sumitomo Forestry Wood Products Co., Ltd.	Promote handling of Japanese timber / Increase by 75% of volume handled from FY2009.	×	57% compared to the original target, due partly to restrictions on acceptance at plywood plants following the Great East Japan Earthquake.

Segment	Department	Action Plan・FY2012 Target	Results	Notes
Timber Distribution	International Marketing Department of Timber & Building Materials Division	Promote use and handling of timber from certified forests (FSC™ PEFC, SGEC) and plantation forests. Increase to 70% of total volume handled.	×	63% compared to the original target, because of tightening of aggregation method in fiscal 2012.
Domestic Manufacturing	Sumitomo Forestry Crest Co., Ltd.	Promote use of timber from certified forests (FSCC™, PEFC, SGEC), plantation forests, and domestic timber. Increase to 50% of total volume handled.	○	Increased to 55%, thereby achieving target.
Housing	Housing Division	Promote and expand use of timber produced in Japan. Maintain 70% share of Japanese domestic timber used in principal structural members.	×	53% compared to the original target, due to an increase in distribution ratio of products with a relatively low ratio of Japanese timber.
		Expand use of timber from certified forests (FSC™, PEFC, SGEC) and double the volume used compared with FY2009.	×	Did not achieve target despite commencing initiatives at the Sendai Branch in fiscal 2011.

Third Action Plan for Timber Procurement (fiscal 2013-2015)

Action Plan & FY2015 Targets
<Maintain 100% legality in timber procurement and continue to verify environmental and social considerations> Maintain 100% legality for the wood and timber products handled by the Sumitomo Forestry Group. Also, continue to check the environmental and social considerations of suppliers.
<Increase handling of timber from certified forests and plantation forests and timber grown in Japan> • Aim for 68% of all directly imported timber to be timber from certified forests and plantation forests. • Aim for a 71% increase in the handling of Japanese timber in the distribution business, compared to a base year of fiscal 2011. • Aim for 64% of the timber used by domestic companies manufacturing wood building materials to be timber from certified forests and plantation forests or timber grown in Japan. • In the housing business, aim for 60% of the timber used in custom-built detached homes to be Japanese timber.
<Expand new areas for using timber> • Aim for a 10% increase in the handling of woodchips used as fuel, including for biomass power generation, compared to a base year of fiscal 2011. • Aim for a 240% increase in the handling of unused wood materials, such as the wood left over from logging, compared to a base year of fiscal 2011.
<Advance activities to promote understanding among stakeholders> Endeavor to communicate to stakeholders, including the supply chain, the importance of timber procurement that is considerate of the environment and society.

Confirmation of Legality

The Sumitomo Forestry Group conducted the following activities in fiscal 2012 with regard to confirming the legality of timber procured. In addition to continuing these activities, the Group will maintain "100% confirmed legality" and promote the procurement of sustainable timber resources.

▶ Enforcement of CSR in the Supply Chain(P64)

Fiscal 2012 results for activities confirming the legality of timber procured

(1) Continued to verify the legality of all directly imported timber, including from new suppliers
(2) Started CSR surveys for all suppliers of directly imported timber, including questions on human rights and labor practices
(3) Started verifying the legality of woodchips produced in Japan and used in manufacturing paper
(4) Verified the legality of materials handled at overseas sales offices which are bound for markets outside Japan
(5) Started verifying the legality of timber used by manufacturing businesses outside Japan
(6) Staff from Environmental Management Department conducted field surveys to verify legality as well as environmental and social considerations
(7) Initiated measures addressing the enactment of the EU Timber Regulation (EUTR)

Started verifying the legality of woodchips produced in Japan and used in manufacturing paper

In fiscal 2012, Sumitomo Forestry started verifying the legality of woodchips handled in Japan. The verification targets woodchips destined for paper manufacturers (woodchips used in manufacturing paper). In addition to logs from both Japan and overseas, the raw material also includes offcuts and waste timber from sawmills. Staff from Sumitomo Forestry collected documents substantiating legality and conducted field surveys at businesses supplying the Company with woodchips used in manufacturing paper, and in fiscal 2012, all suppliers were confirmed to be in compliance.

Verified the legality of materials handled at overseas sales offices

The Sumitomo Forestry Group completed verifying the legality of all timber and timber products directly imported into Japan (directly imported timber) in fiscal 2009, and has continued to conduct verifications since then.

In fiscal 2012, the scope of verification was broadened to include wood bound for markets outside Japan. Surveys for verifying legality were commenced at suppliers of timber and wood building materials which are sold in markets outside Japan by all overseas sales offices supervised by the International Marketing Department of the Timber & Building Materials Division. Confirmation of legality was concluded by the Timber Procurement Committee in February 2013.

Moreover, one of the goals listed in the Third Action Plan for Timber Procurement, which was formulated in fiscal 2012, is to maintain 100% legality for suppliers handling timber bound for markets outside Japan.

Started verifying the legality of timber used by manufacturing businesses outside Japan

In fiscal 2012, the Sumitomo Forestry Group began surveys for confirming the legality of timber suppliers for 14 Sumitomo Forestry Group manufacturing companies, housing construction companies and forestry related companies located overseas which use timber as a raw material. Going forward, the Group will examine individual responses based on the survey results for each company.

Conducted field survey to verify the legality as well as environmental and social considerations for timber produced in Sarawak

Amid illegal logging becoming a problem worldwide, certain environmental NGOs have pointed out the insufficiency of environmental and social considerations, especially with regard to logging in the Malaysian state of Sarawak. Even before this, the Sarawak State Government had recognized the legal and environmental and social considerations on the part of exporters, including suppliers to Sumitomo Forestry, and had acknowledged that there were no compliance-related issues. Based on this recognition, given our involvement in the import of processed wood products produced in Sarawak, Sumitomo Forestry has also earnestly addressed this issue.

Site visit in Sarawak

In the past, the Sumitomo Forestry Group has used field surveys conducted by local representatives to confirm the legal and environmental considerations of suppliers, including at logging sites. In order to reconfirm the situation, in September 2012, staff from the Environmental Management Department visited the logging sites, factories and afforestation areas of the Company's suppliers in Sarawak, and conducted independent surveys.
The results of the surveys confirmed that the Company's suppliers have taken appropriate measures for both environmental and social considerations. The outcomes of the field surveys have been reported by the Timber Procurement Committee to other relevant departments, and are being used to improve the accuracy of verifications of legal compliance since then.

Response to the EU Timber Regulation

The European Union (EU) enforced the EU Timber Regulation (EUTR) in March 2013. The aim of the EUTR is to raise the value of legally compliant timber and to increase distribution of appropriately managed timber and wood building materials in the market, by eliminating illegal logging that has adverse economic, environmental and social impacts, thereby eliminating unfair competition. The EUTR covers importers and suppliers who bring timber into the EU market. It concerns almost all timber and timber products being placed on the market. The three main obligations on operators are:

(1) Operators shall implement appropriate measures to prevent illegally harvested timber and any derived timber products from being placed on the market.
(2) Operators shall exercise due diligence[1] in confirming legality.
(3) Operators shall ensure traceability (identification of information on the history of the materials handled).

Timber regulations designed to eliminate illegal logging are also becoming prevalent outside the EU. For instance, the amended Lacey Act came into force in 2008 in the United States, and regulations are also being developed in Australia.

In order to properly address these regulatory systems as a supplier of timber, in February 2013, the Sumitomo Forestry Group resolved to clarify traceability for the materials it handles, and to promote more specific initiatives for further improving the accuracy of its legal compliance verification.

1 The obligation to investigate and verify using all means possible for the purpose of demonstrating that the materials handled are not illegally harvested materials.

Promoting the Use of Timber from Certified Forests

In addition to building mechanisms to prevent the distribution of timber sourced through illegal logging, which is a cause of deforestation, in order to promote the distribution of timber from appropriately managed forests, the Sumitomo Forestry Group has also acquired Chain of Custody (CoC)[1] certification at its Group companies from global forestry certification systems, FSC™[2] and PEFC,[3] as well as from Japan's SGEC.[4] A forestry certification system is a system whereby independent third-party organizations certify that forest management meets certain standards, such as sustainability of forest management and considerations for environmental conservation.

One of the goals listed in the Action Plan for Timber Procurement is to increase the percentage of timber handled which is certified timber produced from these kinds of forests, and thus the Company is encouraging its use.

1 Certification by a third-party organization that the operator is appropriately separating and labeling timber from certified forests during storage, processing and distribution.

2 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.

3 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.

4 The Sustainable Green Ecosystem Council (SGEC) is Japan's own forestry certification system, in which third parties verify sustainable forest management. Certification is based on seven standards that include the preservation of biodiversity and the conservation and maintenance of soil and water resources.

Major Forestry Certifications

Type of Forestry Certification		Name of Certified Division or Company
SGEC	Forestry certification	Forestry & Environmental Business Department, Forestry & Environment Division (Company-owned forests)
	CoC certification (Group-wide certification)	International Marketing Department, Timber & Building Materials Division (pre-cut materials), Housing Division (pre-cut materials)
	CoC certification	Sumitomo Forestry Wood Products Co., Ltd., and Sumitomo Forestry Crest Co., Ltd.
FSC™	FM certification	PT. Kutai Timber Indonesia (reforestation cooperative), Open Bay Timber Ltd.
	CoC certification	International Marketing Department and Timber & Building Materials Department, Timber & Building Materials Division; Sumitomo Forestry Crest Co., Ltd.; Kowa Lumber Co., Ltd.; Alpine MDF Industries Pty. Ltd.; PT. Kutai Timber Indonesia; Sumitomo Forestry (Singapore) Ltd.; Nelson Pine Industries Ltd.; Open Bay Timber Ltd. PT. Rimba Partikel Indonesia; PT. Sumitomo Forestry Indonesia
PEFC	CoC certification	International Marketing Department and Timber & Building Materials Department, Timber & Building Materials Division

Note: Names of certified divisions and companies have been listed in the order they acquired certification. During fiscal 2012 FSC CoC certification was acquired by PT. Rimba Partikel Indonesia in October, and by PT. Sumitomo Forestry Indonesia in November.

Supply of Homes Using Certified Timber

Sumitomo Forestry has been marketing houses built using SGEC-certified timber since February 2008 in Hokkaido, where timber from certified forests can be procured on a stable basis throughout the year, and since April 2011 in Miyagi Prefecture.
During fiscal 2012, Sumitomo Forestry increased the volume of certified timber used in its houses to 960m^3. Although the target of 1,200m^3 was not reached, it was an increase of 139m^3 from fiscal 2011.

In fiscal 2013, the company will work to increase the use of timber from certified forests by considering the adoption of additional candidate materials.

Systems for Utilizing Japanese Timber

Actively utilizing timber grown in Japan is important for revitalizing the domestic forestry industry. In 2009, the Japanese government set a goal in the *Forest and Forestry Revitalization Plan* of achieving a wood self-sufficiency rate of 50% or higher in ten years.

Furthermore, in July 2012, the Feed-in Tariff Scheme for Renewable Energy was introduced, and it is expected that there will be greater use of wood grown in Japan as fuel.

The Sumitomo Forestry Group is promoting measures aimed at the active use of Japanese timber, including the development and diffusion of standards to ensure the supply of timber with consistent quality, cost reductions through joint forestry operations, and the effective use of wood left over from logging. Moreover, in addition to increasing the volume of Japanese timber handled in the distribution business, in order to increase the ratio of Japanese timber used in *Sumitomo Forestry Home* houses, Sumitomo Forestry has set a target in the Action Plan for Timber Procurement. The Company is also engaged in a project to utilize wood left over from logging, such as branches and short timbers, in biomass power generation and as a fuel mixed with coal during burning.

▶ Helping to Mitigate Global Warming through Products and Services(P190)

Development of Original *FS Grad*

In order to increase demand for Japanese timber, as well as ensuring stable supply, it is necessary to provide products with consistent quality. However, the situation with conventional Japanese timber was that each sawmill had different grading standards for quality.

Therefore, in 2009, Sumitomo Forestry Wood Products Co., Ltd. developed a unique standard for pre-cut timber, the *FS (Forest Service) Grade*, and began selling Japanese timber products processed at precut factories after being turned out at sawmills based on this standard. The *FS Grade* is designed for cedar posts and studs, and is suited to pre-cut timber. By increasing yield rate and cost-competitiveness, the *FS Grade* makes it possible to promote sales of Japanese timber nationwide.

During fiscal 2012, the appreciation of the yen led to a sharp drop in the price of imported timber, and in light of this, the share of Japanese timber declined. As a consequence, supplies of *FS Grade* products was 41,000m^3, lower than the target volume of 50,000m^3.

In fiscal 2013, a top-priority issue will be to expand sawmills that use FS Grade. The target volume of *FS Grade* products will again be set at 50,000m^3, and the Company will work on increasing supplies even more.

Development of Efficient Timber Drying Technology

Once sawn, cedar and cypress post timbers are susceptible to cracking during the wood-drying process. For cedar in particular, it is difficult to ensure consistent quality as a dried timber because of its high and unstable moisture content.

As a solution to this problem, Sumitomo Forestry developed the *MIZDAS*® automatic control system, and has been working hard to promote the widespread use of timber drying equipment fitted with this system. Sensors are attached to certain sections of the timber to be dried, and the *MIZDAS*® system measures and automatically adjusts temperature and humidity in real time via computer. This system reduces cracking, distortion and other damage to the timber, and makes it possible to supply high-quality structural members such as *MIZDAS*® Cedar posts and *MIZDAS*® Cypress posts at low cost.

Timber dried with the *MIZDAS*® system

Using Japanese Timber in Homes

In order to promote and expand the use of timber produced in Japan, Sumitomo Forestry has set a target in "the Action Plan for Timber Procurement" for the percentage of Japanese timber used in "Sumitomo Forestry Home houses."

The two challenges in expanding the use of Japanese timber in the housing business are cost and strength. For example, in terms of cost, given that the supply of Japanese timber is less stable than imported timber, its price can sometimes become comparatively higher if housing builders try to secure large volumes of it. In terms of strength, the applications of Japanese timber as a building material were limited.

