



# Happiness Grows from Trees

Why do people love trees?

Probably because humans have co-existed with trees on earth for ages and we have become intimately aware of how extraordinary they are.

Trees have a kindness about them. They produce oxygen that sustains life on earth and they give shade that blocks scorching sunlight.

Trees have warmth. When you touch a tree, instead of heat being drawn away from your body, you feel warmth.

And trees protect us. Harboring soft-skinned humans in their bounty, they shelter us from heat, cold, wind and rain.

Beyond all this, trees are beautiful. Anyone who has spent time in a place filled with trees knows their strength to comfort and heal body and soul.

Helping to keep the world thriving with the bounty of trees is our work.

Trees are an invaluable resource, vital and intimately connected to life.

No other work could bring such joy and happiness—  
that's how we at the Sumitomo Forestry Group feel when we consider  
the boundless importance of trees. Our work is not only about using trees.  
It's about sustaining life on earth with trees.  
We plant trees, nurture their growth, and seek new ways to expand their potential.  
We strive to share the joy of living amongst the abundant  
gifts of trees with everyone on earth.  
Today there is growing awareness of the need for a sustainable society.  
The Sumitomo Forestry Group shares this commitment.  
Together, let's nurture growth that will thrive long into the future.

Happiness Grows from Trees  
Sumitomo Forestry Group

# Plant trees

Japan's forests occupy nearly 70% of the nation's land area. Not only do forests provide us with the natural resource of wood, they bring many blessings, such as an abundance of water, and preserve biodiversity. While planting, growing, and utilizing trees in our lives, new trees are planted. Preserving trees, a renewable resource, and this cycle of life is our special mission. We bring the joy of living close to trees to everyone. The Sumitomo Forestry Group will continue to contribute to the realization of an abundant life together with trees.







# Expand tree's potential

The trees that nature produces have many remarkable powers including strength, durability, and heat insulating properties, and are used in every aspect of a living life.

We will expand the never-before-seen potential of trees and continue our everyday research activities so that this potential can be utilized for security and comfort in people's lives.

For a future of living with trees, we will continue on this path.



# Share the joy of living with trees

Trees are warm and soft to the touch.  
Trees are not only wonderful as construction materials;  
they protect us and hold us in their gentle embrace.  
They are used in everything from houses to stores,  
educational facilities, and elderly care facilities.  
Building comfortable spaces where people can  
experience the joy of living, we will continue to devote  
all of our energy to our work.







## 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.

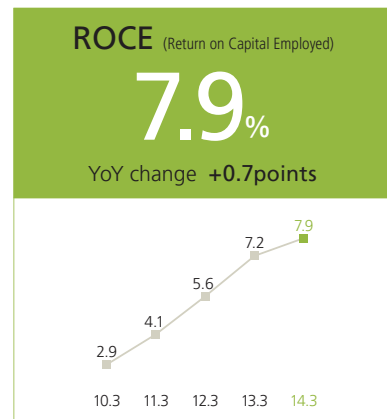
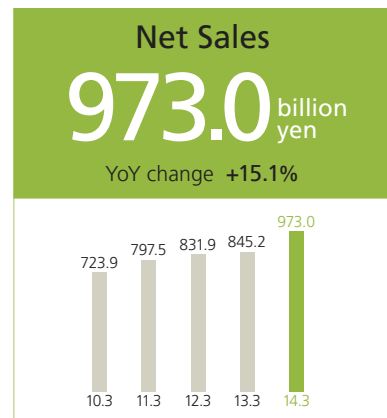
### ■ Putting Customers First

We are thoroughly committed to customer satisfaction through the provision of high-quality products and services.

## Contents

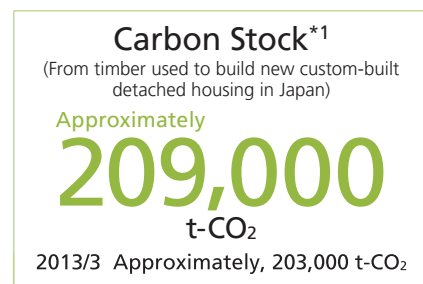
- 1 Happiness Grows from Trees
- 8 FY2013 Highlights
- 10 Message from the Chairman
- 12 Interview with the President
- 18 Special Feature : Happiness Grows from Trees  
With its Focus on Trees, the Sumitomo Forestry Group Continues to Grow
- 27 Business Strategies by Segment
  - 28 At a Glance
  - 30 Timber and Building Materials Business
  - 32 Housing Business
  - 34 Overseas Business
  - 36 Other Businesses
- 37 Sustainability
- 43 Governance
- 49 Financial Section
- 85 Sumitomo Forestry Group at a Glance
- 88 Organization Chart
- 89 Investor Information

## Financial



\* ROCE = Operating profit / (Interest-bearing debt + Shareholders' equity)  
[Operating profit = (Recurring income + Interest expenses) × (1 - Effective tax rate)]

## Sustainability



### External Commendations

#### Inclusion in Socially Responsible Investment Indexes

(As of July 2014)

**DJSI**  
(Dow Jones Sustainability Indexes)  
We have been included in this index since 2005.



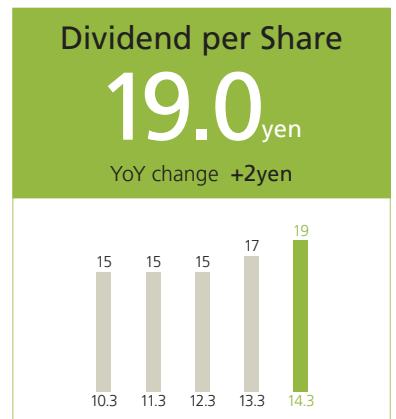
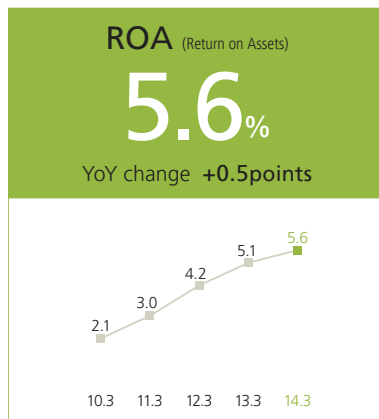
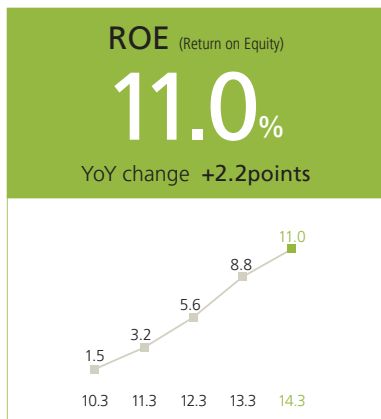
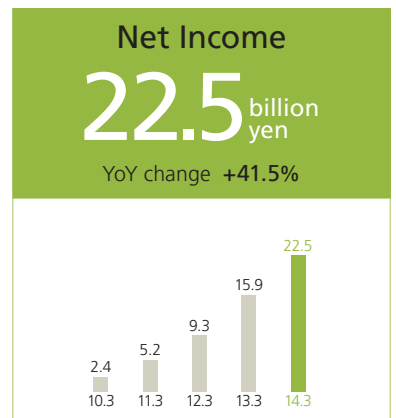
**FTSE4Good Global Index**  
We have been included in this index since 2004.



FTSE4Good

**Morningstar SRI Index**  
We have been included in this index since 2008.





Percentage of Certified Imported Timber and Plantation Timber

**62**  
%

2013/3 63%

Overseas Plantation Land Area

**12,136**  
ha

2013/3 8,412ha

Owned and Managed Forests\*2  
(Company-owned forests in Japan)

**45,808** ha  
as of March 31, 2013 43,328ha  
(Overseas plantations)  
Approximately  
**200,000** ha

\*1. The volume of CO<sub>2</sub> in timber used in new custom-built detached houses constructed by the Group retaining CO<sub>2</sub> as carbon. A Sumitomo Forestry Home house has a carbon stock of about 22.6t-CO<sub>2</sub>.

\*2. As of March 31, 2014.

#### "Gold Class" in the RobecoSAM's "The Sustainability Yearbook 2014"

We were awarded for the second straight year the "Gold Class" commendation in Homebuilding Industry Sector of "The Sustainability Yearbook 2014," a CSR rating by the RobecoSAM, which researches and analyzes companies to be listed in DJSI. At the same time, we were named Industry Leader with the highest score in the Homebuilding Industry Sector.



#### Top-scoring Japanese company in the CDLI of CDP 2013

We were recognized as a leading company by the Climate Disclosure Leadership Index (CDLI) of CDP, having received the highest score as a Japanese company for our excellent information disclosure on greenhouse gas emission calculation and target management, climate change strategy, and risk management.



#### Highest Rank in the DBJ's Environmental Rating

In April 2012, Sumitomo Forestry was awarded the highest rank by the Development Bank of Japan in its DBJ Environmental Ratings. The DBJ Environmental Ratings score companies' environmental management using a screening (rating) system developed by DBJ. Three-tier interest rates are assigned to the best-performing companies based on each company's environmental rating score. It is the world's first financing scheme to employ a method based specifically on companies' environmental ratings.

## Message from the Chairman



## Expanding the potential of timber into new fields

The global economy is on a moderate recovery path led by the developed countries, and the Japanese economy shows signals of exiting deflation. While the domestic economy is now on a firmer footing, there are still areas of uncertainty such as the possible impact of the consumption tax increase. In addition, risks of downward pressure on the global economy remain with the economic slowdown of the emerging countries and political instability in some regions. There are also many issues that must be approached at the global level, including global warming, energy problems, and natural disasters in various places. We should not waste a moment in order to fulfill our responsibilities to future generations.

The Sumitomo Forestry Group will continue to contribute to people, communities, and the global environment through its worldwide business activities derived from wood. Trees are natural resources that we can regenerate through planting, cultivating, harvesting to use and replanting. Furthermore, wood resources show superior performance in terms of strength, durability, and heat insulation and wooden construction with advanced technologies bring great security and safety to people's lives. In recent years, the value of wood as a resource is seen in the new light with the increasing demand in wood as fuel for power generation. The role of wood is expanding as we witness the greater use of wood in large architectural structures, such as in Europe. The Sumitomo Forestry Group is therefore entering new business fields that are based on wood; these new fields include businesses to promote greater use of wood in non-housing construction for instance elderly care facilities and retail stores, and the biomass power generation business.

Global demand for timber is expected to increase with the expansion of applications and the economic growth of emerging countries. It is essential for us to have flexible ideas based on a global perspective and the ability to act on those ideas in this rapidly changing environment. Since its founding in 1691, the Sumitomo Forestry Group has undergone many changes in order to meet the demands of the age and continue its business in a changing society. On the other hand, we have upheld our original approach and spirit toward business for over 320 years. Our business focus has been on wood for a long period time, increasing its added value, and expanding its potential. Likewise, the spirit of our business founded on the Sumitomo Spirit—"We conduct business that is beneficial to society based on the principles of integrity and sound management."—is unchanged to this date.

I believe that the fields in which the Sumitomo Forestry Group can make a significant contribution will continue to expand if we build up our business from new perspectives without fearing change, while remaining close to our basic approach to business. In accordance with our corporate philosophy of utilizing timber—a material that is both renewable and friendly to people and the environment—while contributing to the realization of a prosperous society through all types of housing-related services, we will extract all of the value of wood including forest, timber, and the value of greenery, and strive toward achieving a prosperous and sustainable society by continuing to pursue the potential of wood.

Ryu Yano  
Chairman / Representative Director





To attain our medium-term objective, we will achieve steady growth by further upgrading the earnings fundamentals of our main businesses and accelerating growth businesses.

Akira Ichikawa  
President / Representative Director

Consolidated Performance in Fiscal 2013 (fiscal year ended March 31, 2014)

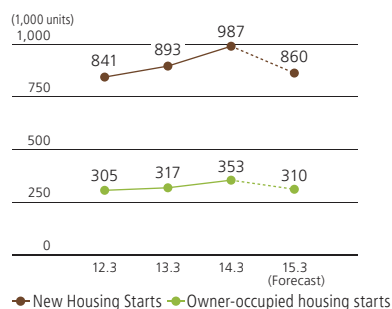
With a strong domestic housing market, our main businesses drove overall performance and both sales and profits increased.

The domestic housing market in fiscal 2013 remained strong, buoyed by continued low interest rates, the effects of government incentives to promote house purchases including an expansion of tax breaks for housing loans, and a last-minute surge in demand prior to the consumption tax increase. Given these factors, new housing starts in Japan increased 10.6% year on year to approximately 987,000 units. Nevertheless, the situation was uncertain as a sharp reactionary decline due to the last-minute surge in demand manifested in the second half.

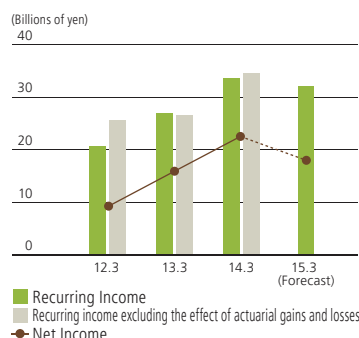
In the Timber and Building Materials Business and Housing

Business, performance was strong due to properly responding to rising domestic demand, which drove overall performance. In the Overseas Business, we focused our efforts on growth fields and improving unprofitable businesses and thereby substantially reduced losses. As a result, in fiscal 2013, consolidated net sales climbed 15.1% year on year to ¥973.0 billion, recurring income increased 24.4% to ¥33.6 billion and net income jumped 41.5% to ¥22.5 billion. Actuarial differences in accounting for retirement benefits had a negative effect due mainly to the decline in long-term interest rates, and if we exclude this effect, recurring income increased

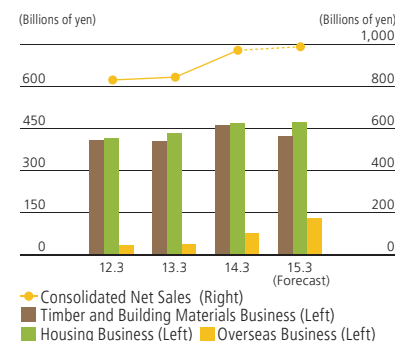
Number of New Housing Starts in Japan



Recurring Income / Net Income



Consolidated Net Sales and Net Sales by Segment



29.9% to ¥34.6 billion.

The first reason for the large increase in net income was the posting as extraordinary gains of a marginal gain on step acquisitions that occurred due to turning an equity-method affiliate into a consolidated subsidiary. The second reason was a decrease in income taxes due to the effects of reversals of deferred tax liabilities recorded in past fiscal years following the Japan-New Zealand Tax Treaty. These had a total positive impact of about ¥4.2 billion.

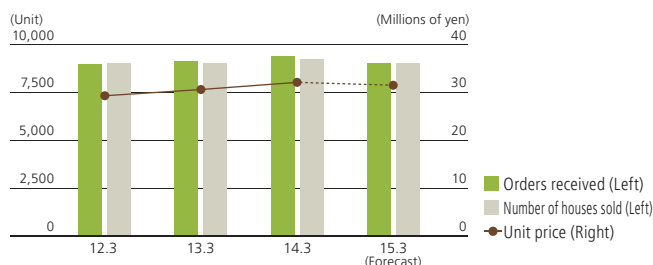
In the Housing Business, an increase in the number of houses sold and a rise in the unit price per house boosted net sales in the Custom-Built Detached Housing Business. The higher unit price per house was due to the increased adoption of solar power systems and greater sales of our proprietary

Big Frame construction method. The Renovation Business, the Wooden Apartment Business also performed well.

In the Timber and Building Materials Business, the domestic timber and building materials distribution business had solid earnings due to an increase in the volume of materials handled and rising unit sales prices of imported products caused by the yen's depreciation. In addition, greater efforts were made to tackle growing markets such as with sales of renovation materials and expansion of the overseas distribution business.

The Overseas Business had substantially higher sales due to actively investing management resources in mergers and acquisitions in the housing business in the United States to increase the scale of its business.

### Custom-Built Detached Homes Orders and Sales / Average Unit Price



Structural framework of Big-Frame construction method

## Outlook for Consolidated Performance in Fiscal 2014 (fiscal year ending March 31, 2015)

### While dealing with a sharp reactionary decline in demand following consumption tax increase, we execute growth strategy focused on next fiscal year and beyond.

Regarding the business environment in fiscal 2014, amid the recovery of corporate earnings and improved employment conditions, the Japanese economy overall is expected to be stable, with consumer spending remaining firm. On the other hand, the outcome of the housing market's sharp reactionary decline following the last-minute surge in demand before the consumption tax increase is uncertain. Furthermore, if the consumption tax rate is raised from 8% to 10% as planned on October 2015, a last-minute surge in demand could occur again at around the end of fiscal 2014, the cutoff point for transitional measures. Therefore, future market trends forecast instability. At Sumitomo Forestry, we expect new housing starts in fiscal 2014 to decrease 12.9% year on year to 860,000 units. The new housing market in Japan is expected to suddenly shift from the upsurge of the previous fiscal year to a standstill.

Under these business circumstances, the point for business operations in fiscal 2014 is, in the main Timber and Building Materials Business and Custom-Built Detached Housing Business, to deal with the reactionary decrease in demand following the consumption tax increase while accelerating the progress of growth businesses such as the Overseas Business and the Renovation and Leasing Housing Business.

The outlook in fiscal 2014 is for net sales to increase 1.8% year on year to ¥990.0 billion and recurring income to slip 4.7% to ¥32.0 billion.