Lattice Panels

To clear these challenges, Sumitomo Forestry has been working to procure Japanese timber at a stable cost by purchasing a fixed volume of timber, and it has endeavored to develop and to use each timber according to its characteristic such as its Super Cypress laminated engineered wood for structural use, made from Japanese cypress (*Chamaecyparis obtusa*), and its original load-bearing wall Lattice Panels, made from Japanese cedar (*Cryptomeria japonica*) and Japanese larch (*Larix leptolepis*).

In fiscal 2012, the percentage of Japanese timber used in the principal structural members of Sumitomo Forestry Home houses was 53%,[1] approximately the same level as in fiscal 2011. From fiscal 2013, Sumitomo Forestry will aim to increase the percentage of Japanese timber used, such as by switching materials that use imported timber to Japanese timber, and by broadening the scope from principal structural members to include structural and non-structural materials.

1 Multibalance Construction Method, the main construction method of the Company, was approximately 70%

Supply of Homes Actively Using Regionally Produced Timber

In Hokkaido, Sumitomo Forestry offers 100% "made in Hokkaido homes" that use only locally grown Japanese larch and Sakhalin fir. The Company also offers homes in Nara Pref., Wakayama Pref., Yamaguchi Pref., and Oita Pref. using some locally produced timber. Moreover, in August 2010, the Company launched sales of Forest Garden Keio Horinouchi built-for-sale housing (in Hachioji City, Tokyo), where some of the principal structural members (posts and foundations) use Japanese cypress that has been certified under the Tama Timber Certification Scheme,[1] thereby contributing to the revitalization of regional forests.

Tama certified cypress

Given the limited area from which the raw material can be harvested, the challenge with regionally produced timber is how to procure a stable volume. Sumitomo Forestry will continue to be actively involved in areas where a certain volume of timber can be supplied.

1 A scheme in which forest owners, materials manufacturers, the log market and timber product manufacturers register, and the Tama Timber Certification Council certifies that the wood has been produced in appropriately managed forests in the Tama region.

Using Japanese Timber in Building Materials, etc.

Sumitomo Forestry is committed to the proactive use of Japanese timber in interior materials and furniture.

Making Effective Use of the Thinnings of Broadleaf Trees: The *Forest of Monbetsu* Line of Furniture

Sumitomo Forestry markets the *Forest of Monbetsu* line of furniture made using timber grown in Japan. In fiscal 2010, each of the companies involved in production of the brand acquired SGEC[1] certification, and the furniture produced was the first in Japan to display the SGEC label. The thinnings of broadleaf trees that are used as raw materials come from SGEC-certified forests, in particular the Company-owned forests located in Monbetsu, Hokkaido. An increasing number of companies support this initiative, and the Company is now in a position to exhibit the furniture overseas.

Furniture made with the thinnings of broadleaf trees from Company-owned forests in Monbetsu, Hokkaido

During fiscal 2012, Sumitomo Forestry actively promoted its products at interior design fairs all over Japan, and strived to gain recognition for the Company's forest conservation activities. The Company also broadened the species of trees from which it obtains raw materials beyond the conventional Mongolian oak, and developed and began marketing a bedroom suite produced using Japanese white birch. As a result, sales of the *Forest of Monbetsu* line of furniture reached 130 sets in fiscal 2012, and joint material and engineered wood was handled using about 50m^3 of Mongolian oak and Japanese white birch.

In fiscal 2013, Sumitomo Forestry plans to increase the volume of timber handled by developing new products, such as tables, which effectively utilize the short pieces of timber that were previously unusable.

1 The Sustainable Green Ecosystem Council (SGEC) is Japan's own forestry certification system, in which third parties verify sustainable forest management. Certification is based on seven standards that include the preservation of biodiversity and the conservation and maintenance of soil and water resources.

Production of *Ayasugi and Totorop* Interior Finishing Materials Using Japanese Timber

Sumitomo Forestry Crest Co., Ltd. uses Japanese cedar for its *Ayasugi* line of interior finishing materials such as entrance hall storage areas, doors, stairs and flooring, and Japanese-grown Sakhalin fir for its *Totorop* line of doors, walls and flooring.

Totorop (top) and *Ayasugi* (bottom) floorings

The *Ayasugi* line focuses on Japanese cedar, of which there are large stockpiles in Japan. Previously, there had been few applications for the portions of cedar timber left over after being cut into posts, but now the *Ayasugi* line puts these to good use.

The focus of the *Totorop* line of products is on Sakhalin fir, which grows in abundance in Hokkaido, and for which a balance can be achieved between timber supply and forest regeneration. The Company proposes new ways of using conifers which brings out the best in the whiteness and small knots of the timber.

The Company plans to continue renewing the product lines, promoting the fact that the timber is grown in Japan, while making improvements to design and surface finishes.

Exterior Products Using Japanese Cypress Thinnings and Small Trees

Japanese cypress is a conifer that possesses beautiful grain and superior durability, and, as such, has traditionally been used in shrines and altars. Sumitomo Forestry Landscaping Co., Ltd. procures cypress thinnings and small diameter trees through the domestic network of the Sumitomo Forestry Group, and puts them to effective use, turning them into products using the Group's own heat treatment technology. In addition to the *Original Deck Hinoki* brand of environmentally friendly exterior products which complement "Sumitomo Forestry Home houses," the Company also markets the *Hinoki Fences and Open Verandahs* line of products.

Original Deck Hinoki

During fiscal 2012, the Company sold about 8,000m^2 of *Original Deck Hinoki*. Going forward, it will continue to market its products vigorously.

Use of Japanese Timber through the Promotion of Wood Construction and Use of Timber Resources in Buildings

On the back of enactment in Japan of the Act for Promotion of Use of Wood in Public Buildings in October 2010, it was anticipated that applications for timber resources, particularly Japanese timber, would increase in the future. Given this, Sumitomo Forestry established the MOCCA (Wood Use Integration) Department in April 2011. Led by this department, the Company promotes MOCCA (wood use integration) operations,[1] promoting wood construction and use of timber resources in buildings.

During fiscal 2012, the Company completed construction of the Vegetable Club *oto no ha* Café, which used 100% Japanese cypress grown in Japan for its all-wood, fire-resistant, laminated engineered wood. In fiscal 2013, the Company will actively promote the use of Japanese timber in principal structural members, aiming for 45% utilization.

1 The collective term for all businesses within the Group that aim to expand the use of timber through promoting wooden construction and the use of timber.

Sustainable Plantation Forest Operations Overseas

In Indonesia and other Southeast Asian countries, and in emerging countries in Asia, such as China and India, as populations increase and the standard of living improves, it seems certain that demand for wood as a raw material for building materials and paper and as a biomass fuel is set to increase. A global challenge in coping with this ever-increasing demand for wood is increasing sources of supply. At the same time, in many cases, land suited to afforestation is in competition with food production, and so not enough plantations have been developed to satisfy global demand.

In order to ensure a stable supply of timber, wood panels and raw materials for timber products, such as pulp, while still taking the environment into consideration, the Sumitomo Forestry Group has been increasing its use of timber from plantation forests and reducing its procurement of raw materials from natural forests. In addition, it had promoted plantation forest operations, especially in Indonesia and Papua New Guinea, but given the current situation, the Group has been expanding plantation forest operations overseas in order to promote the active utilization of timber harvested from sustainable forests.

The Group has taken two approaches when planting trees: "Industrial reforestation" for the purpose of timber production, and "environmental reforestation" for the purpose of environmental conservation. Industrial reforestation also aims to contribute to the conservation of valuable ecosystems and to the development of local communities, by appropriately zoning the land to be managed. On the other hand, the aim of environmental reforestation is greening for the purpose of environmental conservation. It aims to make environmental contributions to society through the expansion of forested areas and the fulfillment of the ecosystem service function of forests, by actively planting trees on land where establishing forests would otherwise be difficult. The Group has also been engaged in "social forestry" which also brings the economic benefits of afforestation to local communities while enlisting the cooperation of local residents.
During fiscal 2012, overseas Group companies reforested a total area of 8,412 hectares.

Reforested Area

Company Name	Country	Reforested Area	
		FY2011	FY2012
Kutai Timber Indonesia (KTI)	Indonesia	4,168ha	3,465ha
Rimba Partikel Indonesia (RPI)	Indonesia	395ha	811ha
Nelson Pine Industries (NPIL)	New Zealand	109ha	101ha
Open Bay Timber (OBT)	Papua New Guinea	1,208ha	709ha
PT. Wana Subur Lestari (WSL)	Indonesia	6,086ha	515ha
PT. Mayangkara Tanaman Industri (MTI)	Indonesia	1,939ha	2,811ha

Reforestation Results

Project EARTH(P191)

Large-Scale Commercial Forest Plantation Business in Collaboration with ALAS Kusuma Group

Since 2010, Sumitomo Forestry has been committed to a large-scale commercial forest plantation business conducted in cooperation with the ALAS Kusuma Group, a company involved in forestry management and plywood manufacturing in Indonesia.

In order to stop any further loss of natural forests to illegal logging or excessive slash-and-burn farming, it is crucial to provide local residents with an economic basis so as to prevent such actions from happening. The aim of the Company's plantation is to provide local residents with employment opportunities by getting them to participate in plantation forest operations, and to reduce the burden of human activity on precious natural forests. This initiative classifies and manages land devastated by illegal logging, slash-and-burn farming and the ensuing forest fires into three areas: (1) forestation zones, (2) buffer zones, and (3) forests preservation zones. With respect to forestation zones, based on the long-held philosophy in forestry that there is a "right tree for the right site," the initiative aims to plant numerous species of trees that are suited to each location by considering the different soil composition, moisture content and other factors. The planted seedlings are produced, planted, nurtured, felled and replanted using the Company's technologies, allowing for sustainable forest management to be conducted.

During fiscal 2012, the business developed land and planted trees in an area of approximately 3,326 hectares. Also in fiscal 2012, the Company concluded an advisory agreement with the International Finance Corporation (IFC), which is part of the World Bank Group. By conducting surveys within the project site according to IFC standards, opinions are offered on whether the soil management is being carried out effectively, and whether sufficient considerations have been given to biodiversity. Revisions will be made to management plans as necessary.

Contribution to Local Communities through Social Forestry

In Indonesia, Sumitomo Forestry has been conducting social forestry since 2000, whereby seedlings are distributed free of charge to local residents to plant, and then Kutai Timber Indonesia (KTI) and Rimba Partikel Indonesia (RPI) promise to buy back the grown trees in six to seven years, when the trees are ready for harvesting. As well as being a venture to support the self-reliance of local residents, social forestry also fosters communication to build strong relationships with local communities.

At present, approximately 3,900 people are involved in planting trees through the social forestry program in more than 40 areas around where the Company is conducting plantation forest operations.

The opinions of an expert on this initiative have been posted

▶ Opinions of an expert(P207)

Acquisition of Forestry Certification in Collaboration with Local Residents

Kutai Timber Indonesia (KTI) formed a reforestation cooperative together with local residents in fiscal 2007, and acquired FSC™-FM certification for 152 hectares of plantation forest in December 2008. Certification was obtained for an additional 179 hectares of plantation forest in 2011 and 673 hectares in 2012, taking the total area of certified plantation forest to 1,004 hectares. KTI will continue its efforts to maintain FSC certification.

Sales of Environmentally Sound Plywood *KIKORIN-PLYWOOD*

Sumitomo Forestry has been selling environmentally sound plywood *KIKORIN-PLYWOOD* since fiscal 2009. More than 50% of the raw materials used to manufacture *KIKORIN-PLYWOOD* is timber from certified forests and sustainably managed plantation forests. In fiscal 2012, the volume of *KIKORIN-PLYWOOD* sold was 36,659m³.

KIKORIN-PLYWOOD

Part of the proceeds from this product are used in the regeneration of forests in devastated areas of Indonesia. The scale of afforestation is expanding every year. In fiscal 2012, 9.8 hectares were reforested, bringing the accumulated total reforested area since the initiative began in fiscal 2009 to approximately 24 hectares. Reforestation through the *KIKORIN-PLYWOOD* program is not only an initiative for environmental conservation via the Company's principal business. It also leads to community contributions, such as employment creation through forestry. The Company will continue to concentrate on increasing the volume of *KIKORIN-PLYWOOD* sold.

Sales Volume of *KIKORIN-PLYWOOD*

Preserving Forests
Promoting Reforestation Consulting Services

ENVIRONMENTAL REPORT

Overseas Reforestation Consultancy

Corporate needs for growing forests are diverse. In recent years, there has been a considerable number of companies conducting forest conservation activities and planting activities in developing countries, for the purpose of mitigating the effects of business expansion on forests in overseas countries and regions, or for the purpose of fulfilling their corporate social responsibility. Drawing on its knowledge of forest management in Japan and overseas, Sumitomo Forestry offers consulting services for environmental reforestation and for the protection and cultivation of forests that takes into account local communities, such as for the restoration of degraded forests in tropical regions and the rehabilitation of biodiversity.

Tropical Forest Regeneration Project with Mitsui Sumitomo Insurance Co., Ltd.

Mitsui Sumitomo Insurance Co., Ltd. has been involved in efforts for restoring the devastated forests in the Paliyan Wildlife Sanctuary in Indonesia since 2005. Sumitomo Forestry has provided associated consulting services. During the first phase of activities to March 2011, around 300,000 trees were planted on 350 hectares of land. Since April 2011, with a goal of creating a framework for local people to voluntarily protect their abundant forest areas, Sumitomo Forestry has provided agricultural guidance to local residents, established an inclusive organization to examine ways of managing protected forests, and has delivered an environmental education program in cooperation with local schools.

During fiscal 2012, Sumitomo Forestry provided guidance to local residents on low incomes, who relied on illegal farming in protected forests, on techniques for cultivating and marketing more profitable vegetables, such as red peppers and shallots. It appears that these activities have already been fruitful, with some farmers cultivating these crops on their own land. Furthermore, in order to extensively impart the Company's knowledge and experience in reforestation, Sumitomo Forestry has actively opened its plantation forests, seminar house and other related facilities to the public to explain about the projects. These have been well attended by local elementary and middle school students, as well as by many university students and experts in the fields of forestry, the environment, sociology and education, both from Indonesia and from other countries.

Revegetation Project in Gunung Merapi National Park in Cooperation with JICA

In fiscal 2012, Sumitomo Forestry launched a revegetation project in the Gunung Merapi National Park (Central Java) in Indonesia in collaboration with the Japan International Cooperation Agency (JICA). Two of the aims of the project are to regenerate the national park forests that were devastated by illegal digging for gravel, and to contribute to the capacity building of national park personnel through practical revegetation activities. This project was commissioned by Mitsui Sumitomo Insurance Co., Ltd. and PT. TS Tech Indonesia. The knowledge gained through the Mitsui Sumitomo Insurance Co., Ltd. Tropical Forest Regeneration Project in the Paliyan Wildlife Sanctuary has also been applied to forest regeneration in this project.

During fiscal 2012, trees were planted on 25 hectares of Mitsui Sumitomo Insurance Co., Ltd. land, and on five hectares of PT. TS Tech Indonesia land. In fiscal 2013, a further 25 hectares are scheduled for plantation, and there are plans to manage the plantation forests together with national park staff.

Industrial and Environmental Reforestation with Roland Corporation

Since 2007, in collaboration with Roland Corporation, Sumitomo Forestry has promoted a reforestation project on lands managed by the Indonesian State Owned Forestry Enterprise (Perum Perhutani), which combines industrial reforestation and environmental reforestation; the first is aimed at timber production and the latter aims to enhance the watershed protection function and to contribute to the local economy. Some of the harvested timber from the 72.4 hectares of new plantations will be processed into wooden boards and used to make cabinets for electric pianos produced by Roland Corporation.

During fiscal 2012, Sumitomo Forestry concentrated on managing the plantation forest and preparing a harvesting plan. During fiscal 2013, it is expected that electric pianos, one of Roland's main products, made using timber from the planted trees will be shipped to the global market.

Examples of Future Developments in Reforestation Consultancy Overseas

- Promotion of existing projects in cooperation with local governments and relevant organizations
- Active promotion of public relations and information sharing in cooperation with commissioned firms
- Promotion of sustainable projects that contribute to local economies through timber production and
  agricultural production
- Proposal of new schemes such as REDD+

Preserving Biodiversity

ENVIRONMENTAL REPORT

Biodiversity Preservation and Business Activities

Wood has been the axis of Sumitomo Forestry's businesses since its founding centuries ago. While many companies are indirectly involved with biodiversity through their supply chains, at Sumitomo Forestry, forests that nurture trees and support biodiversity are directly and inextricably its business field. The Company bears great responsibility and considerable influence in the area of biodiversity, and even runs the risk of losing the foundation of its business if forests are lost. Of the many environmental issues, biodiversity preservation is therefore particularly essential for ensuring the continuity of Sumitomo Forestry Group business and the most pressing issue, which must be addressed with great sincerity.
In keeping with this policy, the Group established the Policy on Biodiversity Preservation for Company-owned forests in Japan in fiscal 2006, and the Timber Procurement Philosophy and Policy in fiscal 2007. The Environmental Policies were also revised in fiscal 2007 to incorporate biodiversity considerations.

In March 2012, the Group established its Declaration on Biodiversity, setting out its understanding of and stance on biodiversity; Biodiversity Action Guidelines, specifying an internal set of guidelines; and Biodiversity Long-Term Targets as specific goals of activity.

To communicate the Declaration on Biodiversity, Biodiversity Action Guidelines and Biodiversity Long-Term Targets to employees, a guidebook was created in fiscal 2012. The declaration, guidelines and long-term targets also appear in the employee handbook for fiscal 2013.

The Sumitomo Forestry Group Declaration of Biodiversity

The forefather to the Sumitomo Forestry Group was founded more than three centuries ago, and since then we have developed our businesses while conserving forests, whose clear water, air, and soil are the source of life for many living creatures. Going forward, we at Sumitomo Forestry will continue to place the greatest importance on preserving biodiversity through our forestry business for providing timber, which is a renewable and natural material, and for managing forests, which support diverse ecosystems. We shall also strive to help realize a sustainable society that exists in harmony with nature.

The Sumitomo Forestry Group's Declaration of Action Guidelines

1 Position biodiversity as a key issue with the goal of coexisting with the environment and, together with its stakeholders, pursue initiatives to protect and promote biodiversity.

2 Ensure that each and every employee in the Group understands the importance of biodiversity and acts while considering both the direct and indirect consequences of their actions on biodiversity.

3 Minimize the impact of all Group activities on biodiversity.

4 Through its timber and forest-related businesses, provide to society the gifts acquired from forest ecosystems and contribute to the improvement of people's lives.

News release: "Sumitomo Forestry Group Announces Declaration of Biodiversity"

Biodiversity Long-Term Targets

As well as advancing biodiversity preservation initiatives, the Group established the Biodiversity Long-Term Targets in March 2012 as a way of contributing to the international community in respect to attainment of the Aichi Biodiversity Targets adopted at the 10th Conference of Parties to the Convention on Biological Diversity (COP10) in 2010. Rough schedules for achieving each of the long-term targets were put in place covering the period up until 2020 and serve as a guideline for advancing initiatives.

The Sumitomo Forestry Group' s Biodiversity Long-term Targets: Summary

Group-wide targets

1 (Aim to achieve sustainable forests)

In all timber-related businesses, from upstream to downstream, work to prevent any reduction in forest areas and aim to achieve sustainable forests.

- Regenerate forests through reforestation and the recharging of natural resources and maintain logging to less than grown volume of the forest.
- Increase the procurement and use of sustainable timber, including forest certified timber, plantation forest timber, and Japanese timber.
- Promote the efficient use of timber and, recycle, and reuse timber.

2 (Increase the amount of CO_2 absorbed by and sequestered in forests and timber)

In order to increase the amount of COsub>2 absorbed by and sequestered in forests and timber, promote the use of timber by cultivating healthy forests and encouraging the use of timber construction materials and the construction of wooden buildings. In this way, contribute to the protection of biodiversity and help alleviate climate change.

Individual targets

3 (Forests)

Promote forest management that regenerates, maintains, and increases biodiversity

- Carry out zoning that protects ecosystems and the habitats of living creatures.
- Maintain to 20% or above the percentage of the environment protection priority forests area of Company-owned forests in Japan.
- Maintain to 100% the percentage of Company-owned forests in Japan that are forest certified.
- Establish targets for protecting endangered species based on the results of the biodiversity monitoring conducted within Company-owned forests in Japan starting 2012.
- Conduct operations at plantation forests overseas while considering how best to contribute to local communities, economies and education.

4 (Products)

Provide products and services that are considerate to biodiversity, such as forest-certified timber and products and services that have received an environmental assessment.

5 (Construction)

Work to develop homes and communities that are in harmony with the natural environment and their surrounding urban landscapes.

6 (Design)

Manage and minimize the generation of waste through promoting a zero-emissions policy in construction operations.

7 (Greening)

Be considerate to the surrounding ecosystems and tree species and actively cultivate native species.

8 (Plants)

Manage and minimize the generation of pollutants, waste, and noise pollution, and reduce their impact on biodiversity.

9 (Public relations)

Actively communicate the importance of biodiversity to all stakeholders, including customers, business partners, and local communities.

10 (Research)

Collect the latest information and develop preservation technologies in order to implement measures to protect biodiversity.

11 (Social contribution)

Protect those trees that are historically and culturally important and also preserve their genetic material.

Biodiversity Preservation Activities

Initiatives at Company-Owned Forests in Japan

The Policy on Biodiversity Preservation for Company-owned forests in Japan calls for efforts to promote diversity of ecosystems, through proper management of protected areas and consideration toward the continuity of forests; diversity of species, through protection of rare flora and fauna; and genetic diversity, through the maintenance of populations.

In keeping with these policies, forests are subject to appropriate zoning and management according to certain criteria, such as the increment of trees. Sumitomo Forestry is also making efforts to create endangered species lists and manuals, conduct surveys to monitor wildlife, and develop materials for protecting saplings.

Policy on Biodiversity Preservation in Company-Owned Forests in Japan (Excerpt) (Formulated September 2006)

1. Diversity of ecosystems

We will properly manage strictly protected areas designated under the Natural Parks Law and other legislation in a manner stipulated by the law. In other areas, we will ensure continuity of forests by limiting the area of forest harvested, particularly when clear cutting is conducted.

2. Diversity of species

We will work to prevent a decline in the number of species existing in natural forests by refraining from expansive planting projects and other extreme activities involving the replacement of species that would have a major impact on existing ecosystems. We will also give the utmost consideration to the protection of rare flora and fauna in all operations, making reference to the Sumitomo Forestry Red Data Book.

3. Genetic diversity

Genetic variation and the maintenance of populations to support them will become issues in the future. However, analysis is complicated and therefore we will closely watch monitoring activities carried out by government and public institutions and their findings.

Red Data Book and Riparian Forest Management Manual

Sumitomo Forestry creates a Red Data Book listing flora and fauna at threat of extinction which may exist in Company-owned forests and distributes it to employees and contractors involved in forest management. By carrying the book with them during operations, personnel can refer to the opinions of specialists when they come across flora and fauna included in the book and take action.

Sumitomo Forestry's Red Data Book

The Company has also created the Riparian Forest Management Manual to ensure the appropriate management and preservation of areas around bodies of water that are rich in biodiversity. The Red Data Book and Riparian Forest Management Manual are reviewed and updated as required.

Wildlife Monitoring Surveys

Sumitomo Forestry monitors wildlife inhabiting Company-owned forests. Every year, surveys are conducted in one of four areas—Hokkaido, Shikoku, Kyushu and Wakayama. Data for each area is therefore accumulated in four-year cycles. This is used to create basic reference materials relating to biodiversity and to ascertain the impact of forest operations on the surrounding environment over the long-term.

Animals living in Company-owned forests

In fiscal 2012, monitoring surveys were conducted in Company-owned forests in Shikoku. They included surveys of mammalian and avian species and fixed-point photography.

Species confirmed in Company-owned forests in Shikoku

	2008	2012
Mammalian species	11 Species	9 pecies
Avian species	31 Species	34 Species

Initiatives at Overseas Plantations

Indonesia has the third largest area of rainforest in the world, however, it is said that around 700,000 hectares of forest are lost each year due to factors including forest fires, illegal logging and slash-and-burn farming. The Sumitomo Forestry Group runs a large-scale plantation in West Kalimantan, Indonesia. The forests are cultivated and managed using methods suited to each area based on appropriate zoning that takes into account biodiversity considerations.

In fiscal 2012, the Group entered into an advisory agreement with the International Financial Cooperation (IFC), an independent organization and member of the World Bank Group, in order to receive objective evaluation about aspects including methods for selecting protected areas set up within the boundary of the plantation site. Under the agreement, a joint study was conducted to determine, for example, forest areas inside the plantation site boundary with high conservation value and the balance of CO_2 emitted and absorbed (carbon balance) for the entire site. The findings of the study are currently being compiled.

Initiatives in the Landscaping and Greening Business

The Sumitomo Forestry Group makes comprehensive proposals for the landscaping and greening of many different environments, from houses, parks and residential property development through to regeneration of the natural environment. Areas designated for planting are categorized into four areas according to their conservation level—protected areas, conservation areas, *satoyama* areas (countryside close to rural communities) and town areas and local seeds, seedlings and saplings, native plants, and cultivars are planted after considering their effect on ecosystems. In a conservation area such as a nature park, for example, only local seeds, seedlings or saplings are used. In the landscaping of residential gardens in town areas, consideration is also given to color in the space by planting not only native species, but also cultivars and certain introduced species (introduced since the Meiji era) which have no effect on the local ecosystem. The Group actively promotes use of these plants for landscaping and greening as Harmonic Plants® that are chosen based on biodiversity considerations. The Group also has in place a policy of not using species that clearly have an adverse impact on local ecosystems[1] and a standards committee at Sumitomo Forestry Landscaping Co., Ltd. checks that such species are not used.

The Harmonic Plantss® proposals for landscaping projects won a 2012 Good Design Award.

1. Specified alien species and alien species requiring caution as stipulated by the Invasive Alien Species Act

The Thinking behind "Harmonic Plants®

Approach to Planting Areas

① Protected Area (area in which the genetic constitution is protected): Area in which the artificial transplanting or introduction of plants is not permitted for scientific reasons, such as an area of primordial nature.			
② Conservation Area (area of systems conservation): An area in which nature is protected, such as islands, high-mountain, or wetlands. Local seedlings are used for greenification.			Local Seedlings
③ *Satoyama Area* (area of species conservation): A region of secondary nature that is impacted by human activity, such as a mid-mountainous area or *Satoyama Area*. Native species, including cultivatable species, are used for greenification.		Native Species	
④ City Area (area in which introduced species are managed): An area removed from a natural ecosystem that can be managed. Non-invasive cultivatable species can also be used.	Cultivatable Species		

Further Efforts to Firmly Establish and Promote Harmonic Plants®

Harmonic Plants®, plants chosen for landscaping and greening based on biodiversity considerations, were used for all 30 model homes of Sumitomo Forestry opened during fiscal 2012. The Company views the use of Harmonic Plants® for planting activities at model homes as a way to foster employee awareness and incorporate Harmonic Plants® into planting proposals to customers.

Harmonic Plants® at a model home

In March 2013, Sumitomo Forestry published a book, *Enjoy the Wonders of the Forest: A Selection of Trees for Satoniwa Style Gardens*. The book is a pictorial guide to more than 280 tree species. Providing easy-to-understand explanations of native plants and introduced plants according to species and regions where they can be planted, the book is designed so it can also be used as a tool when making exterior landscaping proposals for general housing. The Company is looking to enhance such tools and continue promotion of planting proposals that take biodiversity into consideration.

Winning the Minister of Land, Infrastructure, Transport and Tourism Award at the National Urban Greenery Fair

The 29th National Urban Greenery Fair Tokyo, hosted by the Organization for Landscape and Urban Green Infrastructure, was held over 30 days from September 29 to October 28, 2012. As part of the fair, a garden competition was held under the theme of "gardens that provide color for urban lifestyles." Sumitomo Forestry Landscaping Co., Ltd. won the Minister of Land, Infrastructure, Transport and Tourism Award, the highest award of the competition.