In the Timber and Building Materials Business, we will focus on increasing its market share in the distribution business in Japan. In order to raise its presence in each region, the Company will promote a regional-based sales strategy and cooperate more closely with its business partners. With rising energy-saving awareness, we will increase sales of heat-insulation materials and environmentally sound equipment such as solar power systems, for which demand is expected to grow, and continue to strongly capture the expanding renovation market. In the overseas distribution business, we will focus on expanding sales of products manufactured in overseas subsidiaries, to the Asian market and beyond.

In the Housing Business, we will aggressively invest our management resources in major metropolitan areas and develop exhibition strategies in the Custom-Built Detached Housing Business. At the same time, in the business engaged in stock housing, we will focus on further business expansion by developing the three largest urban markets and increasing orders for condominium renovations in the mainstay

Renovation Business.

In the Overseas Business, we will build a stable production system in the Overseas Resources and Manufacturing Business and improve profitability. Meanwhile, in the Overseas Housing and Real Estate Business, we will increase the number of

detached houses sold in the U.S. and Australia, further disseminate our accumulated housing business knowhow to Group companies, and raise efficiency. Through these efforts, we expect the Overseas Business to substantially increase sales and become profitable.



Environmentally sound equipment (solar power systems) which is growing in demand



Condominium renovation

### Toward the Achievement of the Medium-Term Objective

**We seek to create a structure for realizing net sales of ¥1 trillion and recurring income of ¥30 billion along with an optimal business portfolio.**

The Sumitomo Forestry Group sets medium-term objective every three years and implements its business strategy from a long-term perspective. During the three years from fiscal 2010 through fiscal 2012, with “strengthening profitability” as its top priority, the Group focused on rigorous cost cutting and improving business efficiency under the goal of “building a business structure capable of posting recurring income of ¥20 billion on a constant basis,” and gained a foothold for the next growth phase.

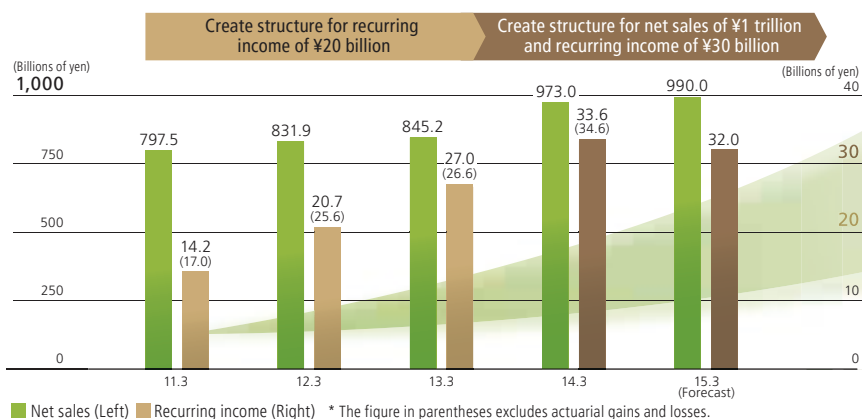
Furthermore, we have set a new goal of “building a business structure capable of posting net sales of more than ¥1 trillion and recurring income of more than ¥30 billion on a constant basis” within about a three-year period from the previous fiscal year through fiscal 2015. Fiscal 2014 marks the second year toward this goal. With its existing earnings

foundation as a base, the Company seeks even higher profits through the expansion of its business scale.

Although we already reached the goal for recurring income in fiscal 2013, our target is to build a business structure that is capable of consistently exceeding profit targets, even in a business environment where new housing starts decreases in Japan.

To achieve this goal, we need to create a business portfolio that is not unduly affected by trends in the new housing market in Japan by fully leveraging while optimally allocating our management resources. To that end, we will further solidify the existing earnings structure in the main Timber and Building Materials Business and Custom-Built Detached Housing Business on the one hand, and accelerate progress in growth businesses on the other.

### Medium-Term Objective and Performance



**Achieve medium-term objective and seek further growth**



## Growth Strategy that Aims for Further Business Expansion

# Overseas Business and Renovation and Leasing Housing Business are viewed as core growth businesses and business expansion will be accelerated.

To grow in the years ahead, it is important to show the Group's strengths in markets with growth prospects. Among a wide range of business domains, the Overseas Business and the business involved in stock housing centered on the Renovation Business are currently investing management resources on a priority basis and steadily growing.

In the Overseas Business, the Overseas Resources and Manufacturing Business is raising the production capacity of the manufacturing business for wood-based panels and other building materials, and absorbing demand from emerging countries where growth continues. Meanwhile, the Overseas Housing and Real Estate Business is accelerating business expansion in the United States and Australia, the world's leading markets for wooden homes. These efforts form the pillar of its growth strategy.

The overseas building materials manufacturing business has grown over a long period of time. For instance, it began the plywood manufacturing business in Indonesia in the 1970s, and has become well established in local communities. At present, its production capacity of wood-based panels such as MDF, particle board and plywood, its main products, is one of the largest in Asia and Oceania. Leveraging this production capacity, as we responds to global demand trends for wood-based panels, we will continue to set up a production system capable of meeting emerging country demand, which is expected to grow.

In the overseas housing business, we continue to expand business assessing market trends in each region with a focus on M&As. In the United States, we started our business in Seattle, but in June 2013 and May 2014, we acquired equity interest in two local home builder groups in Texas, where the economy is strong with a high population growth, in order to expand our business area. With these acquisitions, the number

### Overseas Business Segment Performance

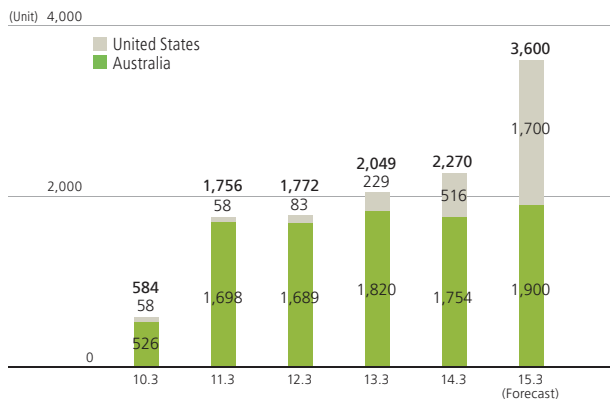


### Wood-based panels manufactured overseas



MDF manufacturing company in New Zealand

### Number of homes sold per year in the United States and Australia



\*The number of units sold in Australia in FY2009 and in the United States in FY2013 and FY2014 are the number of units corresponding to the time that equity interest was acquired in the local home builder companies.



Model house in Texas, USA

of homes sold per year in the United States comes to 2,000 units, and our target of 3,000 units will soon be reached. In the years ahead, we have set our sights on joining the ranks of the leading home builders in the United States, by expanding to new areas and selling more homes. Australia is also a growth market where continuous population growth is expected. We expect to sell 1,900 homes in Australia in fiscal 2014, exceeding the previous year's sales. We will speed up the pace of our business with an eye on entering new regions in the years ahead.

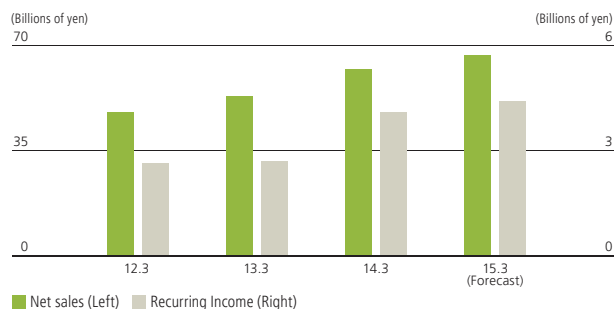
In the Renovation and Leasing Housing Business in Japan, the domestic renovation market is a field which the Japanese government is trying to expand more and is also a field where the Sumitomo Forestry Group can display its high technological capability, one of its strengths. One example of this is in the renovation of traditional Japanese-style houses.



Renovation of traditional Japanese-style house

The Group renovates more than 100 such traditional Japanese-style houses per year that are over 100 years old. Among wooden homes, what we call "traditional Japanese-style houses" use large quantities of quality timber, and making full use of our technology, we leverage that value and renovate the home to achieve seismic resistance and interior comfort for today's needs while preserving the old tradition. Taking advantage of our best-in-class technology and knowhow developed in our custom-built wooden detached housing, we intend to strengthen our presence in this growing market, and soon raise our current net sales of approximately ¥60 billion to ¥100 billion. In the business involved in stock housing, not only are we focused on the Renovation Business, but also on the Existing Home Renovation Business, which involves resale of renovated homes including detached housing and condominiums.

### Renovation Business Performance (Sumitomo Forestry Home Tech Co., Ltd.)



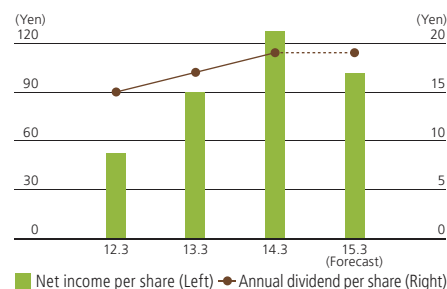
## Shareholder Returns

### Stable and continuous returns to shareholders.

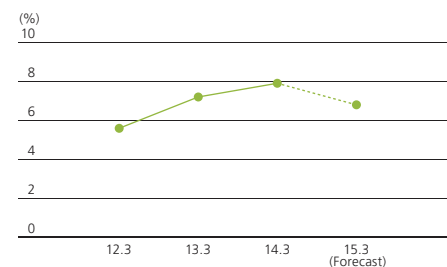
The payment of returns to shareholders is one of our most important management tasks and our basic policy is to pay a stable, and continuous return. Based on this policy, we paid an annual dividend of ¥19 per share in fiscal 2013, a ¥2 dividend increase. In fiscal 2014, the half-way point to our medium-term objective of creating a structure for net sales of ¥1 trillion and recurring income of ¥30 billion, Sumitomo Forestry plans to again pay an annual dividend of ¥19.

The Company plans to use retained earnings for R&D to raise corporate value, for effective growth investments and for other purposes. Going forward, we will continue working to improve our ability to generate earnings as reflected in rising return on capital employed (ROCE)—a key management indicator—as we pay appropriate shareholder returns that are in line with our earnings and reflect an overall balanced consideration of factors such as our business fundamentals, financial condition and investment plans.

### Annual dividend per share / Net income per share



### Return on capital employed (ROCE)



ROCE = Operating profit / (Interest-bearing debt + Shareholders' equity)  
Operating profit = (Recurring income + Interest expenses) x (1 - Effective tax rate)

## To Our Stakeholders

# With a new brand message, aiming for continuous growth while contributing to people and society.

The Sumitomo Forestry Group seeks sustainable growth by developing its business around wood, a renewable, healthy, and environmentally friendly natural resource. In addition to the Overseas Business and Renovation and Leasing Housing Business, we have a wide range of growing businesses that are ever expanding and include the MOCCA (timber solutions) Business, which promotes wooden construction and timber use in non-residential buildings and creates a new culture for wood use; the Apartment Business provides wooden apartments and share houses that blend in with the streetscape and provide the comfort that only wooden buildings can offer; biomass power generation, a renewable energy business that is attracting much attention; and the Elderly Care Facility Business that provides space made with quality wood.


The founding of the Sumitomo Forestry Group dates back to 1691. From our founding and up until this very day, we have fostered a business spirit of contributing to a sustainable society through the planting and nurturing of trees. In more than 320 years, we have expanded our business domains from the forestry business, the Timber and Building Materials Business, the Housing Business, to the Overseas Business, and today we are operating all types of housing-related businesses. While pursuing profitability is important, our guiding principle has always been that we must benefit people, communities, and society first.

To clarify our future direction and to plan for further growth by putting this business spirit into practice, the Sumitomo Forestry Group has decided to develop a new brand strategy.

“Happiness Grows from Trees”

The aspiration of the Sumitomo Forestry Group is embodied in this phrase. According to our business spirit, our businesses shall benefit people and society and we will also strive to contribute to an abundant global environment. We look forward to your continued cooperation and support.

Akira Ichikawa  
President / Representative Director



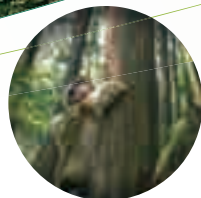
Happiness Grows from Trees



Special Feature:

# Happiness Grows from Trees

With its Focus on Trees, the Sumitomo Forestry Group Continues to Grow





The Sumitomo Forestry Group has set a goal of “creating a business structure capable of posting net sales of ¥1 trillion and recurring income of ¥30 billion on a consistent basis” within about a three-year period starting from fiscal 2013. To achieve this goal, it will further strengthen the earnings base of the Timber and Building Materials Business and Custom-Built Detached Housing Business, invest management resources in a wide range of growth businesses focused on “trees,” and create a business portfolio that is not unduly affected by trends in new housing starts in Japan.

There are a wide range of growth business domains focused on “trees” in Japan and abroad. One of such domains is the Renovation Business, which enables the renovation of traditional Japanese-style houses of 100 years or more, with the advantage of its technological capability developed in the Custom-Built Detached Housing Business. Other areas include the Overseas Housing Business, which is expanding in the United States and Australia, mainly through M&A; the MOCCA (timber solutions) Business, which promotes the use of wood construction and wood materials in non-residential buildings; and the biomass power generation business. In this way, the Company is integrally expanding its business domains.

In this section, we will feature the Group’s initiatives in growth domains in Japan and abroad, as it continues to expand with its focus on trees.

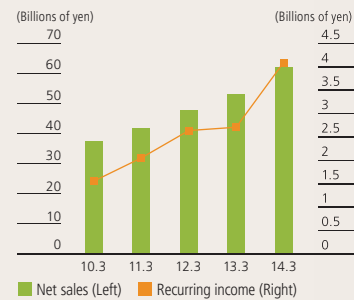
# Renovation Business

The domestic stock housing market is a growth domain where the Group can differentiate itself from competitors through its technology and knowhow developed in the Custom-Built Detached Housing Business. This is because the government is upholding its policy to expand the stock housing market, and the needs for “security,” “earthquake resistance” and “energy efficiency” is recently growing.

In the Renovation Business in fiscal 2009, net sales were ¥37.5 billion, recurring income was ¥1.6 billion. In contrast, in fiscal 2013, net sales came to ¥62.2 billion (up 66% compared to fiscal 2009) and recurring income was ¥4.1 billion (up 163%), a substantial increase. The Renovation Business is becoming the Company’s earnings pillar after the Timber and Building Materials Business and the Custom-Built Detached Housing Business.

Behind the substantial growth of the Renovation Business, the Company has taken firm measures to expand its bases, hire more personnel, and expand its product lineup, and has developed numerous original renovation technologies to differentiate it from competitors.

**Renovation Business Performance**  
(Sumitomo Forestry Home Tech Co., Ltd.)



About 110 years old

## Renovation of Traditional Japanese-style houses

In the Sumitomo Forestry Group, homes built before 1950 when today’s Building Standards Law took effect are generically called “traditional Japanese-style houses” and the Group has been engaged in numerous renovations of such homes with its proprietary renovation technology. In the renovation of traditional Japanese-style houses, with our high technological capabilities, we renovate so that the home is equipped with the latest features while taking great care of the traditional Japanese-style house’s remains, which have been passed down 100 or even 200 years.

Homes built before 1981 when the Building Standards Law was revised have less strict standards for their foundation, and among these, some of the homes built before 1950 have no foundation. To attempt to earthquake-proof these traditional Japanese-style houses, the Group uses vibration-control technology called the “Sumirin CEM construction method” to absorb the shock of the earthquake, to reduce the shock and to prevent building deformation. Utilizing the imposing central pillar seen in traditional Japanese-style houses, we developed the “Successor Construction Method,” which reinforces rotted columns.

The Group has developed a technology to address the traditional Japanese-style house’s defects of being cold and dark, and achieve a comfortable living environment. For example, we developed a “glass block shear wall” to simultaneously increase the building’s strength and improve the brightness of the interior. Using a thermal camera, we also propose renovations such as heat insulation and energy efficiency that are appropriate for each home.

### Sumirin CEM Construction Method

#### Original Renovation Technologies

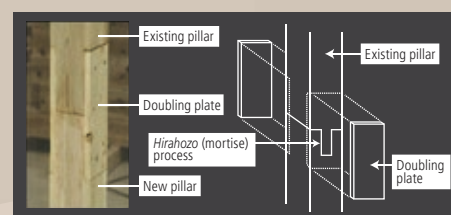
The Sumirin CEM Construction Method’s vibration damper absorbs the shock of the earthquake, reduces the shock, and prevents building deformation and demonstrates its strength against the vibrations of repetitive aftershocks. This construction method was developed by the Group and a patent has been filed for the technology behind this method.



Sumirin CEM Construction Method

### Successor Construction Method

The Successor Construction Method reinforces rotted pillars, and besides being easier to work than traditional methods, it demonstrates great strength in tensile and bending strength tests.



Successor Construction Method



About 200 years old



About 130 years old

## Heat Insulation and Energy-efficient Renovation Technology

Traditional Japanese-style houses are in most cases inadequately insulated from the cold. To understand the total building structure, such as by verifying the building's durability, we first determine where in the ceiling, floor, and walls insulation materials can be applied and then propose a more comfortable indoor environment.



Insulation materials

## Glass block shear wall

We simultaneously ensure the strength of the building and brightness of the interior space. Because the glass block has excellent insulation properties, it is effective in terms of energy savings.



Glass block shear wall



**Henley USA LLC**

Head Office: Bellevue, Washington USA  
 Established: August 2010  
 Business area: Seattle area, Washington

**Henley Properties Group**

(Henley Arch Unit Trust and 8 other companies)  
 Head Office: Mount Waverley, Victoria, Australia  
 Established: October 1989  
 Business area: Victoria, New South Wales, Queensland

**Bloomfield Homes, L.P.**

Head Office: South Lake, Texas USA  
 Established: September 2004  
 Business area: Dallas-Fort Worth area, Texas

**Gehan Homes, Ltd.**

Head Office: Addison, Texas USA  
 Established: May 1994  
 Business area: Dallas-Fort Worth, Houston, Austin, San Antonio areas in Texas, and the Phoenix area in Arizona





# Overseas Housing and Real Estate Business

In the Overseas Business, a pillar of the Group's growth business, the Overseas Housing and Real Estate Business is driving recent earnings growth.

In the previous fiscal year, the Company acquired additional equity interest in the Henley Properties Group, which is engaged in the sales of wooden homes in Australia and in Seattle Washington, in the United States and turned it into a consolidated subsidiary. The Company also acquired 50% equity interest in the Bloomfield Homes, which operates a housing business in Dallas-Fort Worth, Texas in the United States. In fiscal 2014, we acquired equity interest in the Gehan Homes, which has a base of operation in Texas and Arizona, and turned it into a consolidated subsidiary.

The Group's Overseas Housing Business started up in Seattle Washington in the United States in 2003. Originally, in the 1960s in Seattle, we had been engaged in the timber trading business, and being familiar with the area was our great advantage. On one hand, we overcame the difficult times of Lehman Brothers' collapse and solidified our business base in the Seattle area. On the other hand, with the goal of developing a new business area, we entered Texas, where stable employment conditions, mainly in the oil, natural gas, and high-tech industries, and a high population growth rate continue. We sell homes that are suited to the characteristics of the region. For example, while the homes of Henley USA, which operates mainly in the Seattle area, feature modern innovative designs, those of Texas-based Gehan Homes and Bloomfield Homes feature traditional designs. The Company entered the Australian market through the establishment of a joint venture with the Henley Group in 2008 because of expected housing market growth as a result of future population increases.

In the housing business in the United States, we expect to sell about 2,000 homes per year in fiscal 2014 due to the expansion of our business area. However, we will strengthen cooperation between companies and with an eye on entering new regions, raise the number of houses sold to 3,000 in 2017, and in the future we will expand business until we achieve sales of 5,000 units with the aim of becoming one of the leading builders in the United States. In Australia, with an eye on entering new business areas, we will accelerate the business expansion of the Henley Properties Group with the aim of becoming the number one home builder.

Henley USA LLC



Bloomfield Homes, L.P.



Gehan Homes, Ltd.



Henley Properties Group



# MOCCA Business

In the wake of the progressive desolation of Japan's forests, which have been left unmanaged as Japan's forestry industry declines, the Japanese government formulated the Forest and Forestry Revitalization Plan in 2009 to fundamentally improve domestic forests and forestry, targeting a wood self-sufficiency rate\*1 of more than 50% by 2020. There are growing expectations that timber use, especially of domestic timber, will expand in the future. For example, in October 2010, the Japanese government put into effect the Act for Promotion of Use of Wood in Public Buildings, etc.\*2, which sets a new direction of promoting the use of timber whenever possible in public buildings. In light of these circumstances, the Group established the MOCCA (Timber Solutions) Department in April 2011, while the MOCCA Business commenced operations to promote the use of wood construction and wood materials in the non-housing sector.

Since the MOCCA Business began, orders have steadily increased for private elderly care facilities and childcare facilities that are constructed of wood, and for the construction of cafés that feature the plentiful use of wood.

In July 2012, Sumitomo Forestry concluded a Community Reconstruction Cooperative Agreement with Higashimatsushima City, Miyagi Prefecture, which was devastated by the Great East Japan Earthquake. To help this city turn its concept of an environmental community of the future into reality, we are providing multifaceted support to achieve a wood-based city derived from trees. Furthermore, it received an order for the construction of a wooden factory that will employ local residents in Kawauchi-mura, Fukushima Prefecture, and completed the construction in June 2014. In this way, the Group is actively working on the reconstruction of disaster-affected areas through its business.

\*1 Percentage of domestic timber in annual supply

\*2 Act for Promotion of Use of Wood in Public Buildings, etc.

The Japanese government has established a basic policy for promoting timber in public buildings and set the direction it will take with regard to encouraging, as much as possible, the use of wood construction and wood materials. To this end, the act also encourages the proactive initiatives of municipalities and private-sector companies in line with this policy.



Image of wood-based city



Elderly care facility



Elderly care facility



Day-care facility



Factory



Exterior of childcare facility



Interior of childcare facility

# Biomass Power Generation Business

The biomass power generation business can increase the value of forest resources and lead to the revitalization of Japan's forest industry. This is because there is a high expectation in wood biomass as a renewable energy, and the biomass power generation uses unused resources such as forest land timber offcuts and forest thinning as a fuel. Moreover, the stable procurement of fuel is vital to this business, and this is where we can utilize the network of the timber and building materials distribution business, which we have built in each region since in the 1950s.

Since 2011, the Group has jointly operated an urban biomass power plant in Kawasaki City, Kanagawa Prefecture. The Kawasaki Biomass Power Plant, leveraging its advantage as an "urban" power plant, procures on a daily basis the waste material generated from the construction and renovation of homes in the Tokyo metropolitan area. In April 2012, not only did the plant start accepting construction waste, but discarded pallets and packaging materials as well. It is a socially significant business in the sense that industrial waste material is effectively used as an energy resource.

With the adoption of the FIT\* system in July 2012, we started constructing a biomass power plant in the City of Mombetsu, Hokkaido, where we have a wide-ranging network with local governments and relevant parties in the forest industry, and where forests owned by the Sumitomo Forestry Group are located. Commercial operation of the plant is scheduled to start in 2016.

Aiming to become one of Japan's leading companies in the biomass power generation field, we are building a track record in this business, not only in power generation, but we are also broadening our business domains into such fields as expanding the supply of fuel through the Timber and Building Materials Business, consulting services related to biomass power generation, and management support.

\*(FIT: Feed-in Tariff) Price-based regulations that require electricity companies to purchase renewable energy at a certain price. Electricity generated using renewable energy (solar, wind, water, geothermal, and biomass) must be purchased by electricity companies at a certain price.



## Kawasaki Biomass Power Plant

In order to clear the strict environmental standards of the city of Kawasaki, the Group boasts one of Japan's largest biomass fuel power plants, an "urban biomass power plant" that incorporates environmental equipment such as flue-gas desulfurization equipment and flue-gas denitration equipment that do not exist in any other regional biomass power generation facility.

Wood biomass fuel used at our power plant utilizes wood chips made from construction waste generated in urban areas. The CO<sub>2</sub> generated by this combustion is the CO<sub>2</sub> originally absorbed by plants from the atmosphere during their growth phase, and therefore does not lead to an increase in the amount of CO<sub>2</sub> in the atmosphere from the carbon neutral viewpoint. This fuel is therefore expected to contribute to the prevention of global warming.



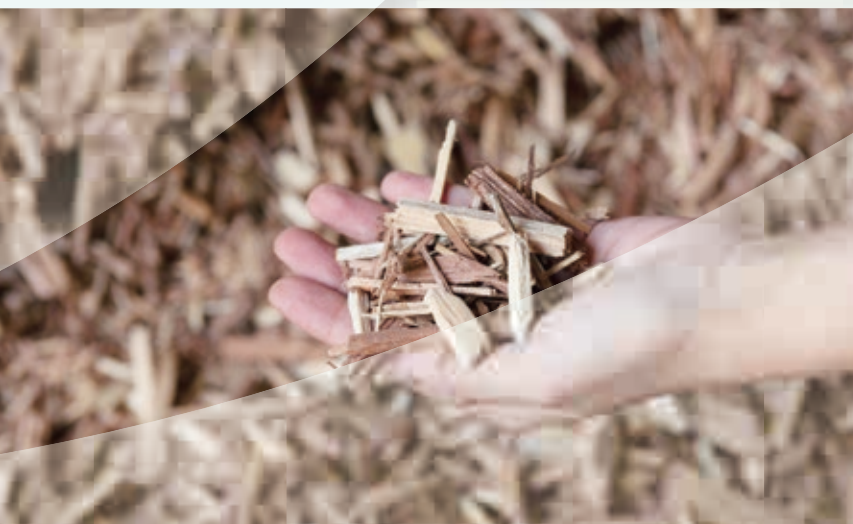
Kawasaki Biomass Power Plant

## Mombetsu Biomass Power Plant

This wood biomass power plant that uses unused timber as its main fuel is scheduled to commence operation in December 2016 in Mombetsu, Hokkaido. Because forests owned by the Group are located near the power plant, fuel can be easily procured, and since unused timber from the surrounding forests are effectively used, the resource value of the forests in this vast area increases. This is a socially significant business that will lead to the revitalization of the forest industry and the creation of new employment.

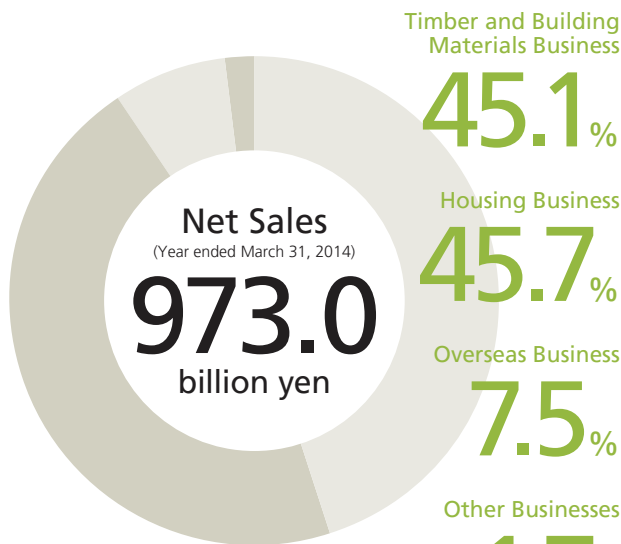


Groundbreaking ceremony of Mombetsu Biomass Power Plant



# Business Strategies by Segment

## Net Sales by Segment



## Timber and Building Materials Business



We operate a distribution business that sources high quality timber and building materials from Japan and overseas for marketing to domestic and overseas customers, and a manufacturing business that makes building materials in Japan.

## Net Sales and Recurring Income by Segment

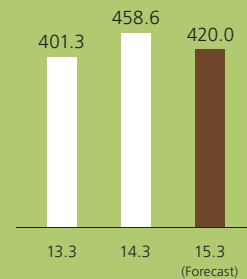
(Billions of yen)

(Years ended March 31)	2013	2014	2015 (Forecast)
<b>Net Sales</b>	<b>845.2</b>	<b>973.0</b>	<b>990.0</b>
Timber and Building Materials Business	401.3	458.6	420.0
Housing Business	430.8	465.4	470.0
Overseas Business	38.7	76.3	128.0
Other Businesses	15.4	17.3	15.0
Adjustments	(40.9)	(44.6)	(43.0)
<b>Recurring Income</b>	<b>27.0</b>	<b>33.6</b>	<b>32.0</b>
Timber and Building Materials Business	4.7	5.0	4.2
Housing Business	26.2	32.2	28.5
Overseas Business	(1.8)	(0.1)	2.5
Other Businesses	0.8	0.8	0.7
Adjustments	(2.9)	(4.3)	(3.9)

\* Figures are rounded when less than one unit.

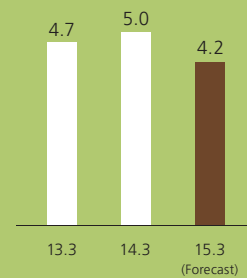
## Net Sales

(Billions of yen)



## Recurring Income

(Billions of yen)

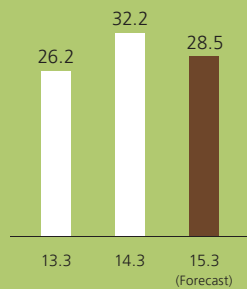
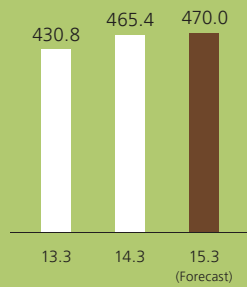


\* Sales and recurring income of each segment shown include inter-segment transactions.

## Housing Business



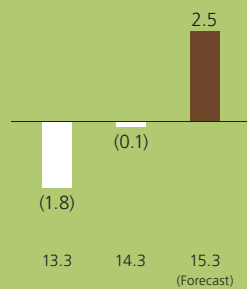
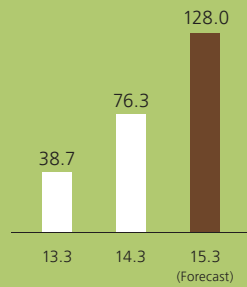
Centered on the Custom-Built Detached Housing Business, we operate a wide range of lifestyle-related businesses. These include the Renovation and Leasing Housing Business, which focuses on renovation, the resale of renovated homes, real estate brokerage and management, and the Apartment Business, the Detached Spec Homes Business.



## Overseas Business



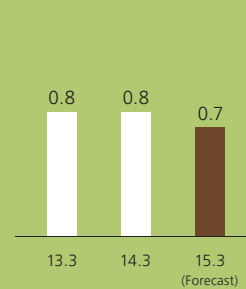
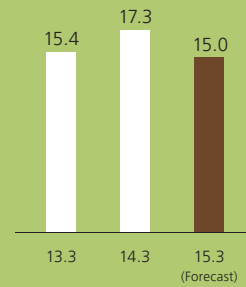
We operate the resources and manufacturing business, which are engaged in the plantation forestry business and the building materials manufacturing business, and the housing and real estate business, mainly in the Pacific Rim, including Southeast Asia, Oceania, North America and China.



## Other Businesses



We operate businesses including the biomass power generation business, the private-pay elderly care facilities business, the lease business, various service businesses including the insurance agency business for our housing business customers, the manufacture and sale of farming and gardening materials, and information systems development targeting each Group company.



# Timber and Building Materials Business

Fiscal 2013

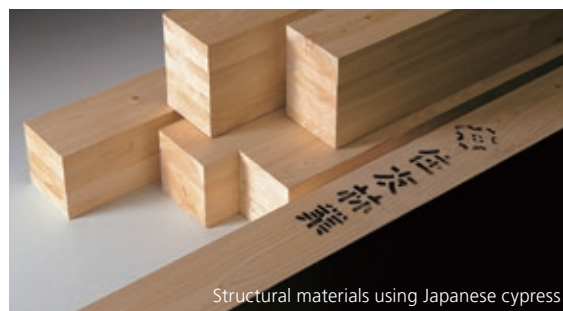
Sales  
**458.6**  
billion yen

Recurring Income  
**5.0**  
billion yen

Percentage of  
Total Sales  
**45.1**  
%

## Basic Policy

Strengthening responses to domestic and overseas growth markets and further increasing market share



Structural materials using Japanese cypress

New housing starts in Japan in fiscal 2013 trended steadily, increasing 10.6% year on year to approximately 987,000 units, which was largely due to the temporary surge in demand prior to the increase in consumption tax. However, in fiscal 2014 they are forecast to decline 12.9% year on year, to around 860,000 units, because of a decline in reaction to this surge.

In this type of business environment, in our timber and building materials distribution business in Japan, we will focus our energies on expanding our regional strategy and handling environmentally sound equipment and Japanese timber. Moreover, we will strengthen our responses to customer needs in the renovation market, which is expected to expand. Through this, we are aiming not to simply maintain our position as the number one company in Japan in the volume of timber and building materials handled, but also to further increase our market share. In addition, in our domestic building materials manufacturing business and logistics system business for home-building materials, we are pushing ahead with initiatives toward further solidifying our earnings fundamentals. In our overseas logistic business, our goal is to build our business foundations by using the network we have constructed over many years to meet, for example, the increase in demand for timber and building materials in developing countries, particularly those in Asia.

While in the short term we will deal with the reactive decline in demand that we anticipate will occur in conjunction with the increase in consumption tax, we are implementing a business strategy from a medium-to-long-term perspective that takes into account the expected shrink in domestic new housing market in the future.



Volume of timber and building materials handling in Japan

**No.1**

In our timber and building materials distribution business in Japan, we are further strengthening our relationship with customers by advancing a sales strategy closely linked to the local areas. Also, we are bolstering our sales of solar power systems and other environmentally sound equipment, and also heat-insulation materials, as the demand for these products is increasing against the backdrop of the government's efforts to promote energy saving. In conjunction with this, we are responding to the public's increasing environmental awareness and focusing our energies into high value-added products, such as plantation timber and timber from certified forests. We are also working hard to expand sales of Japanese timber, which is becoming increasingly competitive relative to non-Japanese timber due to the continued depreciation of the yen. The government has set the target of increasing Japan's timber self-sufficiency rate from the current level of around 28% up to 50% by 2020. As a result, we can expect demand for Japanese timber to increase in the future, which in turn will contribute to the conservation of domestic forests and the global environment.

In the renovation market, where sales are forecast to increase, we are concentrating on seismic-resistance repairs and the distribution of energy-saving materials. Biomass power generation, which is a type of renewable energy, is also expected to increase in scale and so we are focusing more on handling the wood chips that are used for its fuel and also other biomass fuels.

We will leverage our knowhow in logistics systems to contribute to our customers' improved business efficiency. Moreover, in our housing-business systems, through methods such as our provision of services that can be utilized via the Internet, we intend to build a stronger network with housing-related businesses, which will enable us to expand the volume of products we handle.