Sumitomo Forestry Landscaping Co. Ltd.'s garden competition entry

Sumitomo Forestry Landscaping Co. Ltd.'s entry presented the idea of a *satoniwa* garden, reproducing in an urban setting a condensed version of archetypal *satoyama* scenery, referring to natural environments in the vicinity of rural communities where there is interaction between nature and people's lives. The entry proposed the *satoniwa* style as a new garden format that brings the pleasantness of forests to our homes. Native species were used for all tall trees, while a balanced combination of native species and garden varieties was used for shrubs and undergrowth in order to incorporate color.

Initiatives at Plants

Sumitomo Forestry Crest Co., Ltd. implements biodiversity preservation activities suited to the regional environment at each of its plants under a common objective to provide habitats and resting places for local species through the conservation of plant life indigenous to the region.

Permanent Planting of Beach Silvertop at the Kashima Plant

Sumitomo Forestry Crest Co. Ltd.'s Kashima Plant is advancing a plan for permanent planting of beach silvertop (*Glehnia littoralis*), a native plant species at threat of extinction, in order to regenerate the coastal environment.

Permanent planting of beach silvertop

Kashima Plant received beach silvertop seeds from Kamisu City in fiscal 2009 and started cultivating them in planters. After repeated trial and error, the cultivated seedlings were transferred to a flower bed in fiscal 2011. There they steadily took root and the population increased. The first batch of more than a dozen beach silvertop plants were permanently planted in fiscal 2012 on Kamisu's Nikkawahama coast. In July 2013, it was confirmed that two plants had sprouted. Then in June 2013, beach silvertop plants at the Kashima Plant produced flowers. These will undergo permanent planting along the coast before they start releasing seeds.

Bird-Friendly Planting at No. 2 Kyushu Plant

In fiscal 2009, Sumitomo Forestry Crest's No. 2 Kyushu Plant identified bird species observed within the plant premises and in the vicinity of the plant and conducted a survey of trees compatible with these birds that are not alien species. In fiscal 2011, trees were selected from those surveyed based on considerations for achieving the right combination of evergreen and deciduous, and tall and shrub species. Tree planting has since been advanced in places in the vicinity of the plant boundary where trees haven not yet been planted. During fiscal 2012, the cultivation of trees planted so far was managed.

Trees planted at the No. 2 Kyushu Plant

Promoting Environmental Greening Business

Biodiversity Consulting Business

Sumitomo Forestry Landscaping Co., Ltd. set up a biodiversity consulting team, the Eco-Asset™ Consortium, with InterRisk Research Institute & Consulting, Inc. and Regional Environmental Planning Inc. Sumitomo Forestry joined the consortium in 2011 and engages in consulting services regarding the incorporation of biodiversity considerations into urban regeneration projects, upgrading of existing green zones, *satoyama* regeneration and other projects.

Biodiversity preservation-related needs are expected to climb and the Sumitomo Forestry Group plans to utilize expertise from achieving coexistence of forests with the environment in providing a particular kind of consulting service that is unique to the Group, thereby expanding environmental business and contributing to the coexistence of communities and corporations with the natural environment.

Creation of an Ecological Network in Central Tokyo

The new Surugadai building of Mitsui Sumitomo Insurance Co., Ltd., the first urban renewal project to adopt an Eco-Asset™ proposal, was completed in May 2012. This marked a major step toward the creation of an ecological network allowing wildlife to pass to and fro between the Imperial Palace, the biggest ecosystem base in central Tokyo, and places such as the Yushima Seido temple, Shinobazu Pond and the Koishikawa Korakuen garden.

Green zone at Mitsui Sumitomo Insurance's new Surugadai building

Biodiversity Consulting for Industrial Zones

The corporate green zone planted in a coastal industrial zone on the Chita Peninsula around 40 to 50 years ago has since grown into an enormous green belt. There is currently a growing trend among corporations of wanting to view green zones of individual companies as a whole and create ecosystem networks. Eco-Asset™ is carrying out a biodiversity consulting service for individual corporations, called the "Connect Life Project".

Coastal corporate green zone on the Chita Peninsula

The initiative received an excellence award at the Aichi Environmental Awards in February 2013 for contributing to the development of young human resources, who will shoulder responsibility for the community in the next generation and were enlisted to help with the project, as well as for the expected ripple benefits for other communities.

Contribution to Community Revitalization and Environmental Preservation Using Traditional Houses as Bases

The Shitaru community of northwestern Tsushima, Nagasaki Prefecture, where depopulation is progressing, is a *satoyama* area inhabited by diverse species, including the Tsushima leopard cat, which has been designated a critically endangered species. Revitalization of the community is now a pressing concern even in terms of maintaining this rich environment.

In fiscal 2012, Sumitomo Forestry and Sumitomo Forestry Home Tech Co., Ltd. put forward a plan to revitalize the community by utilizing the blessings provided by the biodiversity-rich *satoyama* environment, in agriculture, forestry and tourism industries. Now-vacant traditional houses of around 120 years old would serve as bases. This plan to revive traditional houses is expected to play a role in development of the Shitaru community.

Vision of *satoyama* preservation in Shitaru, Tsushima

Vision of satoyama preservation inShitaru, Tsushima

1 Tree growth zone

Area for planned tree growth owing to plant succession.
(Management) Tree thinning
(Use) Brushwood & wood and charcoal
(Environment) Forest wildlife habitat

2 Marshland zone

Area to sustain a marshland environment to act as a flood control basin
(Management) Maintenance of nature observation facilities, including wooden footpaths and routine mowing of grasslands
(Use) Turn the marshland's grassland scenery into a tourist resource: creating a "field of nectar" by carrying out bee-keeping in a field of flowers, such as lotus flowers
(Environment) Habitat for wildlife such as frogs and dragonflies, and use as a foraging area for the Tsushima wildcat

3 Ricefield zone

Area for reusing and sustaining the wetland environment
(Management) Ricefield & levee maintenance and management Electric fences to prevent feeding damage due to deers and wild boar
(Use) Agricultural use for subsistence farming and to secure foreign capital from untilled rice cultivation
(Environment) Habitat for wildlife, such as frogs and dragonflies, and foraging area for the Tsushima wildcat.

4 *Satoyama* maintenance zone

Area for revitalizing *satoyama* areas adjacent to villages and farmland
(Management) Collect firewood and charcoal, do bee-keeping and cultivate shiitake mushrooms in the brush-wood mountains. Rotate use every few years
(Use) Community consisting of outsiders settling in to experience local life and local residents jointly work the land Pass on local culture and traditions
(Environment) In addition to maintaining the safety and comfort of living in a village, improve biodiversity and preserve Tsushima wildcat habitat.

5 Reuse old houses

Reuse vacant houses scattered around the village
(Management) Reuse vacant old houses
(Use) Reuse old houses for outsiders settling in to experience local life and Utilize community as a means of securing permanent residents.
(Environment) Maintenance of satoyama surrounding housing to ensure safety and comfort.

Participation in Japan Business Initiative for Biodiversity (JBIB) Forest Creation for Coexistence Working Group

The Japan Business Initiative for Biodiversity (JBIB) is a group of corporations committed to biodiversity preservation. JBIB conducts research and development relating to biodiversity preservation from an international perspective and draws on research findings in activities promoting dialogue with other corporations and stakeholders.

Sumitomo Forestry participates in JBIB's Forest Creation for Coexistence Working Group. Together with other members, the Company is developing a set of guidelines for corporations to follow to incorporate biodiversity considerations into forest management.

Management of Hazardous Chemical Substances

ENVIRONMENTAL REPORT

Management of Chemical Substances at Research Institute and Plants

Although chemical substances are used in laboratory work and production at the Sumitomo Forestry Tsukuba Research Institute and at Sumitomo Forestry Crest Co., Ltd. plants, the Group complies with revised laws and endeavors to reduce their use as well as identifying and properly managing any hazardous chemical substances.

Management of chemical substances at the Sumitomo Forestry Tsukuba Research Institute

At the Sumitomo Forestry Tsukuba Research Institute, the *Chemical Substances Handling Manual* prescribes procedures from the receipt to disposal of chemical substances, and the *Manual for Responding to Disasters Involving Chemical Substances* prescribes procedures for preventing and dealing with accidents in the event of a disaster. Based on these two manuals, the institute is committed to the safe handling of chemical substances, and twice a year, it takes an inventory for the purpose of identifying the chemical substances in its possession and disposing of any unnecessary stock. Particularly with regard to hazardous chemical substances, the institute has implemented various measures in preparation of a disaster, such as installing dedicated storage lockers and keeping the substances under lock and key, as well as installing partitions where liquid substances are stored to prevent them from tipping over.

Management of chemical substances at Sumitomo Forestry Crest Co., Ltd.

At Sumitomo Forestry Crest Co., Ltd. plants, environment-related work manuals and regulations have been established to prevent chemical leaks and other environmental accidents. In accordance with these provisions, the plants regularly measure the concentrations of air pollutants, water pollutants and organic solvents in exhaust gas to check that there are no problems.

At the No. 2 Kyushu Plant, where a large amount of chemical substances are handled, leak response equipment is always on hand and emergency training is practiced as measures for preventing spills.

PRTR Substances (Data covers Sumitomo Forestry's Tsukuba Research Institute and Sumitomo Forestry Crest Co., Ltd.)

Unit: kg (excluding dioxins, which is shown in mg-TEQ)

Substance No. (PRTR Law)	Chemical substance	Total volume handled	Total emissions					Total transfers			Consumed[1]
				Emissions to air	Emissions to public sewage system	Emissions to soil	On-site landfill		Transfer as waste	Transfers to sewage	
4	Acrylic acid and its water-soluble salts	3,727.0	13.0	0.0	13.0	0.0	0.0	0.0	0.0	0.0	3,714.0
7	n-Butyl acrylate	13,224.0	0.0	0.0	0.0	0.0	0.0	36.0	36.0	0.0	13,188.0
13	Acetonitrile	11.2	0.0	0.0	0.0	0.0	0.0	11.2	11.2	0.0	0.0
84	Glyoxal	2,290.0	0.0	0.0	0.0	0.0	0.0	4.6	4.6	0.0	2,285.4
134	Vinyl acetate	1,848,260.0	3,385.0	3,300.0	85.0	0.0	0.0	0.0	0.0	0.0	1,844,875.0
186	Dichloromethane	67,436.7	61,335.0	61,335.0	0.0	0.0	0.0	3,701.7	3,701.7	0.0	2,400.0
243	Dioxins	87.3	73.3	73.3	0.0	0.0	0.0	14.0	14.0	0.0	0.0
349	Phenol	20,880.0	1.2	0.0	1.2	0.0	0.0	590.0	590.0	0.0	20,288.8
395	The water-soluble salts of peroxydisulfuric acid	2,212.0	0.0	0.0	0.0	0.0	0.0	5.6	5.6	0.0	2,206.4
407	POAE (C=12-15)[2]	1,462.0	13.0	0.0	13.0	0.0	0.0	4.0	4.0	0.0	1,445.0
411	Formaldehyde	170,137.1	52.0	52.0	0.0	0.0	0.0	350.1	350.1	0.0	169,735.0
415	Methacrylic acid	1,517.0	4.9	0.0	4.9	0.0	0.0	0.0	0.0	0.0	1,512.1
448	Methylenebis (4,1- phenylene) diisocyanate	14,385.3	0.0	0.0	0.0	0.0	0.0	60.0	60.0	0.0	14,325.3

1 "Consumed" is the amount of substances stipulated under the PRTR Law transformed through chemical reaction, included in or accompanying manufactured products, and transported off site.

2 Polyoxyethylene alkyl ether (limited to where the carbon number of the alkyl group is between 12 and 15, and compounds thereof).

Emissions of NOx and SOx

Substance	Emissions(Unit: kg)
SOx (Sulfur oxide)	2,051
NOx (Nitrogen oxide)	6,228
Soot and dust	4,492

Effluent Water Quality Survey Results (No. 2 Kyushu Plant)

Item[1]	Unit	Measured	Effluent Standards[2]
pH	–	7.5	5.0～9.0
COD	mg/L	27.8	40
SS	mg/L	4.3	50
TN	mg/L	2.3	60
TP	mg/L	0.03	8

Effluent Water Quality Survey Results (Tsukuba Research Institute)

Item	Unit	Measured	Effluent Standards[3]
pH	–	7.7	5.8～8.6
BOD[4]	mg/L	9	160
SS	mg/L	1	200
Total n-hexane extract substances (total mineral oils)	mg/L	Less than 1	5
Total n-hexane extract substances (total plant and animal fats/oils)	mg/L	Less than 1	30
Total Phenols	mg/L	Less than 0.025	0.5 or less

1 pH = concentration of hydronium ions, COD = Chemical Oxygen Demand, SS = Suspended Solids, T-N = Total Nitrogen, T-P = Total Phosphorous

2 Effluent Standards uses values stipulated by prefectural ordinance.

3 Effluent Standards uses values stipulated by the Water Pollution Control Act.Total Phenols uses standards required by the Tsukuba City Pollution Prevention Agreement.

4 BOD = Biological Oxygen Control

Proper Treatment of Building Materials Containing Asbestos

The Sumitomo Forestry Group has secured appropriate disposal routes for asbestos. At Sumitomo Forestry, a *Guide for Appropriate Measures during Demolition Work* has been formulated, and it endeavors to prevent asbestos being released into the air during home demolition work.

At each of Sumitomo Forestry's office buildings as well, any asbestos is disposed of properly in accordance with the law. In fiscal 2011, work was carried out to remove sprayed asbestos (chrysotile) from Sumitomo Forestry Crest Co., Ltd.'s Nagoya Plant in Aichi Prefecture and from the business office and warehouse of Daiichisansho's former Iwaki Branch in Fukushima Prefecture. The removal and disposal work was completed in accordance with the Air Pollution Control Act and the Waste Disposal Act of Japan.

In fiscal 2013, demolition work is scheduled for Sumitomo Forestry Crest Co., Ltd.'s Saijo Warehouse in Ehime Prefecture among other places. There are plans to dispose of slate (building material containing non-friable asbestos) from the warehouse roof and exterior.

Storage and Proper Treatment of Polychlorinated Biphenyls (PCBs)

At Sumitomo Forestry Crest Co., Ltd., polychlorinated biphenyl (PCB) waste, such as that contained in used high-voltage capacitors, is properly managed and disposed of in accordance with the PCB Special Measures Law.