## Domestic Distribution Business

**Responding to market changes, supplying high value-added products**



Demand for solar power systems is increasing

## Overseas Distribution Business

**Utilizing our network to pursue new initiatives in the global market**



Timber being loaded on ships and exported from North America

Against the backdrop of the economic growth of emerging countries, the Group is targeting the increase in demand for timber and building materials throughout the world and is working to strengthen its timber and building materials distribution business overseas. To expand these businesses, we are putting in place an organization centered on our distribution bases in South East Asia and China for the future expansion of business. This organization will enable us to react responsively to trends in the global timber and building materials market, particularly those in Asia. In addition, we are aiming to differentiate the Group from our competitors by supplying timber and building materials to Japanese companies that are expanding their businesses into Southeast Asia and other regions, and also by providing product-sales support that makes full use of our extensive network.

In addition, we are boosting the synergy effects generated between our businesses by undertaking the task of selling the products of the Group's building materials manufacturing bases in Southeast Asia and Oceania, to various countries around the world.

We are also making full use of timber resources within Japan and actively exporting Japanese timber. Alongside the government's promotion of exports of Japanese forestry products, the demand for timber from emerging countries such as China is expected to increase. In such circumstances, we are also contributing to the development of the Japanese forestry industry by increasing our sales of Japanese timber.

# Housing Business

Fiscal 2013

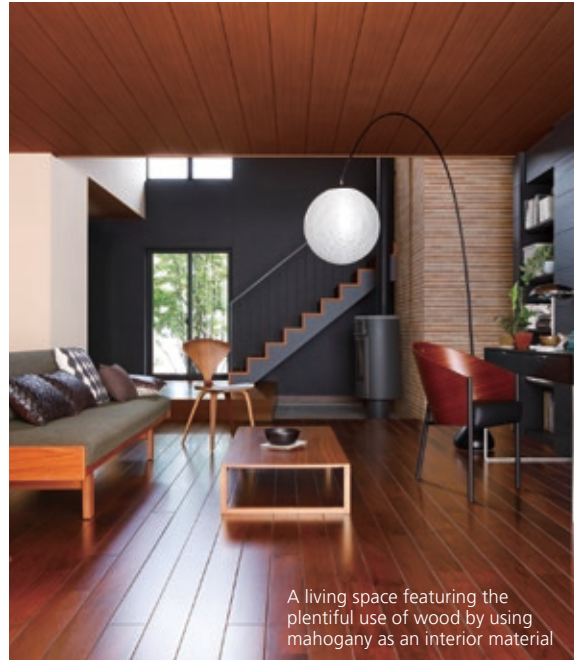
Sales  
**465.4**  
billion yen

Recurring Income  
**32.2**  
billion yen

Percentage of  
Total Sales  
**45.7**  
%

Basic Policy

Responding flexibly to market changes  
and expanding earnings fundamentals



A living space featuring the plentiful use of wood by using mahogany as an interior material

It is unclear what will be the effects of the decline in demand in the housing market in Japan in fiscal 2014 as a reaction to the temporary surge in demand prior to the increase in consumption tax. If, as expected, the consumption tax rate is increased from 8% to 10% in October 2015, it is possible that approaching the end of fiscal 2014, which is the cut-off point for the transitional measures, there will once again be a temporary surge in demand and so the situation is expected to continue to be unstable.

Based on these sorts of unstable conditions, the Group is continuing to respond flexibly to market changes by realizing the possibilities of wood and increasing the value-added of its products, but at the same time it is also striving to expand its earnings fundamental and to seek out demand in new fields.

In our Custom-Built Detached Housing Business, we are further solidifying the earning fundamentals constructed thus far. We are expanding the business engaged in stock housing, which revolves around the Renovation Business by responding to customer needs for reliable, safe and energy-saving stock housing. Moreover, we are also expanding and developing our MOCCA (timber solutions) Business, Apartment Business, and Detached Spec Homes Business.

Approximately  
**270,000** units  
 Total accumulate custom-built detached houses sold



Despite the lack of clarity in the market environment of our Custom-Built Detached Housing Business, the Group is trying to maintain and even expand its order and sales structure at the level of 9,000 units per year, while also aiming to continuously improve earnings. Our sales strategy is to promote the superior qualities of wood in all areas and appeal to potential customers with our advanced technological capabilities. More specifically, we execute the strategy through our own exhibition space such as the Technology Housing Display Center, at which potential customers are able to easily experience the technological capabilities and performance of our products, and the Proto-housing Display Center, that makes plentiful use of wood, and through promoting our Big Frame construction method. Elsewhere, we are also working on sales of environmentally sound equipment and on orders of Green Smart, our smart house product.

Custom-Built Detached Housing Business

Promoting wood in every area and pursuing advanced technological capabilities



Green Smart Solar Z

Renovation and Leasing Housing Business

Responding to diverse market needs through advanced technologies



An interior view of forestia Ashiya Hamacho

In our Renovation Business, we are differentiating the Group from our competitors by constantly developing new technologies. Our advanced technological capabilities for wooden detached houses are also being utilized for the renovation of traditional Japanese-style houses so that they can be passed down from our ancestors to future generations. In 2013, we developed our Original Seismic Control Damper Model S. By combining it with a conventional seismic-resistance construction method, we came up with our original seismic-resistance, seismic-vibration damper construction method, achieving a double level of safety. We were awarded the Good Design Award in fiscal 2013 for this development. Going forward, we will continue to invest in our management resources, particularly in our human resources, centered on Japan's three major metropolitan areas, and we will work to further increase the scale of our businesses.

In our Existing Home Renovation Business in March 2014 we launched 'forestia,' which is a brand for an entire, renovated condominium building. Renovation work for this brand employs interiors in which you can feel the warmth and comfort provided by the wood materials and technologies for custom-built detached homes exteriors. We are currently expanding sales for this brand, while also aiming to raise awareness of it.

For our Real Estate Brokerage Business and Real Estate Management Business, we are enhancing in-Group cooperation and striving to construct a system to stably generate earnings.



Original Seismic Control Damper Model S

In the Apartment Business, we are strengthening our sales structure, including by increasing the number of sales and marketing personnel, raising awareness of our production through television commercials and other advertisement, and meeting customer needs by offering them ways to cope with inheritance taxes.

In our Detached Spec Homes Business, we are mainly targeting first-time buyers, particularly those in the three major metropolitan areas of Tokyo, Nagoya, and Osaka, and are providing detached spec homes that blend with their surroundings and reflect the characteristics of the area where they are built. In the medium-to-long term, we are aiming to further expand this business and have an annual sales target of around 500 units.

In our MOCCA (timber solutions) Business, which we have positioned as a new and next-generation business, we are taking advantage of the greater number of opportunities to use wood in buildings other than homes that is resulting from the enactment in October 2010 of the Act for Promotion of Use of Wood in Public Buildings. We are working to develop new wood manufacturing and construction technologies in this area, including promoting wood construction in the non-housing sector and spaces that utilize wood materials. We are particularly focusing on winning orders for wood-construction building in the fields of commercial facilities, educational facilities, and welfare facilities, where the expectations for the use of wood are rising.

Apartment Business, Detached Spec Homes Business, MOCCA (timber solutions) Business

Expanding our existing businesses and developing the next generation of business



Use of wood construction and wood materials in industrial facilities

# Overseas Business

Fiscal 2013

Sales

**76.3**  
billion yen

Recurring Income

**-0.1**  
billion yen

Percentage of  
Total Sales

**7.5**  
%

Basic Policy

Concentrating on developing existing businesses and expanding our business area as a one of our growth businesses



Vina Eco Board, the Group's wood building materials manufacturing company in Vietnam

Our Overseas Business is centered on the Pacific Rim regions of Southeast Asia, Oceania, North America, and China, and it is comprised of a resources business of forest-plantation operations, a manufacturing business of wood-building materials, and a housing and real estate business. Just as we are doing in Japan, we are developing our overseas wood-related business from the upstream through to the downstream.

We have positioned our Overseas Business as one of the growth businesses within the Group that will drive our earnings in the future and we are actively investing management resources into it. Although some businesses are at the anticipatory-investment stage, due to the positive effects of the recoveries of the housing markets in the United States and Australia as well as M&As, we now see growth in our overseas housing business, and expect its sales in fiscal 2014 to significantly increase and record profits. Our Overseas Business has grown to the extent that it can now play a role in the earnings portfolio of the Group. We will continuously strive to increase the scale of our businesses through improving the level of earnings of our existing businesses and expanding our business areas, such as by M&As.

Approximately  
 Number of homes sold overseas **2,300** units

Within our manufacturing business, we are manufacturing a variety of wooden building materials at our manufacturing bases in Southeast Asia and Oceania and are supplying them to countries throughout the world. Business results in the manufacturing business are largely determined by factors such as trends in the prices of raw materials, production efficiency at factories, and sales capabilities. Our Indonesian manufacturing subsidiary has benefited from declines in the prices of raw materials and strong sales of plywood and thus its business results have trended positively. But in contrast, we anticipate a slump in business results in fiscal 2014 at our MDF manufacturing business in New Zealand due to the impact of the exchange rate. Moreover, our particleboard manufacturing business of Vietnam, which began commercial production in 2012, is focusing its energies into developing new customers and on improving production efficiency in preparation for full production. Going forward, we will improve our ability to procure raw materials and increase production efficiency at all of our bases, and further strengthen our sales system that utilizes each of the Group's distribution bases. In these ways, we will strive to improve the profitability of the Manufacturing Business as a whole.

In our overseas resources business, we are developing our forest-plantation business, particularly in Southeast Asia, by utilizing the knowhow that we have cultivated in our forestry management within Japan. In the future, we will expand our plantation forests in order to meet the increase in demand for timber and building materials from Southeast Asia and other regions, and moreover we will contribute in such areas as regional employment, the restoration of devastated regions, and the preservation of biodiversity.

Overseas Resources and Manufacturing Business

**Improving the level of earnings by increasing production efficiency and strengthening the sales structure**



Kutai Timber Indonesia, the Group's wood building materials manufacturing company in Indonesia

Housing and Real Estate Business

**Expanding business scale in regions where growth is expected**



A detached spec home (interior view) in Texas U.S.A.

We are developing our overseas housing and real estate business primarily in the United States and Australia and have recently accelerated business expansion centered on mergers and acquisitions (M&A). In the United States, in addition to the operations we previously developed in Seattle, we are also focusing on Texas, where we expect demand to grow stably in the future. In fiscal 2013, we purchased equity shares in a local homebuilder and sold a combined total of approximately 2,300 homes in both countries. In fiscal 2014, we turned a local homebuilder, which has bases of operation in Texas and Arizona, into a consolidated subsidiary. As a result, we plan to sell 2,000 homes in the United States in fiscal 2014.

The deceleration of the resources boom in Australia has caused its economy to slowdown, but its housing market has been on the recovery track due to the Australian government's monetary policies and other factors, and we consider it to be an important market for wooden homes that will grow in the future due to the country's increasing population. In fiscal 2013, we purchased additional equity shares in the Henley Properties Group, which has a housing business mainly in Australia, and made it a consolidated subsidiary, and we expect it to sell around 1,900 units in fiscal 2014, exceeding its previous year's total. We are also looking to advance into new regions within Australia in the future and we are promoting our business within the country in a more flexible manner.

We are continuously working to improve both the quality and designs of our homes overseas by introducing the knowhow we acquired in our housing business in Japan into our housing business overseas. In addition, we are implementing strategies that reflect local conditions and we are carefully but continuously expanding the scale of this business.

# Other Businesses

Approximately

The area of forest managed in Japan

**1/900** of Japanese land area

## Forestry and Environmental Business

Practicing sustainable and efficient forestry management and developing an environmental energy business

Fiscal 2013

Sales  
**17.3**  
billion yen

Recurring Income  
**0.8**  
billion yen

Percentage of Total Sales  
**1.7**  
%



**A tower yarder**  
We are advancing mechanization, including the introduction of tower yarders that make possible the cable yarding, which enables more efficient forestry management.

Demand for Japanese timber is increasing, due to factors such as the enactment of a law in Japan that promotes the use of timber in public buildings and the introduction of a points system for the use of timber. The Group currently has 45,808 hectares of company-owned forests within Japan (about 1/900th of the nation's land area). We will manage the forest in a sustainable and efficient manner, and make sure that it serves as our stable timber production base. In addition, we will contribute more than ever before to the revitalization of forestry in Japan and work hard to ensure the nation's renewable forestry resources. Moreover, by integrating the handling of inquiries for the business area related to "forests, landscaping, and the environment" into the Forest and Landscape Research Center, we are aiming to create new businesses through business synergies.

Within our Environmental Business, we are working on the energy business, such as biomass power generation, in response to the increase in the importance of renewable energy, which has occurred against the backdrop of Japan's energy problem.

\* In this annual report, the Group's "forestry business in Japan," which is included in adjustment items, is described within the 'Other Businesses' segment.

In our Lifestyle Service Business, we are targeting the changes to the social structure and people's values in Japan and also their changing needs. We are, therefore, developing businesses for different types of lifestyles and for an aging society that utilize the Group's customer base.

Within our aging society-related business, our management of private-pay elderly care facilities has been performing steadily with occupancy rates stably exceeding 90%. In the future, we will also launch new nursing businesses, such as day-care services, and in addition to nursing facilities we will also provide services in the home-care field.

An important challenge for the Group is expanding into business fields that are not affected by trends in new housing starts in Japan. To address this problem, we are developing for the future lifestyle-related businesses in a diverse range of areas, including property insurance agency services, leasing operations and the manufacture and sales of farming and gardening soil.

## Lifestyle Service Business

Developing a wide-ranging lifestyle businesses

Grand Forest Kobe Rokko, a private-pay elderly care facility



# Sustainability

---

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

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

## Pursuing Sustainable Businesses

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

### Providing Timber and Wood Building Materials from Sustainable Forests

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

#### Company-owned Forests in Japan

(As of March 31, 2014)

**45,808ha**

(As of March 31, 2013)

**43,328ha**

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

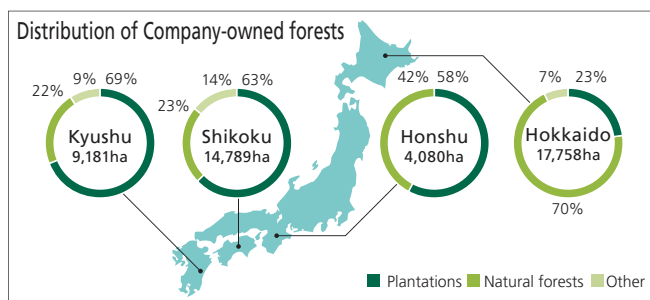
The Group owns a total of 45,808 hectares of forests within Japan (about 1/900th of the nation’s land area). During fiscal 2013, we increased our Company-owned forests in Japan by approximately 2,500 hectares from the previous year through the additional purchase of forest in Hokkaido and elsewhere.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

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

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

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

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



#### Overseas Plantation Land Area

(FY2013)

**12,136ha**

(FY2012)

**8,412ha**

#### Sustainable Plantation Forest Operations Overseas

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



### Percentage of Legally Verified Directly Imported Timber and Wood Building Materials

(FY2013)

100%



(FY2012)

100%

### Percentage of Certified Imported Timber and Plantation Timber

(FY2013)

62%



(FY2012)

63%

## Ensuring the Traceability of Timber

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

## Promote the Use of Timber from Certified Forests and Plantation Forests

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

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

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

## Providing Environmentally Friendly Homes

In its Custom-Built Detached Housing Business, the Group adopts the design methods that utilizes the power of nature in the areas of wind and solar. It encourages reduction of home energy consumption by increasing the use of solar power systems, household fuel cells (ENE-FARM) and other types of environmentally sound equipment through promoting sales of the "Green Smart" smart house. We are involved in the development of Life Cycle Carbon Minus (LCCM) homes to reduce CO<sub>2</sub> emissions in the overall life cycle, and also take a wide range of initiatives to ensure environmental friendliness such as utilizing domestic timber in principal building materials.

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

(FY2013)

72%



(FY2012)

62%

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

## Promoting "Green Smart" Orders and Sales

"Green Smart" is a housing product concept for custom-built detached homes in which CO<sub>2</sub> emission volumes are reduced during the period when the home is actually lived in. Sumitomo Forestry proposes comfortable living all through the year with our products using wood which is a renewable natural resource as well as absorbs and accumulates CO<sub>2</sub> when it grows, and by utilizing "Ryouonbou" design method of natural heating and cooling system leveraging the wind and sunshine. The "Green Smart" concept brings together our expertise in home-building utilizing the features of wood and the blessings of nature, heat insulation performance to reduce energy consumption, environmentally sound equipment to use energy more intelligently and the environmental technology such as Home Energy Management System (HEMS) that enables homeowners to visually track energy usage and encourages them. Through the promotion of the "Green Smart" concept, we aim to increase energy efficiency in the home and reduce CO<sub>2</sub> emissions during the period the home is inhabited.

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

## Percentage of Japanese Timber Used for the Principal Structural Members\*

(FY2013)

70%

(FY2012)

70%

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

## Utilizing Domestic Timber in Building Materials and Interior Products

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



Interior (floor materials) using domestic timber

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

Taking an integrated approach to home construction, use, refurbishment dismantlement and demolition, the Group is now involved in development of Life Cycle Carbon Minus (LCCM) housing, in which CO<sub>2</sub> emissions are reduced in the overall life cycle of the property. With an aim to develop detached homes with lower environmental impact, in October 2013, we completed a pilot structure for the purpose of evaluating the results of our research in an actual home, and carried out a Life Cycle Assessment\* (LCA) on an LCCM model home that will reduce CO<sub>2</sub> emission in the overall life cycle. As a result, compared with standard models by Sumitomo Forestry, the LCCM model is able to cut CO<sub>2</sub> emissions by 37% when it is constructed and by 50% while being lived in. A further finding was that CO<sub>2</sub> emission volumes become negative with the installation of 7kW-solar power systems. During fiscal 2014, we plan to carry out LCA on the recycling benefits of waste materials generated during the construction and dismantlement stages.