Disposal of PCB Waste

FY2011	FY2012	Change
284 Units	272 Units	Decrease of 12 units (1,243kg)

Project for Soil Purification Technology and Environmental Remediation Aided by Plants

An issue in re-using the site of an old factory is the environmental impact associated with soil contamination and the cost burden of any remedial measures. For example, under the revised Fire Service Act of Japan, gasoline stations are now obliged to repair any underground tanks that have laid under the ground for more than 40 years, and as a consequence of this, it is expected that between 1,000 and 2,000 stations will close down each year.

Grass laid on the site where a gasoline station once stood

In order to meet the demand for environmental remediation and measures dealing with soil contamination, the Sumitomo Forestry Group has been working on cleansing contaminated soil by using the functions of plants (phytoremediation). As part of this, during fiscal 2012, in collaboration with JX Nippon Oil & Energy Corporation, the Group developed a method for purifying soil contaminated with oil using Burning Field, a variety of Japanese lawn-grass independently registered by the Group.

One of the functions possessed by the variety of Japanese lawn-grass used in this method is that the nutrients transpiring from its roots activate microorganisms in the soil, and the upshot of this is that it inexpensively reduces the oil content in polluted soil. Given that this makes it possible to meet the need of purifying soil at a low cost and with a low environmental impact, it is expected that the grass will be marketed in the future as a measure against soil contamination.

Efficient Use of Water Resources

ENVIRONMENTAL REPORT

Reduction of Water Consumption in Business Activities

Around the world, there is a growing sense of crisis over water shortages. It is expected that this problem will become more and more urgent as the demand for water rises with population increase and economic growth in developing countries.

Previously, the Sumitomo Forestry Group had gauged water consumption at its plants inside and outside Japan, but in fiscal 2012, the Group began examining the consumption and the associated sources at bases where actual water usage is measurable, such as at buildings owned by the Sumitomo Forestry Group.

Plants in Japan primarily manufacture processed wood products, such as interior materials for housing, and thus do not use large amounts of water. Nevertheless, in order to use water resources as effectively as possible, the Group employs water-saving initiatives at each plant.

Water Consumed by Group Companies in Japan

In fiscal 2012, a total of 373,892m^3 [1] of water was used at plants and other Group companies in Japan. The Group will continue to acknowledge the amount of water consumed, while endeavoring to reduce consumption.

1 Covers bases where actual water usage is measurable, such as at buildings owned by the Sumitomo Forestry Group.

Breakdown of Water Consumption by Source of Supply (FY2012)

	Offices in Japan	Plants in Japan
Clean water	55,045m^3	22,535m^3
Groundwater	6,791m^3	5,237m^3
Industrial water	115,358m^3 [1]	168,926m^3
Total	177,194m^3	196,698m^3

1 Used by Kawanokita Development Co., Ltd. at a golf course it manages for watering the turf and otherwise maintaining the course.

Efforts at Sumitomo Forestry Crest Co., Ltd.

Sumitomo Forestry Crest Co., Ltd.'s No. 2 Kyushu Plant manufactures synthetic resin adhesives and other products. It primarily promotes two measures for reducing water usage. First, it uses industrial water to cool manufacturing equipment. Then, it reuses the water to dilute plant effluent.

Measuring the COD of effluent

During fiscal 2011, there were times when the quality of the industrial effluent, which is ultimately discharged from the plant, approached the COD[1] standard value, and in order to prevent this from happening, large amounts of industrial water had been added. However, following improvements made in fiscal 2012 to the accuracy of COD measurement, the plant was able to process effluent using the minimum amount of water necessary, and as a result, was able to reduce the amount of water it uses by 5% compared to previous year.

1 Chemical Oxygen Demand (COD): This shows the amount of oxygen required to oxidize an organic compound in water, and is considered one of the most important indicators of water quality.

Measures Used at the Sumitomo Forestry Crest Co., Ltd.'s No. 2 Kyushu Plant for Saving Water

1. Collect some of the water used for washing equipment, and reuse it as a raw material.
2. Improve the proportion of rainwater used, such as by upgrading the pumps used for collecting rainwater.

Environmental Communication

ENVIRONMENTAL REPORT

Start of the New Environmental Portal Site: *Forest and the Earth Net*

In November 2012, Sumitomo Forestry launched its environmental portal site *Mori to Chikyu Net* (Forest and the Earth Net) on the Company's website. The purpose of the new site is for users to become aware of and understand the importance of making the best use of forests and wood, by examining problems related to the global environment, such as biodiversity loss,and global warming.

Front page of *Forest and the Earth Net*

The aim of the site is for users—even users who have little to do with forests and trees in their daily lives—to consider issues of the "global environment" and "our future" as their own issues as ordinary citizens, and to appreciate that utilizing wood, which is a renewable, people-friendly and earth-friendly resource, will lead to a resolution of global environmental problems. The site also introduces a variety of Sumitomo Forestry's business activities that are aimed at realizing a sustainable society.

Forester House, Providing an Opportunity to Familiarize People with Forestry

Forester House, located in the Company-owned forest in the Besshiyama area of Niihama City, Ehime Prefecture in Japan, helps introduce to the general public the initiatives in sustainable forestry that Sumitomo Forestry has been conducting for over 100 years. It also gives information about the various functions of forests and about forestry.

Forester House

Forester House was opened to the public in 1993 to commemorate the centenary of the Great Reforestation Plan initiated in 1894 by Teigo Iba, the manager of the Sumitomo Besshi Copper Mine and later the second Director General of Sumitomo.
The facility is used as a base for forest walks, nature observation, environmental education and historical visits. During fiscal 2012, it was visited by 2,971 people, including locals and employees from Group companies both inside and outside of Japan.

Exhibition at the IndoGreen Forestry Expo

In April 2012, five Sumitomo Forestry Group companies[1] based in Indonesia joined forces to present a booth at the IndoGreen Forestry Expo. The Group's initiatives for social contribution through planting, manufacturing business and zero emissions conducted in Indonesia were introduced via photos and monitors. Lectures were also given to children to teach them the importance of reforestation, and seedlings were handed out.

The Sumitomo Forestry Group booth

About 130 companies and organizations exhibited at the Expo which attracted about 12,000 visitors. It was an ideal occasion to publicize the Sumitomo Forestry Group's environmental initiatives to a broad range of people, from the Minister of Forestry and officials from the Ministry of Forestry, to children and other general visitors. The Group plans to participate again in 2013 and utilize it as an opportunity for communicating with local people.

1 Five companies: PT. Kutai Timber Indonesia, PT. Rimba Partikel Indonesia, PT. Sumitomo Forestry Indonesia, PT. Wana Subur Lestari, and PT. Mayangkara Tanaman Industri

Environmental Accounting

ENVIRONMENTAL REPORT

Environmental Accounting

Sumitomo Forestry calculates and publicizes the costs and benefits of its environmental conservation activities to promote environmentally sound management.

Note: The basis of calculation includes Sumitomo Forestry on a non-consolidated basis and certain group companies.

Environmental Preservation Costs

Cost Category		Main Activities	Cost (Million Yen)
Costs within operational area	Pollution prevention costs[1]	Work on boiler and measures to control soot and dust concentration	5
	Global environmental protection costs[2]	Sustainable forestry cultivation	587
		Environment-related business	210
		Carbon offset	81
	Resource recycling costs[3]	Promotion of appropriate treatment, reduction, and recycling of industrial waste	4,019
		Waste wood chip distribution operations	214
		Potting mix business	553
Upstream/Downstream costs[4]		Green purchasing	94
Management activity costs[5]		Operation and promotion of environmental management	96
		Observation of environmental burdens	3
		Disclosure and administration of environmental information (CSR Report, environment-related advertising, environment-related exhibitions, etc.)	402

Cost Category	Main Activities	Cost (Million Yen)
R&D costs[6]	R&D activities related to environmental conservation	310
Social contribution costs[7]	Management and operation of Mt. Fuji *Manabi no Mori*	22
	Management and operation of *Forester House*	8
	Other social contribution activities	1
Total		6,606

1 Expenditures for repairs to the boiler at Sumitomo Forestry Crest Co., Ltd.'s Niihama Plant.

2 Expenditures for preservation and management of Company-owned forests to foster sustainable forestry, and expenditures in Japan and overseas relating to the environmental business, overseas reforestation expenses for implementing carbon offset, and offset credit purchase expense.

3 Expenditures on waste wood distribution operations and sorting, recycling, appropriate treatment, transportation and management of construction waste, as well as costs incurred in the potting mix business.

4 Expenditures for green purchasing.

5 Office expenses and auditing costs relating to maintenance of ISO 14001 certification; expenditures relating to disclosure of environmental information through advertising, environment-related exhibitions and the CSR Reports; expenditures relating to lectures on environmental education; and costs for life cycle assessment inspections.

6 Expenditures for environment-related research conducted at the Tsukuba Research Institute and expenditures for outsourced research and development by each division.

7 Expenditures related to operating the Mt. Fuji Manabi no Mori natural forest restoration project; expenditures related to maintaining and operating Forester House; expenditures related to other social contribution activities; and grants to the Keidanren Nature Conservation Fund and other contributions.

Environmental Benefits

Category	Description	Results
(1)Benefits from costs within operational area	Volume of recycled waste wood from distribution operations (converted into chip equivalents) (1,000 m^3)	1,169
	Volume sold of potting mix using recycled sediment from water purification (1,000 ton)	24
(2)Benefits from Upstream/Downstream costs	Green procurement ratio	70
(3)Benefits from management activity costs	Employees designated as internal environmental auditors	58
(4) Benefits from R&D costs	Release of new *Smart Kodachi* product equipped with solar power generation systems	–
	Release of new *Smart Solabo* product which supplies energy from electric vehicles	–
	Success in propagating the *Naki-zakura* cherry tree from Ninna-ji Temple, Kyoto, using tissue culture techniques	–
	Success in propagating the *Myoho-zakura* cherry tree from Ankokuron-ji Temple, Kamakura, using tissue culture techniques	–
(5) Benefits of social contribution costs	Volunteers who participated in Mt. Fuji *Manabi* no *Mori* project	428
	Children participating in the Environmental Education Program at Mt. Fuji *Manabi no Mori* project	600
	Visitors to *Forester House*	2,971

Environmental Data for Group Companies

ENVIRONMENTAL REPORT

Environmental Data for Group Companies in Japan

Data for plants in Japan shows the environmental impact per company and per plant.

Sumitomo Forestry Crest Co., Ltd.

Item (unit)	Kashima Plant	Shizuoka Plant	Nagoya Plant	Niihama Plant	Kyushu Plant	No. 2 Kyushu Plant	Total
Energy input (GJ)	26,670	27,257	38,521	22,259	33,535	14,954	163,196
Raw material input (t)	6,219	33,364	7,993	2,884	8,955	4,555	63,971

Item (unit)	Kashima Plant	Shizuoka Plant	Nagoya Plant	Niihama Plant	Kyushu Plant	No. 2 Kyushu Plant	Total
Water resource consumption (m3)							
Clean water	3,902	4,708	13,487	242	1,895	208	24,442
Main water source	Lakes–Kasumigaura/Kitaura (Protected area: partly in Suigo–Tsukuba Quasi–National Park)	Ground water–Oi River basin	Rivers –Kiso River basin rotected areas: N/A)	Ground water (Niihama City Bureau of Water works)	Ponds–Tashiro Pond (partly in protected forest)	Reservoirs	–
Industrial water	–	–	–	5,411	26,208	137,307	168,926
Mai water source	–	–	–	Ground water (Niihama City Bureau of Water works)	Rivers–Arita River basin (partly in Kurokami zan Wildlife Preserve)	Rivers–Arita River basin (partly in Kurokami zan Wildlife Preserve)	–

Item (unit)	Kashima Plant	Shizuoka Plant	Nagoya Plant	Niihama Plant	Kyushu Plant	No. 2 Kyushu Plant	Total
Greenhouse gas emissions (t-CO_2)							
CO_2 (Carbon dioxide)	1,300	1,451	2,028	1,265	1,788	896	8,728
CH_4 (Methane) [1]	–	6	44	4	10	–	64
N_2O (Nitrogen monoxide) [1]	–	1	5	1	1	–	7
Volume o waste (t)	1,898	1,980	2,629	885	2,379	196	9,966
Total water discharge (m^3)							
Sewage	1,933	–	–	4,653	–	–	6,586
Ocean area	829	–	8,169	–	–	–	8,997
Rivers	–	2,855	–	–	–	–	2,855
Lakes	–	–	–	–	26,487	128,706	155,193
Emissions into air (kg)							
SOx (Sulfur oxide)	–	–	833	632	88	499	2,051
NOx (Nitrogen oxide)	–	–	4,007	702	1,518	–	6,228
Soot and dust	–	–	2,919	521	1,052	–	4,492

1 Methane and dinitrogen monoxide have been converted to carbon dioxide equivalents.

Sumirin Agro-Products Co., Ltd.

Item (unit)		Sakura Plant	Shinshiro Plant	Tobishima Plant	Total
Energy input (GJ)		1,221	3,585	3,007	7,813
Raw material input (t)		70	21	65	156
Water resource consumption (m^3)					
	Clean water	–	1,030	2,013	3,043
	Main water source	–	Rivers-Ure River basin (Protected area: partly in Tenryu-Okumikawa Quasi-National Park and Hourai Wildlife Preserve)	Rivers-Kiso River basin (Protected area: N/A)	–
	Groundwater	287	–	–	287
Greenhouse gas emissions (t-CO_2)					
	CO_2 (Carbon dioxide)	69	230	180	478
Volume of waste (t)		17	12	29	58
Total water discharge (m^3)					
	Ocean area	–	–	1,893	1,893
	Rivers	–	730	–	730
	Lakes	–	–	–	0
	Others	19	–	–	19

Environmental Data for Group Companies outside Japan

Data for plants outside of Japan shows the environmental impact per company.