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

## Promoting Global Warming Countermeasures through Our Business

We promote energy-saving initiatives in offices and plants as well as the use of wood biomass to reduce CO<sub>2</sub> emissions generated by the Company's business activities. In addition, we are undertaking various measures through our business activities to help stem global warming. These include the absorption and storage of CO<sub>2</sub> through our forest management, reducing CO<sub>2</sub> emissions during housing construction and use as well as carbon offsetting.

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

(FY2013)  
Approximately

209,000t-CO<sub>2</sub>

(FY2012)

Approximately

203,000t-CO<sub>2</sub>

\* The amount of CO<sub>2</sub> retained as carbon from timber used in the Group's new detached housing built in Japan. Sumitomo Forestry Home houses retain about 22.6t-CO<sub>2</sub> per unit.

## Expanding Carbon Stock

Carbon stock is the volume of CO<sub>2</sub> that is absorbed by trees and sequestered as carbon. The Group is working to expand the carbon stock by sustainable management of Company-owned forests in Japan, and through overseas plantation forestry. The Group also helps fight against global warming through increasing timber-based carbon stocks mainly by building high-quality, long-lasting wooden homes and promoting the MOCCA Business, which is widening the applications of timber resources. In fiscal 2013, carbon stock derived from timber used to build custom-built detached housing increased by approximately 6,000t-CO<sub>2</sub> from the previous fiscal year due to an increase in unit sales of custom-built detached housing.

## The Sumitomo Forestry Group's Carbon Stock (2013)

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

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

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

### Biomass and Solar Power Generation Operations

The Sumitomo Forestry Group engages in biomass power generation operations primarily using as fuel recycled wood chips from timbers produced from construction waste, and previously unused timber resources. The volume of CO<sub>2</sub> released by combustion of timber is equivalent to that of CO<sub>2</sub> absorbed as atmospheric CO<sub>2</sub> through photosynthesis when wood was growing, and in the total life cycle of the tree, the atmospheric CO<sub>2</sub> does not increase. For this reason, the Group is developing biomass power generation as a new business that makes effective use of timber and suppresses emissions of CO<sub>2</sub>.



Environment-friendly wooden frames for solar panels

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

### Total Plantation Land Area in the Carbon Offset Project

(FY2013)

1,464ha

(FY2012)

1,090ha

### Carbon Offset through Afforestation

The total amount of CO<sub>2</sub> emitted during the whole process of producing principal structural members for the Company's custom-built detached homes and detached spec homes is around six tons per unit, extending from the use of trimmed wood through processing, transportation and to final construction work. To offset the CO<sub>2</sub> emitted by its business, Sumitomo Forestry is carrying out initiative called "Project EARTH." The initiative will offset CO<sub>2</sub> emissions for all custom-built detached homes and detached spec homes sold over a five-year period beginning fiscal 2009. We will plant around 1.5 million trees in 1,500 hectares of land and over the next decade, we plan to cultivate and manage this afforested area. Plantation will take two forms—environmental forestry aiming to revive ecosystems on degraded land at Bromo Tengger Semeru National Park, located in East Java, Indonesia, and commercial forestry at the foot of Mount Semeru in Lumajang Regency, East Java, to be advanced together with the community to both realize sustainable forest management and contribute to the region. The total area covered by carbon offset projects has grown to 1,464 hectares. We plan to extend this initiative from the original plan by three years to fiscal 2016.



Commercial forest at the foot of Mount Semeru

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

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

### Employment breakdown

Figures in ( ) are for the previous year

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

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

### Ratio of disabled employees

(As of March 31, 2014)

2.2%

(As of March 31, 2013)

2.0%

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

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

### Ratio of pregnant women who take childcare leave

(FY2013)

100%

(FY2012)

95%

### Promoting Employee Diversity

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

### Employment of People with Disabilities

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

### Commitment to Expand Women's Roles

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

### Initiatives to Encourage a Better Work-Life Balance

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

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

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



Forum for exchange for mothers

# Governance

---

For more details on the Group's corporate governance, please refer to the *CSR Report 2014*.

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

# Board of Directors and Statutory Auditors

(as of June 20, 2014)



From left: Akihisa Fukuda, Hitoshi Hayano, Tatsuru Satoh, Ryu Yano, Shigeru Sasabe, Ken Wada, Akira Ichikawa, Junko Hirakawa, Toshiro Mitsuyoshi

## Directors

### Ryu Yano \*Chairman of the Board

Apr. 1963 Joined the Company  
Dec. 1986 General Manager Overseas First Department  
Dec. 1988 Director  
Jun. 1992 Managing Director  
Jun. 1995 Representative Director (current position)  
Senior Managing Director  
Apr. 1999 President/Director  
Jun. 2002 President and Executive Officer  
Apr. 2010 Chairman of the Board (current position)

### Akira Ichikawa \*President / Director

Apr. 1978 Joined the Company  
Apr. 2007 General Manager of Corporate Planning Department  
Jun. 2007 Executive Officer  
Jun. 2008 Director  
Apr. 2010 Managing Executive Officer  
Representative Director (current position)  
President/Director (current position)  
President and Executive Officer (current position)

### Hitoshi Hayano \*Director

Apr. 1977 Joined the Company  
Apr. 2003 General Manager of Corporate Planning Department  
Jun. 2005 Executive Officer  
Apr. 2006 Managing Executive Officer  
Jun. 2006 Director  
Apr. 2007 Divisional Manager of Real Estate Business Division  
Apr. 2010 Divisional Manager of Housing Division  
Apr. 2011 Representative Director (current position)  
Senior Managing Executive Officer  
Apr. 2014 Executive Vice President and Executive Officer (current position)  
Divisional Manager of Lifestyle Service Division and Forestry & Environment Division (current position)

### Shigeru Sasabe Director

Apr. 1977 Joined the Company  
Apr. 2007 General Manager of Personnel Department  
Jun. 2008 Executive Officer  
Sep. 2008 General Manager of General Administration Department  
Apr. 2010 Managing Executive Officer  
Jun. 2010 Director (current position)  
Apr. 2012 Divisional Manager of Lifestyle Service Division  
Apr. 2014 Senior Managing Executive Officer (current position)  
Divisional Manager of Overseas Business Division (current position)

### Ken Wada Director

Jul. 1983 Joined the Company  
Apr. 2004 General Manager of Marketing Strategy Department, Housing Division  
Apr. 2007 General Manager of Fukuoka Branch, Housing Division  
Apr. 2008 Deputy Divisional Manager of Housing Division  
Jun. 2008 Executive Officer  
Apr. 2010 Managing Executive Officer  
Jun. 2011 Director (current position)  
Apr. 2014 Senior Managing Executive Officer (current position)  
Divisional Manager of Housing Division (current position)

### Tatsuru Satoh Director

Apr. 1978 Joined the Company  
Oct. 2008 General Manager of Administration Department, Housing Division  
Apr. 2011 General Manager of Personnel Department  
Apr. 2012 General Manager of General Administration Department  
Jun. 2012 Executive Officer  
Apr. 2013 Managing Executive Officer (current position)  
Jun. 2013 Director (current position)

### Akihisa Fukuda Director

Apr. 1981 Joined the Company  
Apr. 2009 General Manager of Corporate Planning Department  
Jun. 2010 Executive Officer  
Apr. 2011 Managing Executive Officer (current position)  
Jun. 2014 Director (current position)

### Toshiro Mitsuyoshi Director

Apr. 1985 Joined the Company  
Apr. 2010 General Manager of Overseas Business Department, Overseas Business Division  
Jun. 2010 Executive Officer  
Apr. 2011 Managing Executive Officer (current position)  
Divisional Manager of Overseas Business Division  
Apr. 2014 Deputy Divisional Manager of Housing Division (current position)  
Jun. 2014 Director (current position)

### Junko Hirakawa Director\*\*

Apr. 1973 Licensed as an attorney-at-law admitted in Japan  
Feb. 1979 Licensed as an attorney-at-law admitted in the State of New York, U.S.A.  
Oct. 1983 Partner of Yuasa and Hara  
July 1997 Hirakawa, Sato & Kobayashi (currently City-Yuwa Partners) established  
Partner of Hirakawa, Sato & Kobayashi  
Feb. 2003 Partner of City-Yuwa Partners (current position)  
Jun. 2011 Appointed as External Director of Tokyo Financial Exchange Inc. (current position)  
Jun. 2012 Appointed as External Statutory Auditor of the Company  
Jun. 2014 Appointed as External Director of the Company (current position)

\*Representative Director  
\*\*External Director

## Statutory Auditors

| Hideyuki Kamiyama Senior Statutory Auditors

| Hidekazu Tanaka Statutory Auditor

| Satoshi Teramoto Statutory Auditor

| Shin Nagata Statutory Auditor

| Katsuhide Kurasaka Statutory Auditor

Statutory Auditors Satoshi Teramoto, Shin Nagata, and Katsuhide Kurasaka are External Statutory Auditors as set forth in Article 2, Paragraph 3, item 8 of the Ordinance for Enforcement of the Companies Act.

## Executive Officers

| Akira Ichikawa President and Executive Officer\*

| Hitoshi Hayano Executive Vice President and Executive Officer\*

In Charge of Value Up and Cost Down Works, TOP2020, Group IT Strategy, Divisional Manager of Lifestyle Service Division and Forestry & Environment Division

| Shigeru Sasabe Senior Managing Executive Officer\*

Divisional Manager of Overseas Business Division (also oversees Timber & Building Materials Division)

| Ken Wada Senior Managing Executive Officer\*

Divisional Manager of Housing Division and General Manager of Custom-Built Housing Section

| Tatsuru Satoh Managing Executive Officer\*

In charge of General Administration, Personnel, Corporate Communications, Internal Audit, Intellectual Property and Environmental Management

| Akihisa Fukuda Managing Executive Officer\*

In charge of Corporate Planning, Finance, Information Systems and Tsukuba Research Institute

| Toshiro Mitsuyoshi Managing Executive Officer\*

In charge of Tohoku Reconstruction Support and Deputy Divisional Manager of Housing Division (In charge of Housing Business Strategy and also oversees Overseas Housing Business Supporting Department)

| Hideo Watabe Managing Executive Officer

President and Representative Director of Sumitomo Forestry Residential Co., Ltd.

| Takanori Umeki Managing Executive Officer

Divisional Manager of Timber & Building Materials Division

| Kunihiko Takagiri Managing Executive Officer

President and Representative Director of Sumitomo Forestry Home Tech Co., Ltd.

| Ryoji Machino Executive Officer

Deputy Divisional Manager of Housing Division (in charge of Residential Property Development and MOCCA (Timber Solutions)) and General Manager of Renovation & Leasing Section

| Yoshihiro Yoshioka Executive Officer

President and Representative Director of Sumitomo Forestry Crest Co., Ltd.

| Masayuki Tabuse Executive Officer

Deputy Divisional Manager of Timber & Building Materials Division and General Manager of Domestic Timber & Building Materials Section

| Akira Sekimoto Executive Officer

Deputy Divisional Manager of Timber & Building Materials Division and General Manager of International Marketing Department

| Akio Numazaki Executive Officer

Director and Senior Managing Executive Officer of Sumitomo Forestry Home Tech Co., Ltd.

| Kanpei Tokunaga Executive Officer

President and Representative Director of Sumitomo Forestry Landscaping Co., Ltd.

| Shinichi Kawazoe Executive Officer

Deputy Divisional Manager of Overseas Business Division and General Manager of Overseas Resources & Manufacturing Department

| Nobuyuki Katayama Executive Officer

Deputy Divisional Manager of Housing Division (also oversees Administration & Planning, Training & Education and Building Compliance Department)

\*Doubles as Director and Executive Officer

## Corporate Governance

### Corporate Governance System

The Sumitomo Forestry Group considers enhancing and strengthening corporate governance as one of its most important corporate priorities from the perspective of securing transparency in management, as well as quick decision-making and execution of operations.

Sumitomo Forestry has a Board of Directors and a Board of Statutory Auditors. We have strengthened our statutory auditors' monitoring function. We have introduced an executive officer system to separate decision-making and supervisory functions from executive functions and have clarified where the executive responsibility lies. As of June 20, 2014, there were nine directors, 18 executive officers, and five statutory auditors.

To strengthen the Board of Director's supervisory functions and management system, one external director was newly appointed at the 74th regular shareholders' meeting. The Company now has three external auditors with the appointment of one new external auditor. We ensure transparent and sound management based on stronger management oversight and audit functions with external directors and auditors, and believe we can further strengthen the effectiveness of corporate governance.

### 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. The Executive Committee meeting is held 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 2013, the Board of Directors met 15 times and the Executive Committee 27 times.

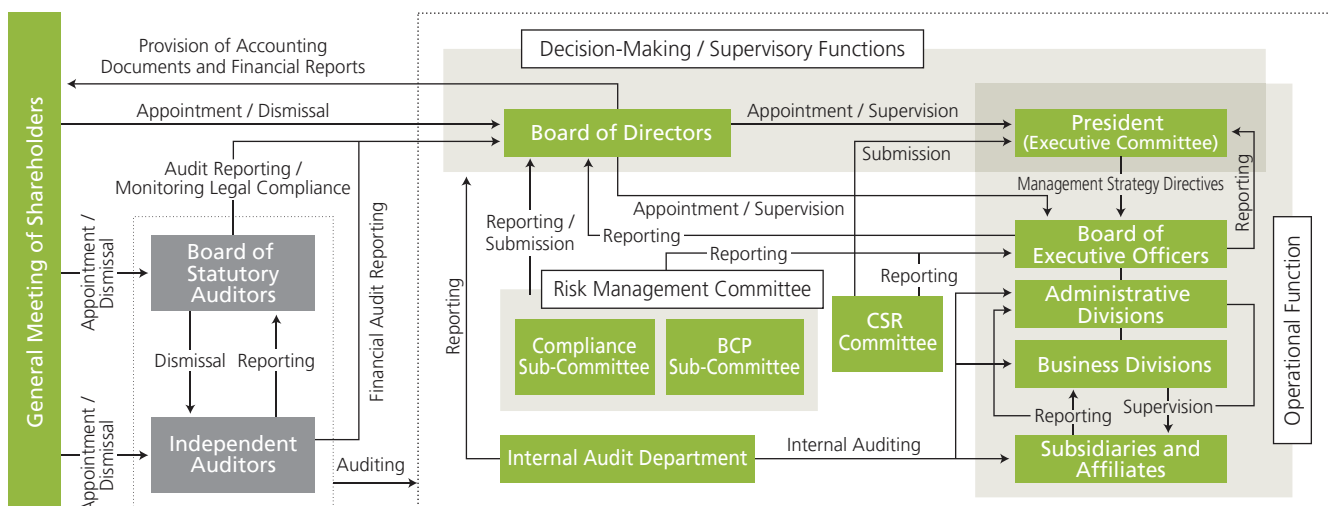
We have adopted an executive officer system to separate decision-making and supervisory functions from executive functions. The Board of Directors, comprised of a small a group of members, is able to make swift decisions. Each executive officer, under the guidance and supervision of the Board of Directors, efficiently carries out the work they are in charge of as the person responsible for its execution.

### Board of Statutory Auditors

Each statutory auditor provides oversight for the directors' execution of duties utilizing the deep insights and diverse perspectives they have acquired from their various business backgrounds. In addition to statutory auditors' attending Board of Directors, Executive Committee and other important meetings, we have developed a system in which they can obtain accurate information in a timely manner regarding management decision-making processes. This is made possible by close coordination in the areas of internal auditing, compliance, and accounting as well as statutory auditors of important subsidiaries and accounting auditors. Based on this information, statutory auditors conduct rigorous audits from the standpoint of shareholders and statutory auditors express their views when necessary about the business conducted by directors.

The Board of Statutory Auditors met 14 times during fiscal 2013. In addition, the Group Board of Statutory Auditors, composed of the Company's full-time statutory auditors and the statutory auditors of Group companies, convenes once every two months with the goal of improving the audit effectiveness in Group companies and exchanging information.

Corporate Governance System (As of June 30, 2014)





## Appointment of External Directors and External Auditors

The Company appointed one external director, Junko Hirakawa. She had provided appropriate opinions and comments on various proposals at the Board of Director’s meeting from the standpoint of a legal expert as the Company’s external auditor until now. At the same time, she has been committed to strengthening our governance system through her audit work. In addition, the Company is expanding the operations of various businesses in Japan and abroad. To further strengthen the Board of Director’s supervisory functions and management system, we have appointed increased the number of directors from seven to nine, in addition to appointing external directors.

The Company appointed three external auditors, Satoshi Teramoto, Shin Nagata, and Katsuhide Kurasaka.

Neither the external director nor the three external auditors have any capital, personal, transactional or other relationships with the Sumitomo Forestry Group that would constitute a conflict of interest.

### Reasons for Appointment as External Director

Name	Reason for appointment
Junko Hirakawa Assumption of office: June 2014	As an attorney, she has practical knowledge of corporate law in Japan and abroad, and has been judged to play an appropriate role in strengthening the Company’s corporate governance by making recommendations to management from an expert’s perspective.