Group Companies outside Japan

Item (unit)		PT. Rimba Partikel Indonesia	Alpine MDF Industries	PT. AST Indonesia	PT. Kutai Timber Indonesia	Nelson Pine Industries Ltd.
Energy input (GJ)		149,222	404,311	68,023	706,701	1,066,598
Raw material input (t)		122,875	184,911	26,858	406,131	710,136
Water resource consumption (m^3)						
	Clean water	–	84,912	–	–	345,278
	Industrial water	–	–	25,531	190,499	–
	Groundwater	266,510	–	–	89,892	–
Greenhouse gas emissions (t-CO_2)						
	CO_2 (Carbon dioxide)	10,209	31,007	4,790	47,205	12,417
	CH_4 (Methane)[1]	669	–	–	–	–
	N_2O (Dinitrogen monoxide)[1]	77	–	–	–	–
Volume of waste (t)		15,026	53,359	2,987	28,344	5,401
Total water discharge (m^3)						
	Sewage	–	33,678	–	–	323,429
	Ocean area	–	–	–	137,439	–
	Rivers	263,899	–	25,531	–	–

1 Methane and dinitrogen monoxide have been converted to carbon dioxide equivalents.

Corporate Profile

Company Name	Sumitomo Forestry Co., Ltd.
Address of Headquarters	Keidanren Kaikan, 3-2, Otemachi 1-chome, Chiyoda-ku, Tokyo 100-8270, Japan
Paid-in Capital	¥27,672 million
Incorporated	February 20, 1948
Founded	1691
Number of employees	Unconsolidated: 4,416; Consolidated: 14,890 (FY2012)
Business scope	■ Forestry & Environment Businesses Management of forests; development of new forestry and environment-related business, etc. ■ Timber & Building Materials Businesses Purchase, manufacture, secondary processing and sales of timber (logs, wood chips, processed timber, engineered wood, etc.) and building materials (plywood, fiberboard, processed wood materials, concrete and ceramic building materials, metal building materials, housing systems and fixtures, etc.) ■ Housing Businesses Contract construction, sales, after-sales maintenance and renovation of detached houses and multi-unit residences; sales of interior products; sales of spec homes; rental, management, sales, and brokerage of property; contract work for housing exteriors, garden landscaping and urban greening; CAD work and site surveys, etc. ■ Lifestyle Services Operation of private-pay elderly care facilities; equipment leasing; insurance agency; manufacture and sales of gardening products; development of information systems; temporary staffing, etc. ■ Overseas Businesses Manufacture and sales of timber and building materials; contract construction and sales of detached houses, etc.; forestation operations and sales of plantation timber.
Company-owned forests	43,328ha (As of March 31, 2013)
Construction license	Minister of Land, Infrastructure, Transport and Tourism Permit (Special -22) No. 4237 (as of January 31, 2012)
Real estate business license	Minister of Land, Infrastructure, Transport and Tourism (13) No. 687

Key Financial Data

Consolidate Net Sales, Operating Income, Recurring Income and Net Income

	FY2008	FY2009	FY2010	FY2011	FY2012
Net Sales (Billions of yen)	8,238	7,239	7,975	8,319	8,452
Operating Income (Billions of yen)	68 (0.8%)	97 (1.3%)	142 (1.8%)	192 (2.3%)	253 (3.0%)
Recurring Income (Billions of yen)	62 (0.7%)	95 (1.3%)	142 (1.8%)	207 (2.5%)	270 (3.2%)
Net Income (Billions of yen)	10 (0.1%)	24 (0.3%)	52 (0.6%)	93 (1.1%)	159 (1.9%)

1 Percentages indicate the ratio to net sales.

Consolidated Net Sales and Ratio of Net Sales by Segment (FY2012)

	Timber and Building Material Business	Housing Businesses	Overseas Business	Other Businesses
Net Sales (million yen)	401,266	430,774	38,657	15,406
Ratio of Net Sales (%)	45.3	48.6	4.4	1.7

1. Percentages indicate the ratio to net sales.
2. Net sales for each segment's net sales does not match the consolidated net sales (845.2 billion yen).

▶ Performance Highlights (link to Investor Relations)

Editorial Policy for CSR Report 2013

Purpose of Disclosing CSR Information

The Sumitomo Forestry Group regards the *CSR Report* as an important tool for communicating with all stakeholders, and as such, publishes the report every year on its website.

The *CSR Report 2013* includes a section on "Our Commitment," and the rest is then divided into three parts: Management System, Social Report and Environmental Report, which report the Group's philosophy and policies on CSR as well as its specific activities. The report also has a section on "CSR Activity Highlights," which showcases the Group's distinctive initiatives centered around wood, which aim to contribute to the realization of a sustainable enterprise and a sustainable society.

The website from where the CSR Report is available also includes detailed content on the Group's activities such as forest conservation, biodiversity preservation and social contribution. Please visit the webpages on the Group's diverse initiatives and feel free to provide us with your feedback.

Reliability of Report Content

The respective departments of Sumitomo Forestry Group have endeavored to ensure accuracy by using appropriate measurement and data collection methods for the initiatives and results reported in the *CSR Report*. These methods are also disclosed when relevant. Furthermore, from fiscal 2013, the validity of the report content and CSR activities have been objectively confirmed through certification by Ernst & Young Sustainability Co., Ltd.

Reference Guidelines

- Sustainability Reporting Guidelines (Edition 3.1), Global Reporting Initiative (GRI)
- Environmental Reporting Guidelines (2012 Edition), Japanese Ministry of the Environment
- ISO 26000:2010 Guidance on Social Responsibility, Japanese Standards Association

Reporting Period

April 2012 to March 2013
(The period also includes some activities from April 2013, as well as future expectations.)

Companies Covered in the Report

Although this report focuses mainly on Sumitomo Forestry Co., Ltd., the Company considers it important to cover activities of the entire Sumitomo Forestry Group, and has been expanding its reporting scope. This report covers 43 Group companies and 22 affiliates considered to have material significance for the sustainability of the entire Sumitomo Forestry Group's (43 consolidated subsidiaries, 6 affiliates) business in Japan and abroad.

Link to Related Website: "List of Sumitomo Forestry Group Companies"

Main Changes during the Reporting Period

On April 1, 2012, Sumirin *Life Assist* Co.,Ltd was absorbed by Sumitomo Forestry Co., Ltd.
On June 1, 2012, Sumitomo Forestry (Shanghai) Ltd. was established in Shanghai, China, as a subsidiary.
On July 3, 2012, Sumitomo Forestry (Vietnam) Co., Ltd. was established in Ho Chi Minh City, Vietnam, as a subsidiary.

Publication Date

The end of July 2013 (Previous: July 2012; Next: July 2014)

Publication Team

Sumitomo Forestry Co., Ltd.
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CSR Team, Corporate Communications Department Environmental Management Department

GRI G3.1 Content Index

G3.1 Disclosure		ISO26000 Disclosure	Location
1. Strategy and Analysis			
1.1	Statement from the most senior decision maker of the organization (e.g., CEO, chair, or equivalent senior position) about the relevance of sustainability to the organization and its strategy.	6.2	▶ Top Message(P2)
1.2	Description of key impacts, risks, and opportunities.	6.2	▶ Top Message(P2) ▶ CSR Activity Highlights ▶ Risk Management and Compliance(P12) ▶ CSR Management(P29) ▶ Environmental Risk Management (P154) ▶ IR Library
2 Organizational Profile			
2.1	Name of the organization.		▶ Corporate Profile(P280)
2.2	Primary brands, products, and / or services.		▶ Corporate Profile(P280) ▶ CSR Management(P29) ▶ Our Business
2.3	Operational structure of the organization, including main divisions, operating companies, subsidiaries, and joint ventures.	6.2	▶ CSR Management(P29) ▶ Our Business
2.4	Location of organization's headquarters.		▶ Corporate Profile(P280)
2.5	Number of countries where the organization operates, and names of countries with either major operations or that are specifically relevant to the sustainability issues covered in the report.		▶ Sumitomo Forestry Group
2.6	Nature of ownership and legal form.		▶ Corporate Profile(P280)
2.7	Markets served (including geographic breakdown, sectors served, and types of customers/beneficiaries).		▶ Corporate Profile(P280) ▶ Sumitomo Forestry Group

G3.1 Disclosure		ISO26000 Disclosure	Location
2.8	Scale of the reporting organization, including: ● Number of employees; ● Number of operations; ● Net sales (for private sector organizations) or net revenues (for public sector organizations); ● Total capitalization broken down in terms of debt and equity (for private sector organizations); and ● Quantity of products or services provided.		▶ Corporate Profile(P280) ▶ Performance Highlights
2.9	Significant changes during the reporting period regarding size, structure, or ownership including: ● The location of, or changes in operations, including facility openings, closings, and expansions; and ● Changes in the share capital structure and other capital formation, maintenance, and alteration operations (for private sector organizations).		▶ Edititorial Policy(P282)
2.10	Awards received in the reporting period.		▶ External Recognition(P300)
3 Report Parameters			
Report Profile			
3.1	Reporting period (e.g., fiscal/calendar year) for information provided.		▶ Edititorial Policy(P282)
3.2	Date of most recent previous report (if any).		▶ Edititorial Policy(P282)
3.3	Reporting cycle (annual, biennial, etc.)		▶ Edititorial Policy(P282)
3.4	Contact point for questions regarding the report or its contents.		▶ Edititorial Policy(P282)
Report Scope and Boundary			
3.5	Process for defining report content, including: ● Determining materiality; ● Prioritizing topics within the report; and ● Identifying stakeholders the organization expects to use the report.		▶ Edititorial Policy(P282)
3.6	Boundary of the report (e.g., countries, divisions, subsidiaries, leased facilities, joint ventures, suppliers).		▶ Edititorial Policy(P282)
3.7	State any specific limitations on the scope or boundary of the report.		▶ Edititorial Policy(P282)
3.8	Basis for reporting on joint ventures, subsidiaries, leased facilities, outsourced operations, and other entities that can significantly affect comparability from period to period and/or between organizations.		

G3.1 Disclosure		ISO26000 Disclosure	Location
3.9	Data measurement techniques and the bases of calculations, including assumptions and techniques underlying estimations applied to the compilation of the Indicators and other information in the report.		▶ Edititorial Policy(P282) ▶ Boundaries and Methods of CO_2 Emissions Calculation(P186) ▶ Environmental Accounting(P272)
3.10	Explanation of the effect of any re-statements of information provided in earlier reports, and the reasons for such re-statement (e.g., mergers/ acquisitions, change of base years/periods, nature of business, measurement methods).		
3.11	ESignificant changes from previous reporting periods in the scope, boundary, or measurement methods applied in the report.		▶ Boundaries and Methods of CO_2 Emissions Calculation(P186)
GRI content index			
3.12	Table identifying the location of the Standard Disclosures in the report.		GRI G3.1 Content Index
Assurance			
3.13	Policy and current practice with regard to seeking external assurance for the report. If not included in the assurance report accompanying the sustainability report, explain the scope and basis of any external assurance provided. Also explain the relationship between the reporting organization and the assurance provider(s).	7.5.3	▶ Third-party certificate(P305)
4 Governance, Commitments, and Engagement			
Governance			
4.1	Governance structure of the organization, including committees under the highest governance body responsible for specific tasks, such as setting strategy or organizational oversight.	6.2	▶ Corporate Governance(P7)
4.2	Indicate whether the Chair of the highest governance body is also an executive officer (and, if so, their function within the organization's management and the reasons for this arrangement).	6.2	▶ Corporate Governance(P7)
4.3	For organizations that have a unitary board structure, state the number and gender of members of the highest governance body that are independent and/or non-executive members.	6.2	▶ Corporate Governance(P7)

G3.1 Disclosure		ISO26000 Disclosure	Location
4.4	Mechanisms for shareholders and employees to provide recommendations or direction to the highest governance body.	6.2	▶ Corporate Governance(P7) ▶ Information Disclosure and Communication(P75) ▶ Communication with Employees (P117)
4.5	Linkage between compensation for members of the highest governance body, senior managers, and executives (including departure arrangements), and the organization's performance (including social and environmental performance).	6.2	▶ Corporate Governance(P7)
4.6	Processes in place for the highest governance body to ensure conflicts of interest are avoided.	6.2	–
4.7	Process for determining the composition, qualifications, and expertise of the members of the highest governance body and its committees, including any consideration of gender and other indicators of diversity.	6.2	–
4.8	Internally developed statements of mission or values, codes of conduct, and principles relevant to economic, environmental, and social performance and the status of their implementation.	6.2	▶ CSR Management(P29) ▶ Creation of Customer Satisfaction (CS)(P40) ▶ Product Safety and Quality Control(P42) ▶ Enforcement of CSR in the Supply Chain(P64) ▶ Human Resources Development and Career Support(P99) ▶ Environmental Philosophy and Environmental Policies(P143) ▶ Preserving Biodiversity(249)
4.9	Procedures of the highest governance body for overseeing the organization's identification and management of economic, environmental, and social performance, including relevant risks and opportunities, and adherence or compliance with internationally agreed standards, codes of conduct, and principles.	6.2	▶ Corporate Governance(P7) ▶ Risk Management and Compliance(P12) ▶ CSR Management(P29) ▶ Enforcement of CSR in the Supply Chain(P64) ▶ Environmental Management Structure(P147)
4.10	Processes for evaluating the highest governance body's own performance, particularly with respect to economic, environmental, and social performance.	6.2	▶ Corporate Governance(P7)

G3.1 Disclosure		ISO26000 Disclosure	Location
Commitments to External Initiatives			
4.11	Explanation of whether and how the precautionary approach or principle is addressed by the organization.	6.2	▶ Risk Management and Compliance(P12) ▶ Product Safety and Quality Control(P42) ▶ Enforcement of CSR in the Supply Chain(P64) ▶ Workplace Health and Safety (P90) ▶ Environmental Management Structure(P147) ▶ Environmental Risk Management (P154)
4.12	Externally developed economic, environmental, and social charters, principles, or other initiatives to which the organization subscribes or endorses.	6.2	▶ CSR Management(P29)
4.13	Memberships in associations (such as industry associations) and/or national/international advocacy organizations in which the organization: ● Has positions in governance bodies; ● Participates in projects or committees; ● Provides substantive funding beyond routine membership dues; or ● Views membership as strategic.	6.2	▶ Contributions to Public Policy (P141)
Stakeholder Engagement			
4.14	List of stakeholder groups engaged by the organization.	6.2	–
4.15	Basis for identification and selection of stakeholders with whom to engage.	6.2	–
4.16	Approaches to stakeholder engagement, including frequency of engagement by type and by stakeholder group.	6.2	–
4.17	Key topics and concerns that have been raised through stakeholder engagement, and how the organization has responded to those key topics and concerns, including through its reporting.	6.2	▶ Together with Our Customer (P40) ▶ Together with Our Business Partners(P64) ▶ Together with Our Shareholders and Investors(P75) ▶ Together with Our Employees (P81) ▶ Together with Our Local Communities(P125)