### Reasons for Appointment as External Auditor

Name	Reason for appointment
Satoshi Teramoto Assumption of office: June 2010	As a certified public accountant, he has a high degree of specialized knowledge of and extensive practical experience in finance and accounting, and has been judged capable of conducting audits of the Company’s execution of business.
Shin Nagata Assumption of office: June 2012	He has an extremely good knowledge of forestry management in general, and has been judged capable of conducting objective and appropriate audits of the Company’s environmental business and overseas business development.
Katsuhide Kurasaka Assumption of office: June 2014	He has deep insight as a business manager including his extensive experience in front-line manufacturing management, and has been judged capable of conducting objective and appropriate audits of the Company’s manufacturing business.

### Attendance of External Auditors at Meetings of the Board of Directors and Board of Auditors (FY2013)

Position and Name	Board of Directors Meetings (convened 15 times)		Board of Auditors Meetings (convened 14 times)	
	Number of meetings attended	% of meetings attended	Number of meetings attended	% of meetings attended
Statutory Auditor: Satoshi Teramoto	15	100%	14	100%
Statutory Auditor: Shin Nagata	13	87%	14	100%
Statutory Auditor: Junko Hirakawa	14	93%	14	100%

### Remuneration, etc. (FY2013)

Directors (8)	¥446 million
Corporate Auditors (5)	¥74 million

(including ¥25 million in remuneration for three external auditors)

Directors include one director who retired as of the 73rd regular shareholders’ meeting held on June 21, 2013. Included in total remunerations for directors are director bonuses amounting to ¥120 million, which were decided upon at the 74th regular shareholders’ meeting held on June 20, 2014.

## Internal Controls System (Risk Management and Compliance)

### Establishment of Internal Controls System

The Group adopted a basic policy on the establishment of an internal controls system at the Board of Directors’ meeting and decided Action Guidelines to embody our corporate philosophy, as well as the document summarizing the ethical behavior guidelines and values that all officers and employees should follow, titled “What we want to place a priority on.” We also established a framework to secure the soundness in our business in accordance with the Company Act.

### Promotion of Risk Management System

To strengthen the risk management system including for Group companies in accordance with the Company Act and other regulations, the Company has formulated the Risk Management Basic Regulations. Accordingly, President and Executive Officer of Sumitomo Forestry has been appointed to preside over all matters concerning risk management for the entire Group as the highest authority on risk management. Based on the Risk Management Basic Regulations, the Company has established the Risk Management Committee, which is

chaired by the President and Executive Officer and comprised of all other executive officers, in order to appropriately and smoothly undertake risk management. Established under the umbrella of the Risk Management Committee, the Compliance Sub-Committee and the Business Continuity Plan (BCP) Sub-Committee are comprised of the general manager of the General Administration Department, who serves as committee chairman, and the people in charge of risk management in each department. The Risk Management Committee regularly reports the content of its activities to the Board of Directors as well as implements management reviews to develop a system able to reflect risk management in business operations.

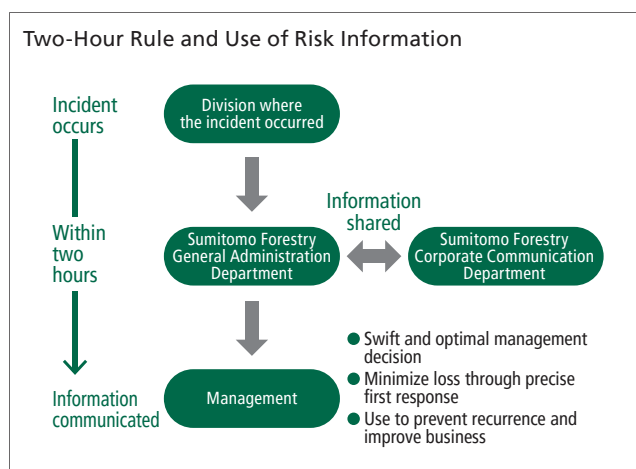
In fiscal 2013, Risk Management Basic Regulations were partially revised and the risks surrounding the Group were sorted out systematically and in great detail. In addition, we devised a system to more effectively manage risks by determining which division has authority over each risk.

Further, the Risk Management Committee reported its activities to the Board of Director four times, and the Compliance Sub-Committee and the BCP Sub-Committee convened two times each.

### Rapidly Responding to Risk when it Manifests

The Group operates a two-hour rule system designed to rapidly and accurately share information with management in the event of an emergency situation that may have a serious impact on Company management. The rule is helpful in making swift and optimal management decisions, taking a precise first response and avoiding and containing loss through the prompt sharing of information, summarizing and reporting case studies, and preventing recurrence and improving business.

The Company maintains a system of sharing information with the Corporate Communications Department and disclosing information to stakeholders about important matters in a timely and appropriate manner.



### Responding to Disaster Risk

The Group has established the BCP Sub-Committee as a subordinate body under the Risk Management Committee. The Sub-Committee has developed BCPs for various business interruption risks—including natural disasters and outbreaks of new influenza strains—that are beyond the control of the Group and could significantly impact the headquarters’ functions, and systematically acts based on these plans.

Based on important supply chains operated as mutual businesses, each Group company’s on-site leader attends Group Countermeasures against Large-Scale Earthquakes BCP Simulation Training, a committee activity, and works to address Group issues with the aim of consistently enhancing Group wide resilience and business continuity.

### Compliance Promotion System

The Company has established the Compliance Sub-Committee as a subordinate body under the Risk Management Committee to respond to compliance risk across the Group. The committee promotes Group standardization including management systems and tools for legal compliance with construction industry law and other laws and regulations, and efficiently responds to compliance risk.

In addition, compliance managers of each Group company manage from the bottom-up by inviting specialist instructors to hold workshops and create opportunities to share a crisis consciousness.

These activities are reported to the Board of Statutory Auditors every month to share compliance risk information of each company with the entire Group through the Group Board of Statutory Auditors.

### Internal Audits

Of the Group’s approximately 200 business sites, the Internal Audit Department selects about 60 each year to undergo a risk assessment audit. By conducting these audits, the Internal Audit Department verifies the status of each business site’s business execution (beginning with compliance) and administrative functions. The results of these assessments are reported to the president, executive officers in charge of internal audits and internal auditors as well as managers, executive officers and directors in charge of the business sites being audited. In the case that audit findings are made, the Internal Audit Department verifies that improvements are being implemented at the business site, which includes preparing documentation and implementing quarterly follow-ups. The results of these actions are reported to the president and executive officers in charge of internal audits.

# Financial Section

<b>Contents</b>	50	Eleven-Year Summary
	52	Management Discussion and Analysis
	57	Business Risk
	59	Consolidated Balance Sheets
	61	Consolidated Statements of Income / Consolidated Statements of Comprehensive Income
	62	Consolidated Statements of Changes in Net Assets
	64	Consolidated Statements of Cash Flows
	65	Notes to Consolidated Financial Statements
	84	Independent Auditor's Report

# Eleven-Year Summary

Sumitomo Forestry Co., Ltd. and Consolidated Subsidiaries  
Years ended March 31

	Millions of yen			
	2014	2013	2012	2011
<b>Operating Results:</b>				
Net sales	¥972,968	¥845,184	¥831,870	¥797,493
Gross profit	160,162	141,436	136,873	132,568
Selling, general and administrative expenses	126,747	116,105	117,682	118,330
Operating income	33,415	25,330	19,191	14,238
Recurring income* <sup>1</sup>	33,567	26,981	20,714	14,206
Net income	22,531	15,923	9,271	5,175
<b>Financial Position:</b>				
Total assets	¥645,197	¥547,973	¥503,496	¥489,417
Working capital* <sup>2</sup>	120,725	91,335	94,509	89,665
Interest-bearing debt	92,975	69,229	67,923	69,229
Total net assets	226,078	193,250	169,335	163,110
<b>Cash Flows:</b>				
Cash flows from operating activities	¥ 54,057	¥ 45,910	¥ 26,873	¥ 17,515
Cash flows from investment activities	(10,476)	(28,662)	(32,903)	(13,247)
Cash flows from financing activities	8,511	(5,305)	(5,622)	372
Cash and cash equivalents at the end of the year	128,343	75,658	63,839	75,582
<b>Capital Investment:</b>				
Tangible fixed assets* <sup>3</sup>	¥ 14,735	¥ 7,058	¥ 10,970	¥ 11,923
Intangible fixed assets	2,417	2,890	2,786	2,434
Others	252	343	194	215
Total	17,404	10,291	13,950	14,572
Depreciation and amortization	9,810	8,978	8,469	8,437
Yen				
<b>Per Share Data:</b>				
Net income	¥ 127.20	¥ 89.89	¥ 52.34	¥ 29.2
Net assets	1,234.53	1,086.68	954.8	919.5
Cash dividends	19.0	17.0	15.0	15.0
%				
<b>Financial Ratios:</b>				
Gross profit margin	16.5	16.7	16.5	16.6
Operating income margin	3.4	3.0	2.3	1.8
Recurring income margin	3.4	3.2	2.5	1.8
Return on assets (ROA)* <sup>4</sup>	5.6	5.1	4.2	3.0
Return on equity (ROE)* <sup>4</sup>	11.0	8.8	5.6	3.2
Equity ratio	33.9	35.1	33.6	33.3
Interest-bearing debt ratio* <sup>5</sup>	29.8	26.5	28.7	29.8
Current ratio	137.0	133.1	137.1	136.8
Interest coverage ratio [times]	18.8	14.2	10.8	8.2

\*1. Recurring income = Operating income + Non-operating income – Non-operating expenses

Non-operating income includes interest income, purchase discounts, dividends income, foreign exchange gains, miscellaneous gains, and other income generated from normal business activities. Non-operating expenses include interest expense, sales discounts, foreign exchange losses, miscellaneous expenses, and other expenses from normal business activities.

\*2. Working capital = Current assets – Current liabilities

Millions of yen

2010	2009	2008	2007	2006	2005	2004
¥723,923	¥823,810	¥861,357	¥911,674	¥791,128	¥723,193	¥673,779
124,269	133,493	135,277	141,117	127,853	125,582	120,778
114,522	126,656	128,041	120,711	112,407	107,116	103,201
9,747	6,837	7,235	20,405	15,446	18,466	17,577
9,465	6,160	7,659	21,259	16,800	18,692	17,074
2,377	1,028	1,115	11,954	10,842	8,014	9,870
¥469,738	¥427,738	¥450,730	¥500,136	¥464,193	¥370,684	¥369,755
88,338	81,700	64,156	76,453	68,037	67,579	66,377
66,786	49,127	25,816	25,739	22,067	15,580	19,929
162,930	156,192	173,089	188,855	175,206	152,500	146,269
¥ 37,239	¥ (8,161)	¥ 26,106	¥ 7,084	¥ 16,626	¥ 6,685	¥ 25,962
(19,117)	(29,062)	(17,587)	(7,102)	(8,998)	(12,895)	(7,646)
11,546	24,196	(4,262)	665	(14,039)	(7,087)	(735)
71,662	40,730	54,475	50,311	49,628	55,928	69,312
¥ 10,636	¥ 24,075	¥ 9,578	¥ 7,020	¥ 8,132	¥ 7,016	¥ 4,040
1,561	2,013	1,694	1,586	1,857	1,673	1,468
395	150	222	420	454	549	883
12,592	26,238	11,494	9,026	10,443	9,237	6,392
8,502	8,477	7,258	6,476	6,403	6,452	6,447
Yen						
¥ 13.4	¥ 5.8	¥ 6.3	¥ 67.4	¥ 61.3	¥ 45.3	¥ 55.8
917.8	880.9	976.0	1,059.2	996.0	866.5	830.5
15.0	15.0	15.0	15.0	13.0	13.0	13.0
%						
17.2	16.2	15.7	15.5	16.2	17.4	17.9
1.3	0.8	0.8	2.2	2.0	2.6	2.6
1.3	0.7	0.9	2.3	2.1	2.6	2.5
2.1	1.4	1.6	4.4	4.0	5.0	4.7
1.5	0.6	0.6	6.6	6.6	5.4	7.2
34.6	36.5	38.4	37.5	37.7	41.1	39.6
29.1	23.9	13.0	12.1	11.2	9.3	12.0
140.3	141.6	127.6	129.3	129.3	137.4	135.7
6.8	4.5	4.5	11.2	10.8	18.6	21.9

\*3. As of March 2009, accounting standards for lease transactions were changed and, accordingly, leased assets are included in property, plant and equipment.

\*4. ROA and ROE are calculated using the simple average of beginning and end of term balance sheet figures.

ROA = Recurring income / Total assets

ROE = Net income (loss) / Shareholders' equity

\*5. Interest-bearing debt ratio = Interest-bearing debt / (Interest-bearing debt + Shareholders' equity)

## Market Overview

In fiscal 2013, ended March 31, 2014, against a backdrop of a slowly recovering global economy, especially in the United States and Europe, and the effects of economic measures and monetary policies in Japan, the Japanese economy displayed signs of a gentle recovery, including improved corporate profits and an increase in capital expenditures resulting from continued depreciation of the yen and other factors and a recovery in consumer spending resulting from an improved employment and income environment.

With respect to the domestic housing market, housing loan interest rates hovered at low levels, the effects of expanded tax relief for housing loans and other government initiatives designed to promote housing purchases manifested themselves, and there was surge demand ahead of the consumption tax hike. As a result of these and other factors, the number of new housing starts reached 987,000\* (an increase of 10.6% year-on-year). Of this number, owner-occupied dwellings were 353,000\* (an increase of 11.5% year-on-year). At the same time, a sharp reactive decline in surge demand has become apparent in the second half, leaving a sense of uncertainty for the future.

\* Amounts have been rounded down to the nearest thousand units

## Consolidated Operating Results

### 1 Net Sales and Orders Received

Net sales increased 15.1% year-on-year to ¥972,968 million. This was primarily due to a strong performance from the Timber and Building Materials Business and the Custom-Built Detached Housing Business, as well as efforts to expand the Overseas Business and the Renovation and Leasing Housing Business by such means as proactively injecting management resources.

The value of orders received for the custom-built detached housing totaled ¥339,909 million, up to 8.2% compared with the previous fiscal year. This rise was mainly attributable to a 2.8% year-on-year increase in the number of orders received 9,364 houses, a higher installation rate of environmentally sound equipment and an increase in unit prices in line with greater use of our "Big-Frame Construction method."

### 2 Selling, General and Administrative Expenses

Selling, general and administrative expenses increased 9.2% year on year to ¥126,747 million. There was an increase in

personnel expenses, owing to actuarial differences in accounting for retirement benefit of ¥1,020 million, which arose mainly due to a fall in long-term interest rates, but excluding this factor selling, general and administrative expenses increased 8.0% year on year to ¥125,727 million. The increase in selling, general and administrative expenses excluding the impact of the above-mentioned actuarial differences was due mainly to additional equity interest in an equity-method affiliate, which is engaged in the housing business in Australia, was acquired in September 2013 and it was made a consolidated subsidiary, as well as that costs associated with expansion of the Renovation Business increased.

### 3 Operating Income, Recurring Income

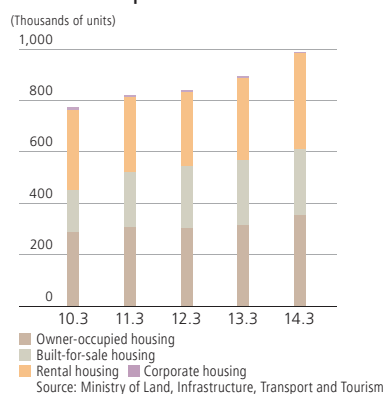
Operating income improved 31.9% year-on-year to ¥33,415 million, and recurring income rose 24.4% to ¥33,567 million. This was attributable to higher sales and gross profit due to an increase in the volume handled and an unit selling prices in the Timber and Building Materials Business, an increase in the number of houses sold and a rise in the price per unit in the Custom-Built Detached Housing Business, and growth in the Renovation Business and housing business overseas, in spite of the year-on-year increase in selling, general and administrative expenses. Excluding the impact of the above-mentioned actuarial differences, operating income amounted to ¥34,435 million, an increase of 37.9% year on year, and recurring income totaled ¥34,586 million, an improvement of 29.9% year-on-year.

### 4 Net Income

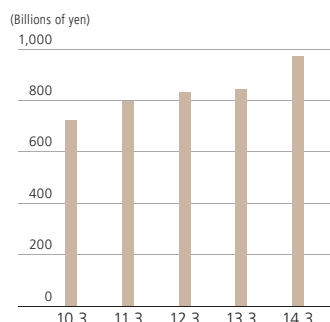
Net income increased 41.5% year-on-year to ¥22,531 million. The main reasons for the significant increase in net income were that additional equity interest in an equity-method affiliate, which is engaged in the housing business in Australia, was acquired and it was made a consolidated subsidiary, resulting in the posting of a marginal gain on step acquisition of ¥2,124 million as an extraordinary gain as well as that income taxes were reduced due to reversal of ¥2,077 million in deferred tax liabilities recorded in previous years resulting from an exemption from withholding tax on dividends payable by a subsidiary in New Zealand which became applicable as the result of amendment to the tax treaty between Japan and New Zealand.

Net income per share came to ¥127.20, an increase of ¥37.31 from the previous fiscal year.

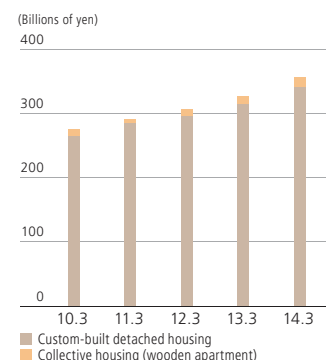
### Number of New Housing Starts in Japan



### Net Sales



### Amount of Orders Received



## Segment Results

\* The net sales for each segment include intersegment internal sales and transfers. And recurring income figures have been used for the segment income.

### 1 Timber and Building Materials Business

Net sales of the Timber and Building Materials Business increased 14.3% year-on-year to ¥458,611 million, and recurring income rose 5.2% to ¥4,950 million. We promoted a sales strategy closely linked to local areas and poured efforts into the sale of materials in the renovation market to expand our market share in Japan, while overseas, we worked on expanding our business in the Asian market.

In the domestic timber and building materials distribution business, we focused our efforts on expanding sales of environmentally sound products such as plantation timber and timber from certified forests as well as on seeking to capture demand accompanying an increase in the number of new housing starts and further bolstering links with customers. This resulted in an increase in the volume handled. With regards to the domestic timber distribution business, against a backdrop of increased sales of high quality domestic timber products and depreciation of the yen, we focused our efforts on domestic timber exports to Asian countries. In the timber and building materials distribution business overseas, we worked on expanding sales of our overseas subsidiaries' products focusing on China and Southeast Asia. In the domestic building materials manufacturing business, we launched the "BeRiche" series, which offers a vast variety of products to complement a diverse range of home interior styles, and focused on expanding sales. However, the results were less than favorable due to the impact of a steep rise in the price of raw materials, increased costs accompanying the switch to new products.

### 2 Housing Business

Sales of the housing business increased 8.0% year-on-year to ¥465,368 million, and recurring income rose 22.8% to ¥32,211 million. The main reasons for this included an increase in the number of houses sold in the Custom-Built Detached Housing Business owing to a surge in demand ahead of the consumption tax rate hike and a rise in the price per unit, as well as growth in the renovation business on the back of strengthened sales capabilities and a wide range of renovation proposals.

### Custom-Built Housing Business

In the Custom-Built Detached Housing Business, we engaged in efficiently injecting management resources according to market circumstances in order to respond to the surge demand ahead of the consumption tax hike and subsequent sharp reactive decline and endeavored to increase the rate of installation of environmentally sound equipment, such as solar power systems. We also worked to expand orders received for our "Big-Frame Construction method," which has superior earthquake resistance and offers greater design flexibility.

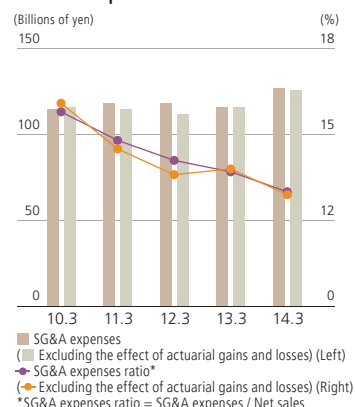
With regard to our sales strategy, we held "Sumai Haku" housing fairs in Yokohama, Osaka and Nagoya where visitors can get a comprehensive, hands-on look at Sumitomo Forestry houses. We also opened a permanent technology housing display center in Tokyo and Osaka, which provides easy-to-understand exhibits on the structural features of our "Big-Frame Construction method" and promoted a next-generation display center strategy based on a new concept, including nationwide expansion of our proto-housing display center, which overflows with our wood design sense. On the product strategy front, we launched "My Select BF-Si" standard home designs that can be personalized via a website to respond to the diverse needs of our customers.

In the Apartment Business, we worked on expanding orders of our detached rental housing called "Forest Maison Houses for rent" and launched "Forest Maison Share house" to expand our lineup of wooden rental housing products.

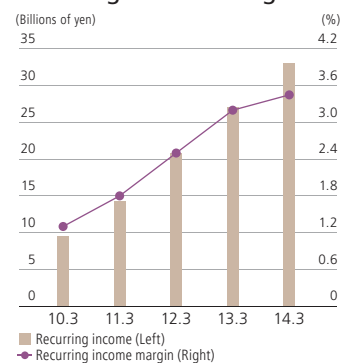
### Renovation and Leasing Housing Business

In our Renovation Business, we endeavored to enhance the degree of our renovation product brand "Reforest" and sought to bolster our sales capabilities by increasing our sales force principally in the three major metropolitan areas in order to expand our market share. We also modified our hydraulic damper seismic control systems used in high-rise building for use in wooden housing and developed the "Original Seismic Control Damper Model S." We have a lineup of renovation offerings that includes "Seismic Resistance/Seismic Control Double Construction," with conventional earthquake-resistant construction methods. Moreover, we actively worked on expanding orders by focusing on condominium

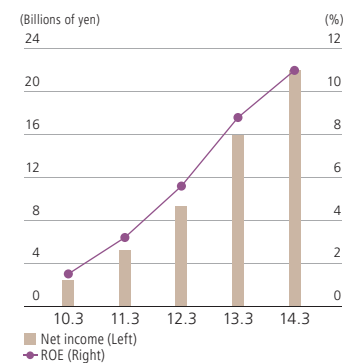
### SG&A Expenses and SG&A Expenses Ratio



### Recurring Income and Recurring Income Margin



### Net Income and ROE



renovation offerings as well. As a result, performance in this business was strong.

In our Existing Home Renovation Business (resale of renovated homes), which conducts the renovation and resale of used homes, we worked to strengthen and expand our after-sales service system to maintain a pleasant living environment over a long period of time. We also launched a new brand called "forestia" and carried out resale activities for high quality condominiums incorporating our Group's technical capabilities.

In our Real Estate Distribution and Management Business, we focused on developing a management organization to address market trends and bolstering earnings power.

### Detached Spec Home / MOCCA (timber solutions) Business

In our Detached Spec Home Business, we poured efforts into enhancing our sales capabilities, but performance was sluggish. As for the MOCCA (timber solutions) Business, we endeavored to expand orders by such means as receiving orders for construction of private-pay elderly care facilities and other wooden buildings. One of the orders we received during the fiscal year 2013 was selected for the Wood Building Technology Leadership Business Project promoted by the Ministry of Land, Infrastructure, Transport and Tourism.

### 3 Overseas Business

Sales in the Overseas Business climbed 97.4% year-on-year to ¥76,320 million and reported a recurring loss of ¥149 million, compared with a recurring loss of ¥1,840 million in the previous fiscal year. We proactively injected management resources to improve profitability and expand the size of our business while at the same time pouring effort into the implementation of measures to improve the bottom line of unprofitable businesses. As a result, sales increased and losses contracted significantly.

In the overseas resources and manufacturing business, our results trended firmly due to increased sales volume in New Zealand directed towards Japan where the number of new housing starts was trending upwards and an increase in plywood exports in Indonesia on top of a drop in the price of raw materials.

In Australia, our focus on domestic sales and other efforts resulted in an improvement in our bottom line. In Vietnam, we worked to build a stable particle board production system. In China, we partly transferred our interest in a plywood manufacturing subsidiary that was facing difficult business circumstances to another company and removed it from our consolidated results. We endeavored to promote our business in Indonesia and other countries by such means as expanding the area of our plantations in order to provide a stable supply of environment sound materials.

As for our overseas housing and real estate business, performance was strong in the United States owing to an increase in the number of units sold against a backdrop of a healthy housing market. In Australia, although the number of units sold plateaued, cost-cutting and other efforts resulted in solid performance. Additionally, in order to further grow our overseas housing business, we acquired equity interest in a Texas housing company in the United States and acquired additional equity interest in an equity-method affiliate engaged in the housing business in Australia, making it a consolidated subsidiary. Net sales in our Overseas Business increased substantially as a result of making this affiliate into a consolidated subsidiary.

### 4 Other Businesses

Besides the aforementioned businesses, the Sumitomo Forestry Group operates the biomass power generation business, management of private-pay elderly care facilities, the lease business and a wide range of service businesses for residential customers (including non-life insurance agency service) and also manufactures and sells farming and gardening materials and develops IT systems for its Group companies.

Net sales during the fiscal year under review increased 12.2% year on year to ¥17,286 million, and recurring income rose 8.9% to ¥821 million. This was attributable to factors including an increase in the number of new fire insurance policies handled for housing customers and a rise in occupancy rates in the management of private-pay elderly care facilities.

## Housing Business

(Years ended March 31)		2011	2012	2013	2014
<b>Orders</b>					
Custom-Built Detached Housing	(¥million)	¥284,420	¥295,194	¥314,240	¥339,909
	(Units)	8,926	8,962	9,105	9,364
Wooden Apartment	(¥million)	¥ 7,343	¥ 11,169	¥ 13,043	¥ 15,502
	(Units)	775	986	1,138	1,140
Renovation (Sumitomo Forestry Home Tech Co., Ltd.)	(¥million)	¥ 41,754	¥ 47,792	¥ 53,818	¥ 61,004
<b>Sales</b>					
Custom-Built Detached Housing	(¥million)	¥270,903	¥294,081	¥300,936	¥320,260
	(Units)	8,721	9,007	8,999	9,243
Wooden Apartment	(¥million)	¥ 6,681	¥ 7,899	¥ 9,371	¥ 13,130
	(Units)	724	772	858	1,124
Detached Spec Homes	(¥million)	¥ 9,567	¥ 9,862	¥ 11,376	¥ 9,723
	(Units)	226	225	254	242
Renovation (Sumitomo Forestry Home Tech Co., Ltd.)	(¥million)	¥ 39,325	¥ 45,278	¥ 50,312	¥ 59,336



## Segment Performance Highlights

(Years ended March 31)	Millions of yen			
	2013	2014	change	(% of change)
<b>Net Sales</b>	¥845,184	¥972,968	+127,784	+15.1%
Timber and Building Materials Business	401,266	458,611	+ 57,345	+14.3%
Housing Business	430,774	465,368	+ 34,594	+ 8.0%
Overseas Business	38,657	76,320	+ 37,663	+97.4%
Other Businesses	15,406	17,286	+ 1,880	+12.2%
Adjustments	(40,919)	(44,617)	- 3,698	—
<b>Recurring Income</b>	¥ 26,981	¥ 33,567	+ 6,585	+24.4%
Timber and Building Materials Business	4,704	4,950	+ 247	+ 5.2%
Housing Business	26,227	32,211	+ 5,985	+22.8%
Overseas Business	(1,840)	(149)	+ 1,691	—
Other Businesses	754	821	+ 67	+ 8.9%
Adjustments	(2,863)	(4,268)	- 1,405	—

\* Net sales include intersegment sales and transfers.

Net sales and recurring income adjustments include net sales and selling, general and administrative expenses at the Administrative Division that cannot be allocated to specific businesses.

## Net Sales and Recurring Income of Main Subsidiaries

## Timber and Building Materials Business

(Millions of yen)

(Years ended March 31)	Net Sales		Recurring Income	
	2013	2014	2013	2014
Sumitomo Forestry Crest Co., Ltd.	¥ 36,353	¥ 39,932	¥ 165	¥ (856)

## Housing Business

(Years ended March 31)	Net Sales		Recurring Income	
	2013	2014	2013	2014
Sumitomo Forestry Residential Co., Ltd.	¥ 19,230	¥ 20,402	¥ 536	¥ 465
Sumitomo Forestry Home Engineering Co., Ltd.	83,778	88,316	769	907
Sumitomo Forestry Home Service Co., Ltd.	5,545	5,873	210	253
Sumitomo Forestry Landscaping Co., Ltd.	23,790	24,315	209	394
Sumitomo Forestry Home Tech Co., Ltd.	53,006	62,189	2,705	4,088

## Overseas Business

(Years ended December 31)	Net Sales		Recurring Income	
	2012	2013	2012	2013
Overseas Subsidiaries*				
PT. Kutai Timber Indonesia (Indonesia)	¥ 9,579	¥ 11,872	¥ 200	¥ 582
Alpine MDF Industries Pty Ltd. (Australia)	3,894	4,490	(150)	6
Nelson Pine Industries Ltd. (New Zealand)	12,610	14,873	1,407	1,199
Henley Properties Group (Australia)	42,711	52,633	1,487	2,634

\* Figures for overseas subsidiaries have been translated into Japanese yen at the following rates:

	US\$	AU\$	NZ\$
FY2012:	79.80	82.65	64.66
FY2013:	97.59	94.32	80.02

## Financial Position and Cash Flow

### 1 Financial Position

At the end of March 2014, total assets were ¥645,197 million, an increase of ¥97,224 million year on year. The increase was attributable, among other things, to an increase in liquid funds on hand resulting from increased revenue and the impact of including an equity-method affiliate engaged in the housing business in Australia in the consolidated results.

Liabilities rose by ¥64,397 million year on year to ¥419,120 million. This was mainly the result of the issuance of convertible bonds and an increase in advances received on uncompleted construction contracts accompanying an increase in the number of units under construction in the Custom-Built Detached Housing Business.

Interest-bearing debt increased by ¥23,746 million year on year to ¥92,975 million along with the ¥20,000 million issuance of the above-mentioned convertible bonds. The interest-bearing debt ratio increased from 26.5% at the end of the previous fiscal year to 29.8%.

Net assets totaled ¥226,078 million, and the equity ratio was 33.9%.

### 2 Cash Flow

#### Cash flows from operating activities

Net cash provided by operating activities was ¥54,057 million. In addition to income before income taxes and minority interests of ¥34,629 million and depreciation of ¥9,810 million, this increase also resulted from factors that increased cash, such as the increases in advances received on uncompleted construction contracts and note and accounts payable, which together exceeded such cash-decreasing factors as income taxes paid.

#### Cash flows from investment activities

Net cash used in investment activities totaled ¥10,476 million. This was due to the use of funds for acquiring equity interest in a North American housing business company and capital expenditures at the biomass power generation business company in Japan, with an increase in cash resulting from withdrawal of time deposits exceeding deposits.

#### Cash flows from financing activities

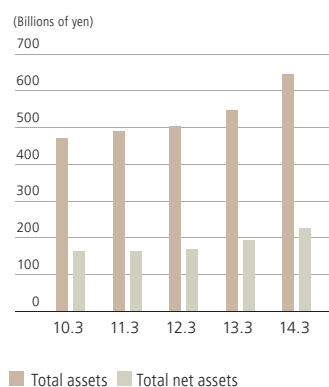
Net cash used in financing activities increased by ¥8,511 million. This was chiefly due to the issuance of ¥20,000 million in convertible bonds while at the same time paying dividends and repaying loans.

As a result of the above, cash and cash equivalents at the end of the fiscal year ended in March, 2014, stood at ¥128,343 million, an increase of ¥52,685 million from the end of the previous fiscal year.

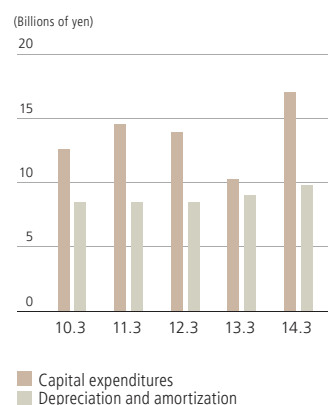
### 3 Capital Expenditures

Capital expenditures increased by 69.1%, from ¥10,291 million in the previous fiscal year to ¥17,404 million in the fiscal year under review. Investment in tangible fixed assets increased 108.8% year on year to ¥14,735 million, while investment in intangible fixed assets decreased 16.4% year on year to ¥2,417 million. Major investments included ¥4.3 billion for housing showrooms inside and outside Japan, ¥4.1 billion for construction-related expenditures at the Mombetsu biomass power generation plant, ¥3.1 billion for plant equipment in manufacturing businesses inside and outside Japan, and ¥2.8 billion for IT investment.

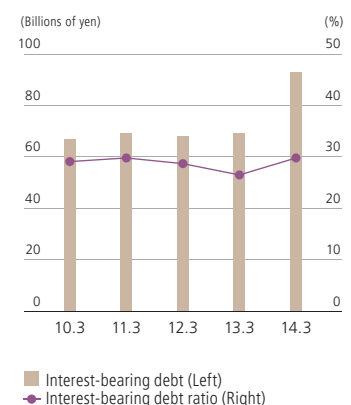
Total Assets and Total Net Assets



Capital Expenditures, Depreciation and Amortization



Interest-Bearing Debt and Interest-Bearing Debt Ratio



## Business Risk

### 1 Housing Market Trends

The Sumitomo Forestry Group business results are heavily reliant on housing market trends. Changes in the following business conditions may cause a significant decline in housing orders that could impact the Group's business results and financial position.

#### 1) Economic Cyclical Changes

An economic slump or deterioration in the economic outlook, or a consequential worsening of the employment situation and decline in personal consumption, could affect the Group's operating results and financial position by weakening customers' appetite for purchasing housing.

#### 2) Interest Rate Fluctuations

Interest rate increases, particularly rises in long-term interest rates, can have an adverse effect on demand as they cause an increase in total payments for customers purchasing detached housing, many of whom take out loans for the purchase, and for customers who build apartment buildings to use their land more effectively. However, the anticipation of interest rate rises can induce a temporary surge in home purchases, as consumers seek to avoid high loan costs.

#### 3) Land Price Fluctuations

A sharp rise in land prices can negatively impact consumers' inclination to purchase land on which to build housing. Conversely, a steep drop in land prices is a form of asset deflation and can reduce demand for home reconstruction. Consequently, both substantial rises and falls in land prices may have the potential to impact the Group's operating results and financial position.

#### 4) Tax System and Housing-Related Policy Changes

In the future, the scheduled increase in the rate of the consumption tax has the potential to induce surge demand in housing purchases and thus temporarily increasing housing demand. However, this could later invite a sharp reactive decline. Moreover, changes to housing-related policies such as tax breaks associated with housing loans and subsidy programs could affect the motivation for customers to buy housing, impacting the Group's operating results and financial position.