G3.1 Disclosure		ISO26000 Disclosure	Location
5 Management Approach and Performance Indicators			
Economic			
	Disclosure on Management Approach		–
Aspect: Economic Performance			
EC1	Direct economic value generated and distributed, including revenues, operating costs, employee compensation, donations and other community investments, retained earnings, and payments to capital providers and governments.	6.8 6.8.3 6.8.7 6.8.9	▶ Corporate Profile(P280) ▶ Returns to Shareholders(P78) ▶ Promotion of Social Contribution Activities(P125) ▶ Financial Results(PDF1.15MB)
EC2	Financial implications and other risks and opportunities for the organization's activities due to climate change.	6.5.5	▶ CSR Activity Highlights ▶ Environmental Risk Management (P154)
EC3	Coverage of the organization's defined benefit plan obligations.		▶ IR Library
EC4	Significant financial assistance received from government.		
Aspect: Market Presence			
EC5	Policy, practices, and proportion of spending on locally-based suppliers at significant locations of operation.	6.3.7 6.4.4 6.8	–
EC6	Policy, practices, and proportion of spending on locally-based suppliers at significant locations of operation.	6.6.6 6.8 6.8.5 6.8.7	–
EC7	Procedures for local hiring and proportion of senior management hired from the local community at locations of significant operation.	6.8 6.8.5 6.8.7	▶ Fair Employment and Treatment (P81) ▶ Employee Data(P120)

G3.1 Disclosure		ISO26000 Disclosure	Location
Aspect: Indirect Economic Impacts			
EC8	Development and impact of infrastructure investments and services provided primarily for public benefit through commercial, in-kind, or pro bono engagement.	6.8 6.8.3 6.8.4 6.8.5 6.8.6 6.8.7 6.8.9	▶ CSR Activity Highlights ▶ Enforcement of CSR in the Supply Chain(P64) ▶ Together with Our Local Communities(P125) ▶ Helping to Mitigate Global Warming through Products and Services(P190) ▶ Preserving Forests:Sustainable Forest Management(P219) ▶ Preserving Forests: Through the Use of Timber(P228) ▶ Preserving Forests:Promoting Reforestation Consulting Services(P247) ▶ Preserving Biodiversity(P249)
EC9	Understanding and describing significant indirect economic impacts, including the extent of impacts.	6.3.9 6.6.6 6.6.7 6.7.8 6.8 6.8.5 6.8.6 6.8.7 6.8.9	▶ Risk Management and Compliance(P12) ▶ Environmental Risk Management (P154)
Environmental			
	Disclosure on Management Approach		▶ Environmental Report
Aspect: Materials			
EN1	Materials used by weight or volume.	6.5 6.5.4	▶ Environmental Impact of Business Activities(P164)
EN2	Percentage of materials used that are recycled input materials.	6.5 6.5.4	–
Aspect: Energy			
EN3	Direct energy consumption by primary energy source.	6.5 6.5.4	▶ Environmental Impact of Business Activities(P164) ▶ Reduction of Greenhouse Gas Emissions from Business Activities(P174)

G3.1 Disclosure		ISO26000 Disclosure	Location
EN4	Indirect energy consumption by primary source.	6.5 6.5.4	▶ Environmental Impact of Business Activities(P164)
EN5	Energy saved due to conservation and efficiency improvements.	6.5 6.5.4	▶ Reduction of Greenhouse Gas Emissions from Business Activities(P174)
EN6	Initiatives to provide energy-efficient or renewable energy based products and services, and reductions in energy requirements as a result of these initiatives.	6.5 6.5.4	▶ CSR Activity Highlights ▶ Helping to Mitigate Global Warming through Products and Services(P190)
EN7	Initiatives to reduce indirect energy consumption and reductions achieved.	6.5 6.5.4	▶ Reduction of Greenhouse Gas Emissions from Business Activities(P174)
Aspect: Water			
EN8	Total water withdrawal by source.	6.5 6.5.4	▶ Environmental Impact of Business Activities(P164) ▶ Efficient Use of Water Resources(P209)
EN9	Water sources significantly affected by withdrawal of water.	6.5 6.5.4	▶ Environmental Data for Group Companies(P275)
EN10	Percentage and total volume of water recycled and reused.	6.5 6.5.4	▶ Efficient Use of Water Resources(P209)
Aspect: Biodiversity			
EN11	Location and size of land owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas.	6.5 6.5.6	▶ Preserving Biodiversity(P249)
EN12	Description of significant impacts of activities, products, and services on biodiversity in protected areas and areas of high biodiversity value outside protected areas.	6.5 6.5.6	▶ CSR Activity Highlights ▶ Examples of Global Environmental Conservation Activities(P135) ▶ Environmental Risk Management (P154) ▶ Preserving Biodiversity(P249)
EN13	Habitats protected or restored.	6.5 6.5.6	▶ CSR Activity Highlights ▶ Examples of Global Environmental Conservation Activities(P135) ▶ Preserving Biodiversity(P249)
EN14	Strategies, current actions, and future plans for managing impacts on biodiversity.	6.5 6.5.6 6.8.3	▶ Environmental Risk Management (P154) ▶ Preserving Biodiversity(P249)

G3.1 Disclosure		ISO26000 Disclosure	Location
EN15	Number of IUCN Red List species and national conservation list species with habitats in areas affected by operations, by level of extinction risk.	6.5 6.5.6	▶ Preserving Biodiversity(P249)
Aspect: Emissions, Effluents, and Waste			
EN16	Total direct and indirect greenhouse gas emissions by weight.	6.5 6.5.5	▶ Environmental Impact of Business Activities(P164) ▶ Reduction of Greenhouse Gas Emissions from Business Activities(P174)
EN17	Other relevant indirect greenhouse gas emissions by weight.	6.5 6.5.5	▶ Environmental Impact of Business Activities(P164) ▶ Reduction of Greenhouse Gas Emissions from Business Activities(P174)
EN18	Initiatives to reduce greenhouse gas emissions and reductions achieved.	6.5 6.5.5	▶ CSR Activity Highlights ▶ Reduction of Greenhouse Gas Emissions from Business Activities(P174) ▶ Helping to Mitigate Global Warming through Products and Services(P190) ▶ Preserving Forests: Sustainable Forest Management(P209) ▶ Preserving Forests: Through the Use of Timber(P228) ▶ Preserving Forests: Promoting Reforestation Consulting Services(P247) ▶ Preserving Biodiversity(P249)
EN19	Emissions of ozone-depleting substances by weight.	6.5 6.5.3	–
EN20	NOx, SOx, and other significant air emissions by type and weight.	6.5 6.5.3	▶ Management of Hazardous Chemical Substances(P263)
EN21	Total water discharge by quality and destination.	6.5 6.5.3	▶ Management of Hazardous Chemical Substances(P263) ▶ Environmental Impact of Business Activities(P164)
EN22	Total weight of waste by type and disposal method.	6.5 6.5.3	▶ Environmental Impact of Business Activities(P164) ▶ Effective Use of Resources (P268)

G3.1 Disclosure		ISO26000 Disclosure	Location
EN23	Total number and volume of significant spills.	6.5 6.5.3	–
EN24	Weight of transported, imported, exported, or treated waste deemed hazardous under the terms of the Basel Convention Annex I, II, III, and VIII, and percentage of transported waste shipped internationally.	6.5 6.5.3	–
EN25	Identity, size, protected status, and biodiversity value of water bodies and related habitats significantly affected by the reporting organization's discharges of water and runoff.	6.5 6.5.3 6.5.4 6.5.6	–
Aspect: Land Degradation, Contamination and Remediation			
Aspect: Products and Services			
EN26	Initiatives to mitigate environmental impacts of products and services, and extent of impact mitigation.	6.5 6.5.4 6.6.6 6.7.5	▶ CSR Activity Highlights ▶ Environmental Impact of Business Activities(P164) ▶ Helping to Mitigate Global Warming through Products and Services(P190) ▶ Preserving Forests: Promoting Reforestation Consulting Services(P247) ▶ Preserving Biodiversity(P249)
EN27	Percentage of products sold and their packaging materials that are reclaimed by category.	6.5 6.5.3 6.5.4 6.7.5	–
Aspect: Compliance			
EN28	Monetary value of significant fines and total number of non-monetary sanctions for noncompliance with environmental laws and regulations.	6.5	▶ Effective Use of Resources (P268)
Aspect: Transport			
EN29	Significant environmental impacts of transporting products and other goods and materials used for the organization's operations, and transporting members of the workforce.	6.5 6.5.4 6.6.6	▶ Environmental Impact of Business Activities(P164) ▶ Reduction of Greenhouse Gas Emissions from Business Activities(P174) ▶ Helping to Mitigate Global Warming through Products and Services(P190)

G3.1 Disclosure		ISO26000 Disclosure	Location
Aspect: Overall			
EN30	Total environmental protection expenditures and investments by type.	6.5	▶ Environmental Accounting(P272)
Labor Practices and Decent Work			
	Disclosure on Management Approach		▶ Together with Our Employees (P81)
Aspect: Employment			
LA1	Total workforce by employment type, employment contract, and region, broken down by gender.	6.4 6.4.3	▶ Employee Data(P120)
LA2	Total number and rate of new employee hires and employee turnover by age group, gender, and region.	6.4 6.4.3	▶ Employee Data(P120)
LA3	Benefits provided to full-time employees that are not provided to temporary or part-time employees, by significant locations of operations.	6.4 6.4.3 6.4.4	–
LA15	Return to work and retention rates after parental leave, by gender.	6.4 6.4.4	▶ Employee Data(P120)
Aspect: Labor/Management Relations			
LA4	Percentage of employees covered by collective bargaining agreements.	6.4 6.4.3 6.4.4 6.4.5 6.3.10	▶ Employee Data(P120)
LA5	Minimum notice period(s) regarding operational changes, including whether it is specified in collective agreements.	6.4 6.4.3 6.4.4 6.4.5	–
Aspect: Occupational Health and Safety			
LA6	Percentage of total workforce represented in formal joint management-worker health and safety committees that help monitor and advise on occupational health and safety programs.	6.4 6.4.6	–
LA7	Rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities, by region and by gender.	6.4 6.4.6	▶ Employee Data(P120)

G3.1 Disclosure		ISO26000 Disclosure	Location
LA8	Education, training, counseling, prevention, and risk-control programs in place to assist workforce members, their families, or community members regarding serious diseases.	6.4 6.4.6 6.8 6.8.3 6.8.4 6.8.8	▶ Workplace Health and Safety (P90)
LA9	Health and safety topics covered in formal agreements with trade unions.	6.4 6.4.6	▶ Communication with Employees (P117)
Aspect: Training and Education			
LA10	Average hours of training per year per employee by gender, and by employee category.	6.4 6.4.7	▶ Employee Data(P120)
LA11	Programs for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings.	6.4 6.4.7 6.8.5	▶ Human Resources Development and Career Support(P99)
LA12	Percentage of employees receiving regular performance and career development reviews, by gender.	6.4 6.4.7	▶ Human Resources Development and Career Support(P99)
Aspect: Diversity and Equal Opportunity			
LA13	Composition of governance bodies and breakdown of employees per employee category according to gender, age group, minority group membership, and other indicators of diversity.	6.3.7 6.3.10 6.4 6.4.3	▶ Employee Data(P120)
Aspect: Equal Remuneration for Women and Men			
LA14	Ratio of basic salary and remuneration of women to men by employee category, by significant locations of operation.	6.3.7 6.3.10 6.4 6.4.3 6.4.4	–
Human Rights			
	Disclosure on Management Approach		▶ Risk Management and Compliance(P12) ▶ Together with Business Partners (P64) ▶ Together with Our Employees (P81)
Aspect: Investment and Procurement Practices			
HR1	Percentage and total number of significant investment agreements and contracts that include clauses incorporating human rights concerns, or that have undergone human rights screening.	6.3 6.3.3 6.3.5 6.6.6	–

G3.1 Disclosure		ISO26000 Disclosure	Location
HR2	Percentage of significant suppliers and contractors that have undergone screening on human rights and actions taken.	6.3 6.3.3 6.3.5 6.4.3 6.6.6	▶ Enforcement of CSR in the Supply Chain(P64) ▶ Preserving Forests: Through the Use of Timber(P228)
HR3	Total hours of employee training on policies and procedures concerning aspects of human rights that are relevant to operations, including the percentage of employees trained.	6.3 6.3.5	▶ Respect for Human Rights(P88)
Aspect: Non-Discrimination			
HR4	Total number of incidents of discrimination and corrective actions taken.	6.3 6.3.6 6.3.7 6.3.10 6.4.3	–
Aspect: Freedom of Association and Collective Bargainin			
HR5	Operations and significant suppliers identified in which the right to exercise freedom of association and collective bargaining may be violated or at significant risk, and actions taken to support these rights.	6.3 6.3.3 6.3.4 6.3.5 6.3.8 6.3.10 6.4.3 6.4.5	–
Aspect: Child Labor			
HR6	Operations and significant suppliers identified as having significant risk for incidents of child labor, and measures taken to contribute to the effective abolition of child labor.	6.3 6.3.3 6.3.4 6.3.5 6.3.7 6.3.10 6.6.6	▶ Enforcement of CSR in the Supply Chain(P64) ▶ Preserving Forests: Through the Use of Timber(P228)
Aspect: Forced and Compulsory Labor			
HR7	Operations and significant suppliers identified as having significant risk for incidents of forced or compulsory labor, and measures to contribute to the elimination of all forms of forced or compulsory labor.	6.3 6.3.3 6.3.4 6.3.5 6.3.7 6.3.10 6.6.6	▶ Enforcement of CSR in the Supply Chain(P64) ▶ Preserving Forests: Through the Use of Timber(P228)

G3.1 Disclosure		ISO26000 Disclosure	Location
Aspect: Security Practices			
HR8	Percentage of security personnel trained in the organization's policies or procedures concerning aspects of human rights that are relevant to operations.	6.3 6.3.5 6.4.3 6.6.6	–
Aspect: Indigenous Rights			
HR9	Total number of incidents of violations involving rights of indigenous people and actions taken.	6.3 6.3.6 6.3.7 6.3.8 6.6.7	–
Aspect: Assessment			
HR10	Percentage and total number of operations that have been subject to human rights reviews and/or impact assessments.	6.3 6.3.3 6.3.4 6.3.5	–
Aspect: Remediation			
HR11	Number of grievances related to human rights filed, addressed and resolved through formal grievance mechanisms.	6.3 6.3.6	–
Society			
	Disclosure on Management Approach		▶ Risk Management and Compliance(P12) ▶ Together with Our Local Communities(P125)
Aspect: Local Communities			
SO1	Percentage of operations with implemented local community engagement, impact assessments, and development programs.	6.3.9 6.8 6.8.3 6.8.9	▶ CSR Activity Highlights ▶ Examples of Community Development and Community Contribution Activities(P129) ▶ Preserving Forests: Through the Use of Timber(P228)
SO9	Operations with significant potential or actual negative impacts on local communities.	6.3.9 6.5.3 6.5.6 6.8	–

G3.1 Disclosure		ISO26000 Disclosure	Location
SO10	Prevention and mitigation measures implemented in operations with significant potential or actual negative impacts on local communities.	6.3.9 6.5.3 6.5.6 6.8	–
Aspect: Corruption			
SO2	Percentage and total number of business units analyzed for risks related to corruption.	6.6 6.6.3	▶ Risk Management and Compliance(P12)
SO3	Percentage of employees trained in organization's anti-corruption policies and procedures.	6.6 6.6.3	▶ Risk Management and Compliance(P12)
SO4	Actions taken in response to incidents of corruption.	6.6 6.6.3	▶ Risk Management and Compliance(P12)
Aspect: Public Policy			
SO5	Public policy positions and participation in public policy development and lobbying.	6.6 6.6.4 6.8.3	▶ Contributions to Public Policy (P141)
SO6	Total value of financial and in-kind contributions to political parties, politicians, and related institutions by country.	6.6 6.6.4 6.8.3	–
Aspect: Anti-Competitive Behavior			
SO7	Total number of legal actions for anticompetitive behavior, anti-trust, and monopoly practices and their outcomes.	6.6 6.6.5 6.6.7	–
Aspect: Compliance			
SO8	Monetary value of significant fines and total number of non-monetary sanctions for noncompliance with laws and regulations.	6.6 6.6.7 6.8.7	–
Product Responsibility			
	Disclosure on Management Approach		▶ Risk Management and Compliance(P12) ▶ Together with Our Customer (P40)
Aspect: Customer Health and Safety			
PR1	Life cycle stages in which health and safety impacts of products and services are assessed for improvement, and percentage of significant products and services categories subject to such procedures	6.3.9 6.6.6 6.7 6.7.4 6.7.5	▶ Product Safety and Quality Control(P42)

G3.1 Disclosure		ISO26000 Disclosure	Location
PR2	Total number of incidents of non-compliance with regulations and voluntary codes concerning health and safety impacts of products and services during their life cycle, by type of outcomes.	6.3.9 6.6.6 6.7 6.7.4 6.7.5	–
Aspect: Product and Service Labeling			
PR3	Type of product and service information required by procedures, and percentage of significant products and services subject to such information requirements.	6.7 6.7.3 6.7.4 6.7.5 6.7.6 6.7.9	▶ Product Safety and Quality Control(P42)
PR4	Total number of incidents of non-compliance with regulations and voluntary codes concerning product and service information and labeling, by type of outcomes.	6.7 6.7.3 6.7.4 6.7.5 6.7.6 6.7.9	▶ Risk Management and Compliance(P12)
PR5	Practices related to customer satisfaction, including results of surveys measuring customer satisfaction.	6.7 6.7.4 6.7.5 6.7.6 6.7.8 6.7.9	▶ Creation of Customer Satisfaction (CS)(P40) ▶ Information Disclosure/Dissemination and Communication(P58)
Aspect: Marketing Communications			
PR6	Programs for adherence to laws, standards, and voluntary codes related to marketing communications, including advertising, promotion, and sponsorship.	6.7 6.7.3 6.7.6 6.7.9	▶ Information Disclosure/Dissemination and Communication(P58)
PR7	Total number of incidents of non-compliance with regulations and voluntary codes concerning marketing communications, including advertising, promotion, and sponsorship by type of outcomes.	6.7 6.7.3 6.7.6 6.7.9	–
Aspect: Customer Privacy			
PR8	Total number of substantiated complaints regarding breaches of customer privacy and losses of customer data.	6.7 6.7.7	–
Aspect: Compliance			
PR9	Monetary value of significant fines for noncompliance with laws and regulations concerning the provision and use of products and services.	6.7 6.7.6	–

External Recognition

Awards and Recognition by Third Parties in Fiscal 2012

Date	Awards	Recognition	Scope of Recognition
Apr. 2012	DBJ Environmental Ratings Development Bank of Japan Inc.	Acquired highest ranked rating of "leading corporation for environmentally responsible initiatives" (special commendation).	Sumitomo Forestry
May 2012	EECA Awards 2012 New Zealand Government	Commended in all nine categories for the year's most innovative project for increased energy efficiency, and presented award for excellence in two of the categories: Large Business Award and Energy Management Award.	Nelson Pine Industries Ltd.
July 2012	6th Kids Design Award Kids Design Association	"Interior Kids Wall" partition for children's rooms Category: Future designs for kids (creative)	Sumitomo Forestry Nihon Kagaku Sangyo Co., Ltd.
July 2012	6th Kids Design Award Kids Design Association	"Resin Joint Safety Stairs" Category: Child safety and security design (general)	Sumitomo Forestry Sumitomo Forestry Crest Co., Ltd.
July 2012	Indonesia Green Award Indonesian Ministry of Forestry	Received Platinum Award in the corporate category for being an organization conducting activities that contribute to tree planting.	PT. Kutai Timber Indonesia
July 2012	42nd WorldSkills Competition	Awarded Medallion for Excellence in the carpentry category	Sumitomo Forestry Home Engineering Co., Ltd

Date	Awards	Recognition	Scope of Recognition
Sep. 2012	SMBC Business Continuity Assessment Loan Sumitomo Mitsui Banking Corporation / InterRisk Research Institute & Consulting, Inc.	The Company's multifaceted approach to business continuity based on a review of the Great East Japan Earthquake was rated highly in a loan program where loan conditions are set depending on the results of an assessment of the company's initiatives for business continuity.	Sumitomo Forestry
Sep. 2012	29th Housing Renovation Competition Center for Housing Renovation and Dispute Settlement Support	Received an Award of Excellence for the renovation of a two-family home into a spacious single-family home where a couple and their dog can live comfortably.	Sumitomo Forestry Home Tech Co., Ltd.
Oct. 2012	2012 Good Design Awards Japan Institute of Design Promotion	Awarded for the "MOCCA HUT" style of temporary wooden buildings which uses Japanese timber and succeeds in simplifying the construction and demolition work.	Sumitomo Forestry
Oct. 2012	2012 Good Design Awards Japan Institute of Design Promotion	Awarded for Lattice Panels which are aerated load-bearing wall panels for external wall lining. They actively use Japanese timber, and have been used in the structures of *Sumitomo Forestry Home* houses for more than 10 years.	Sumitomo Forestry

Date	Awards	Recognition	Scope of Recognition
Oct. 2012	2012 Good Design Awards Japan Institute of Design Promotion	Awarded for the Harmonic Plants method of proposing which plants to be used for landscaping projects. The method takes biodiversity into consideration and harmonizes with the local environment.	Sumitomo Forestry Landscaping Co., Ltd.
Oct. 2012	The 29th National Urban Greenery Fair Tokyo, Garden Contest Tokyo Metropolitan Government, Organization for Landscape and Urban Green Infrastructure	Awarded the Minister of Land, Infrastructure, Transport and Tourism Award (grand prize) for the *satoniwa style* that brings the pleasantness of forests to people's homes.	Sumitomo Forestry Landscaping Co., Ltd.
Oct. 2012	50th National Skills Competition Japan Vocational Ability Development Association	Received one silver medal, two bronze medals and two "fighting spirit" awards in the carpentry section (all entrants won a prize).	Sumitomo Forestry Home Engineering Co., Ltd.
Oct. 2012	Minister of Land, Infrastructure, Transport and Tourism's Award for Outstanding Builder Ministry of Land, Infrastructure, Transport and Tourism	Builders working at the forefront of construction sites are publicly commended as building craftspeople in recognition for their outstanding technical skill and techniques, and their significant contributions to the guidance and nurturing of the next generation of craftsmen.	Sumitomo Forestry Home Engineering Co., Ltd.
Oct. 2012	47th Japan National Conference on Geotechnical Engineering The Japanese Geotechnical Society	Best Presentation Award	Sumitomo Forestry Archi Techno Co., Ltd.

Date	Awards	Recognition	Scope of Recognition
Nov. 2012	Japan Safe Driving Center	Awarded a certificate of appreciation in recognition of Sumitomo Forestry's outstanding activities to prevent traffic accidents and violations by utilizing an analysis of Certified Driving Records.	Sumitomo Forestry
Jan. 2013	The Sustainability Yearbook 2013 RobecoSAM AG	Awarded "RobecoSAM Gold Class" and "RobecoSAM Sector Leader" in the Home Construction Sector as an enterprise with excellent sustainability.	Sumitomo Forestry
Jan. 2013	Forest and Forestry Shikoku Shikoku Regional Forest Office	Awarded the Japan Forest Technology Association (JAFTA) President's Prize	Sumitomo Forestry Wood Products Co., Ltd.
Feb. 2013	Aichi Environmental Awards Aichi Prefecture, Environmental Partnership Organizing Club (EPOC)	Received an Excellence Award for the "*Conrect Life Project* Project." This is a project for creating ecosystem networks and nurturing the next generation of people to be responsible for biodiversity. It is supported by the Eco-Asset™ Consortium which is a collaboration between the Sumitomo Forestry Group and other organizations.	Sumitomo Forestry Sumitomo Forestry Landscaping Co., Ltd. InterRisk Research Institute & Consulting, Inc. Regional Environmental Planning Inc.
Mar. 2013	Minister of Health, Labour and Welfare's Award for Foremen Demonstrating Excellence in Safety Ministry of Health, Labour and Welfare	Public commendation received by an outstanding foreman who practiced appropriate safety guidance with a high degree of safety awareness.	Sumitomo Forestry Home Engineering Co., Ltd.

Date	Awards	Recognition	Scope of Recognition
July 2013	7th Kids Design Award Kids Design Association	*Comama* new spatial design for living areas Designs to support comfortable raising of children; Category: Individual and households	Sumitomo Forestry
July 2013	7th Kids Design Award Kids Design Association	*Hagukumi no Niwa* garden design for raising children Designs to support comfortable raising of children; Category: Individual and households	Sumitomo Forestry

Third-party certificate

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Translation

The following is an English translation of an independent assurance statement prepared in Japanese and is for information and reference purposes only. In the event of a discrepancy between the Japanese and English versions, the Japanese version will prevail.

Independent Assurance Report

Date: July 19, 2013

To
Mr. Akira Ichikawa
President / Director
Sumitomo Forestry Co., Ltd.

Kenji Sawami
Representative Director
Ernst & Young Sustainability Co., Ltd.

1. Scope and Purpose of Assurance Engagement

We, Ernst & Young Sustainability Co., Ltd., have been commissioned by Sumitomo Forestry Co., Ltd.(hereafter the "Company") to provide limited assurance on the Company's CSR Report 2013 posted on the Company's Web site (hereafter the "Report").

The purpose of our assurance engagement is to perform the limited assurance work to determine whether the Key Sustainability Performance Indicators*1 (hereafter the "Indicators") of the Company and its major subsidiaries for the year ended March 31,2013 included in the Report were measured, calculated and reported in accordance with the Company's Reporting Standards*2 and the Company's policies and standards, and were contained in all material respects and to express a conclusion based on the work performed.

The Company is responsible for the preparation of the Report. Our responsibility is limited to independently express a conclusion on the Indicators.

*1 "Indicators" means the information defined in Sustainability Reporting Assurance and Registration Criteria (Revised in February 2013 by The Japanese Association of Assurance Organizations for Sustainability Information).

*2 The Reporting Standards refer to the Environmental Reporting Guidelines 2012 (Published in April 2012 by Ministry of the Environment) , Sustainability Reporting Guidelines Version 3.1 (Revised in March 2011 by Global Reporting Initiative), and the important information subject to disclosure are identified in accordance with the Sustainability Reporting Assurance and Registration Criteria.

2. Summary of Assurance Procedures Performed

We performed limited assurance procedures in accordance with the International Standard on Assurance Engagements - Assurance Engagements Other than Audits or Reviews of Historical Financial Information (ISAE 3000), revised in December 2003 by the International Federation of Accountants and Practical Guidelines for the Assurance of Sustainability Information, revised in December 2012 by the Japanese Association of Assurance Organizations for Sustainability Information. In a limited assurance engagement, assurance procedures are more limited than those of a reasonable assurance engagement conducted in accordance with ISAE3000. Therefore, the level of assurance provided is not as that provided by a reasonable assurance.

The summary of the procedures we performed for our assurance engagement is as follows:

- Reading relevant documents with regard to the Company's Reporting Standards and the Company's policies and standards and inquiring of personal responsible thereof;
- Reading relevant documents with regard to the design of the Company's internal control of the Indicators and inquiring of personal responsible thereof at the headquarters and the sites visited;
- Performing analytical procedures of the Indicators at the headquarters and the sites visited; and
- Agreeing to supporting documents and recalculating with part of the Indicators at the headquarters and the sites visited on a test basis;

3. Conclusion

Based on the assurance procedures performed, nothing has come to our attention that caused us to believe that the Indicators for the year ended March 31, 2013 were not measured, calculated and reported in accordance with the Company's Reporting Standards and the Company's policies and standards and were not contained in all material respect.

4. Independence

We have no conflict of interest relationships with Company that are specified in the Code of Ethics of the Japanese Association of Assurance Organizations for Sustainability Information.

SUMITOMO FORESTRY CO.,LTD.

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