### 2 Statutory Changes

Laws and regulations surrounding the housing business include the Personal Information Protection Act, Building Standards Law, Construction Industry Law, Registered Architect Law, Building Lots and Building Transaction Business Law, Urban Planning Law, National Land Use Planning Law, Housing Quality Assurance Law, and Waste Disposal and Public Cleaning Law (law concerning procedures for waste disposal and site clean-up). The Sumitomo Forestry Group diligently conforms to all laws and regulations while recognizing that the abolition, revision, or adoption of laws and regulations can substantially influence the Group's operating results and financial position.

### 3 Timber and Building Materials Market Conditions

A decline in prices for timber and building materials reduces the sales of the timber and building materials distribution business. On the other hand, a steep increase in prices for timber and building materials or higher prices for other building materials can lead to higher materials costs for the housing business, which could impact Group results. Fluctuations in the prices for other raw materials, such as oil, can directly or indirectly affect raw materials prices and influence the Group's operating results and financial position.

### 4 Exchange Rate Fluctuations

The Group is taking measures to reduce the foreign exchange risks attendant on foreign currency-denominated imports through foreign exchange contracts and other means. However, temporary exchange rate fluctuations greater than those expected may occur. Also, there is a chance that fluctuations in the exchange rates of currencies of settlement may impact subsidiaries that sell and manufacture timber and construction materials overseas, impacting the Group's operating results and financial position.

### 5 Product Quality Assurance

The Group endeavors to ensure complete quality control with respect to its products, housing, and all aspects of its operations. However, serious quality issues arising from unforeseen circumstances have the potential to impact the Group's operating results and financial position.

### 6 Overseas Business Activities

The Group conducts various business activities overseas and engages in business transactions, such as product transactions, with various business partners overseas. Consequently, as is the case with domestic Japanese operations, laws and regulations, economic and social conditions, and consumer trends in the foreign countries in which the Group conducts business can influence the Group's operating results and financial position.

### 7 Retirement Benefit Obligations

A significant deterioration in the investment performance of the Group's pension assets or the necessity to revise assumptions for pension actuarial calculations could entail an increase in pension assets or increase the costs associated with pension accounts, potentially impacting the Group's operating results and financial position.

### 8 Stock Market

Volatile stock price fluctuations could cause the Group to book valuation losses on its securities holdings, thereby negatively impacting its operating results and financial position.

#### **9 Natural Disasters**

Damage from a major earthquake, wind, flood, or other destructive natural element could result in cost increases arising from interrupted operations at facilities, verification of safety in our housing products, delays in the completion of construction contracts, or other events. A significant increase in costs by a natural disaster could influence the Group's operating results and financial position.

#### **10 Information Security**

The Group makes every possible effort to ensure the proper and secure management of the large volume of customer information it holds, through establishing necessary rules and systems and conducting extensive education and training of executives and employees. Despite such precautions, customer information could leak out due to a computer system breach by a malicious third party, the theft of recording media holding such information, a human error by an executive or an employee or contracted worker, an accident, or other causes. In such cases, the Group could face customer claims for compensatory damages and lose the trust of customers and the market, which could affect the Group's operating results and financial position.

#### **11 Environmental Risk**

"Symbiosis with the Environment" is a top priority for the Group and is one of the four action guidelines of the Group's corporate philosophy. Changes to environmental regulations in Japan or overseas or occurrence of major environmental issues could lead to fines, compensation payments, costs associated with resolving environmental problems that could influence the Group's operating results and financial position.

#### **12 Decline in the Value of Assets under Management**

In the event that a marked deterioration in market conditions led to a decline in the value of Group assets under management such as real estate holdings and products, valuation losses could be incurred and assets could be written down due to impairment, which could influence the Group's operating results and financial position.

#### **13 Provision of Credit to Business Partners**

The Group extends credit to business partners in the form of trade receivables, etc. and sets appropriate limits and reserves for credit losses to avoid exposure to credit risk. As these measures do not ensure complete avoidance of exposure to credit risk, credit risk could still potentially influence the Group's operating results and financial position.

#### **14 Litigation Risk**

As the Group is engaged in a range of business activities in Japan and overseas, it is possible that the said activities could be subject to litigation and/or a dispute. In the event that these activities became subject to litigation, the Group's operating results and financial position could be influenced.

#### **15 Fundraising Risk**

The Group conducts fundraising, such as borrowing from financial institutions, and as such there is the possibility that fundraising costs may increase or fundraising itself could be restricted due to changes in the economic environment or lower credit ratings.

If this were to occur, the Group's business results and financial position could be influenced adversely.

\* Statements in this annual report with respect to matters in the future are forward-looking statements deemed logical by the Group as of the date of the production of this report.

# Consolidated Balance Sheets

Financial Section

Sumitomo Forestry Co., Ltd. and Consolidated Subsidiaries  
As of March 31, 2014 and 2013

ASSETS	Millions of yen		Thousands of U.S. dollars (Note 4)
	2014	2013	2014
<b>Current assets:</b>			
Cash and time deposits (Notes 7, 12, 16)	¥ 75,694	¥ 56,155	\$734,892
Marketable securities (Notes 5, 12, 16)	43,000	11,000	417,476
Receivables —			
Notes and accounts, trade (Notes 7, 16, 17)	132,921	125,933	1,290,498
Loans and other (Notes 7, 16)	87,774	84,870	852,178
Inventories —			
Finished goods, logs and lumber (Note 7)	26,922	22,276	261,382
Developed land and housing for sale (Note 7)	31,514	27,894	305,961
Land and housing projects in progress (Note 7)	35,564	27,057	345,283
Deferred tax assets (Note 9)	8,754	8,077	84,990
Other current assets	5,435	5,506	52,768
Allowance for doubtful accounts	(724)	(1,291)	(7,030)
Total current assets	446,855	367,478	4,338,398
<b>Property, plant and equipment, at cost less accumulated depreciation:</b>			
Land (Notes 6, 7, 8)	26,665	23,573	258,888
Buildings and structures (Notes 7, 8)	59,845	51,621	581,022
Machinery, equipment and vehicles (Notes 7, 8)	79,803	68,264	774,782
Timberland (Note 6)	12,442	11,872	120,794
Construction in progress (Note 7)	6,917	1,346	67,155
Leased assets	9,214	8,139	89,459
	194,886	164,815	1,892,100
Less accumulated depreciation	(91,153)	(78,915)	(884,983)
Net property, plant and equipment	103,733	85,900	1,007,117
<b>Intangible assets, net of amortization:</b>			
Goodwill	3,122	737	30,308
Other intangible assets (Note 8)	8,570	8,420	83,204
Total intangible assets	11,692	9,157	113,512
<b>Investments and other assets:</b>			
Investment securities (Notes 5, 7, 16)	65,499	59,588	635,908
Long-term loans and receivables	2,663	3,484	25,856
Deferred tax assets (Note 9)	1,797	1,343	17,450
Asset for retirement benefits (Note 18)	68	—	661
Other assets	14,983	23,243	145,468
Allowance for doubtful accounts	(2,093)	(2,220)	(20,319)
Total investments and other assets	82,917	85,439	805,024
<b>Total assets</b>	<b>¥645,197</b>	<b>¥547,973</b>	<b>\$6,264,051</b>

See accompanying notes to consolidated financial statements.



# Consolidated Statements of Income

Financial Section

Sumitomo Forestry Co., Ltd. and Consolidated Subsidiaries  
For the years ended March 31, 2014 and 2013

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2014	2013	2014
<b>Net sales</b>	<b>¥972,968</b>	<b>¥845,184</b>	<b>\$9,446,292</b>
<b>Cost of sales (Note 3):</b>	<b>812,806</b>	<b>703,748</b>	<b>7,891,323</b>
Gross profit	160,162	141,436	1,554,969
Selling, general and administrative expenses (Note 11)	126,747	116,105	1,230,553
Operating income	33,415	25,330	324,416
<b>Other income (expenses):</b>			
Interest and dividends income	1,520	1,332	14,758
Interest expense	(1,127)	(1,270)	(10,945)
Equity in losses of affiliates	(522)	(140)	(5,066)
Loss on devaluation of investment securities	(193)	(235)	(1,870)
Gain on step acquisitions	2,124	—	20,625
Gain on transition to defined contribution pension plan	—	19	—
Impairment loss (Note 8)	(436)	(211)	(4,228)
Gain on sales of investment securities	31	30	296
Other gains (losses), net (Note 10)	(183)	1,293	(1,780)
Total	1,214	818	11,790
Income before income taxes and minority interests	34,629	26,148	336,206
Income taxes (Note 9):			
Current	13,101	10,540	127,193
Deferred	(1,613)	(205)	(15,658)
Total	11,488	10,335	111,535
Income before minority interests	23,141	15,813	224,671
Minority interests	610	(110)	5,924
<b>Net income</b>	<b>¥ 22,531</b>	<b>¥ 15,923</b>	<b>\$ 218,747</b>
		Yen	U.S. dollars (Note 4)
<b>Per share of common stock:</b>			
Net income (Note 21)	¥127.20	¥89.89	\$1.23
Cash dividends	19.00	17.00	0.18

See accompanying notes to consolidated financial statements.

# Consolidated Statements of Comprehensive Income

Sumitomo Forestry Co., Ltd. and Consolidated Subsidiaries  
For the years ended March 31, 2014 and 2013

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2014	2013	2014
Income before minority interests	¥23,141	¥15,813	\$224,671
Other comprehensive income			
Unrealized gain (loss) on available-for-sale securities	2,425	6,398	23,548
Deferred gain on hedges	(228)	57	(2,215)
Translation adjustments	4,940	2,866	47,962
Share of other comprehensive income of companies accounted for by the equity method	106	799	1,033
Total other comprehensive income (Note 22)	7,244	10,120	70,328
Comprehensive income	30,385	25,933	294,999
Total comprehensive income attributable to:			
Shareholders of the parent company	29,667	26,016	288,026
Minority interests	718	(83)	6,973

See accompanying notes to consolidated financial statements.

# Consolidated Statements of Changes in Net Assets

Sumitomo Forestry Co., Ltd. and Consolidated Subsidiaries  
For the years ended March 31, 2014 and 2013

	Millions of yen					
	Shareholders' equity					Total shareholders' equity
	Common stock	Capital surplus	Retained earnings	Treasury stock at cost		
Balance at April 1, 2013	¥27,672	¥26,872	¥127,489	¥(269)		¥181,763
Changes during the period						
Cash dividends (¥19.00 per share)			(3,366)			(3,366)
Net income			22,531			22,531
Purchases of treasury stock				(3)		(3)
Disposal of treasury stock		0		0		0
Net changes in items other than shareholders' equity						
Total changes during the period	—	0	19,165	(3)		19,162
Balance at the end of current period	¥27,672	¥26,872	¥146,654	¥(272)		¥200,925

	Millions of yen					
	Accumulated other comprehensive income					Total net assets
	Unrealized gain on available-for-sale securities	Deferred gain on hedges	Translation adjustments	Retirement benefits liability adjustments	Minority interests	
Balance at April 1, 2013	¥12,132	¥249	¥(1,654)	¥ —	¥ 760	¥193,250
Changes during the period						
Cash dividends (¥19.00 per share)						(3,366)
Net income						22,531
Purchases of treasury stock						(3)
Disposal of treasury stock						0
Net changes in items other than shareholders' equity	2,426	(228)	4,937	(112)	6,642	13,665
Total changes during the period	2,426	(228)	4,937	(112)	6,642	32,827
Balance at the end of current period	¥14,559	¥ 21	¥ 3,284	¥(112)	¥7,401	¥226,078

See accompanying notes to consolidated financial statements.

	Thousands of U.S. dollars					
	Shareholders' equity					Total shareholders' equity
	Common stock	Capital surplus	Retained earnings	Treasury stock at cost		
Balance at April 1, 2013	\$268,661	\$260,888	\$1,237,755	\$(2,612)		\$1,764,692
Changes during the period						
Cash dividends (¥19.00 per share)			(32,676)			(32,676)
Net income			218,748			218,748
Purchases of treasury stock				(33)		(33)
Disposal of treasury stock		1		1		2
Net changes in items other than shareholders' equity						
Total changes during the period	—	1	186,072	(32)		186,041
Balance at the end of current period	\$268,661	\$260,889	\$1,423,827	\$(2,644)		\$1,950,733

	Thousands of U.S. dollars					
	Accumulated other comprehensive income					Total net assets
	Unrealized gain on available-for-sale securities	Deferred gain on hedges	Translation adjustments	Retirement benefits liability adjustments	Minority interests	
Balance at April 1, 2013	\$117,788	\$2,417	\$(16,055)	\$ —	\$ 7,374	\$1,876,216
Changes during the period						
Cash dividends (¥19.00 per share)						(32,676)
Net income						218,748
Purchases of treasury stock						(33)
Disposal of treasury stock						2
Net changes in items other than shareholders' equity	23,557	(2,215)	47,936	(1,089)	64,483	132,672
Total changes during the period	23,557	(2,215)	47,936	(1,089)	64,483	318,713
Balance at the end of current period	\$141,345	\$ 202	\$ 31,881	\$(1,089)	\$71,857	\$2,194,929

See accompanying notes to consolidated financial statements.



	Millions of yen					
	Shareholders' equity					Total shareholders' equity
	Common stock	Capital surplus	Retained earnings	Treasury stock at cost		
Balance at April 1, 2012	¥27,672	¥26,872	¥114,223	¥(268)		¥168,499
Changes during the period						
Cash dividends (¥17.00 per share)			(2,657)			(2,657)
Net income			15,923			15,923
Purchases of treasury stock				(1)		(1)
Disposal of treasury stock		—		—		—
Net changes in items other than shareholders' equity						
Total changes during the period	—	—	13,265	(1)		13,264
Balance at the end of current period	¥27,672	¥26,872	¥127,489	¥(269)		¥181,763

	Millions of yen					
	Accumulated other comprehensive income					Total net assets
	Unrealized gain on available-for-sale securities	Deferred gain on hedges	Translation adjustments	Retirement benefits liability adjustments	Minority interests	
Balance at April 1, 2012	¥ 5,734	¥192	¥(5,291)	¥—	¥202	¥169,335
Changes during the period						
Cash dividends (¥17.00 per share)						(2,657)
Net income						15,923
Purchases of treasury stock						(1)
Disposal of treasury stock						—
Net changes in items other than shareholders' equity	6,399	57	3,637	—	558	10,651
Total changes during the period	6,399	57	3,637	—	558	23,915
Balance at the end of current period	¥12,132	¥249	¥(1,654)	¥—	¥760	¥193,250

See accompanying notes to consolidated financial statements.

# Consolidated Statements of Cash Flows

Sumitomo Forestry Co., Ltd. and Consolidated Subsidiaries  
For the years ended March 31, 2014 and 2013

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2014	2013	2014
<b>Cash flows from operating activities:</b>			
Income before income taxes and minority interests	¥ 34,629	¥26,148	\$ 336,206
Adjustments —			
Depreciation and amortization	9,810	8,978	95,242
Impairment loss	436	211	4,228
Amortization of goodwill	847	267	8,222
Provision for (reversal of) doubtful accounts	(831)	(1,074)	(8,064)
Provision for loss on business liquidation	(1,435)	—	(13,932)
Provision for (reversal of) employee's retirement benefits, less payments	—	(348)	—
Net changes in defined benefit liability	1,082	—	10,501
Interest and dividends income	(1,520)	(1,332)	(14,758)
Interest expense	1,127	1,270	10,945
Equity in losses of affiliates	522	140	5,066
Losses on devaluation of marketable securities and investment securities	193	235	1,870
Losses (gains) on sales of marketable securities and investment securities, net	(29)	(30)	(285)
Loss (gain) on step acquisitions	(2,124)	—	(20,625)
Losses (gains) on disposal of fixed assets, net	188	37	1,825
Loss on natural disaster	(60)	—	(583)
Change in assets and liabilities:			
Notes and accounts receivable, trade	(4,130)	573	(40,096)
Inventories	(551)	10,401	(5,348)
Other current assets	(4,948)	(4,920)	(48,041)
Notes and accounts payable, trade	16,631	11,451	161,469
Advances received from customers	12,478	4,642	121,148
Other current liabilities	763	(484)	7,408
Other	1,141	453	11,075
Total	64,218	56,617	623,473
Interest and dividends income received	1,945	1,403	18,885
Interest paid	(1,224)	(1,316)	(11,879)
Income taxes paid, net	(10,882)	(10,794)	(105,654)
Net cash provided by operating activities	54,057	45,910	524,825
<b>Cash flows from investment activities:</b>			
Payments into time deposits	(30,457)	(74,356)	(295,697)
Proceeds from withdrawal of time deposits	40,099	56,021	389,309
Decrease (increase) in short-term loans receivable	164	(2,758)	1,595
Payments for purchases of fixed assets	(14,403)	(6,692)	(139,838)
Proceeds from sales of fixed assets	5,379	2,549	52,221
Payments for purchases of intangible assets	(2,912)	(2,525)	(28,273)
Payments for purchases of investment securities	(9,071)	(1,047)	(88,068)
Proceeds from sales of investment securities	155	86	1,502
Purchase of shares of subsidiaries resulting in change in scope of consolidation	(4)	—	(37)
Payments for sales of shares of subsidiaries resulting in change in scope of consolidation	(3)	—	(30)
Payments for long-term loans receivable	(11)	(24)	(105)
Repayments of long-term loans receivable	770	706	7,476
Other	(182)	(623)	(1,766)
Net cash used in investment activities	(10,476)	(28,662)	(101,711)
<b>Cash flows from financing activities:</b>			
Increase (decrease) in short-term debt	(3,074)	(379)	(29,840)
Payments of lease obligation	(1,917)	(1,922)	(18,609)
Proceeds from long-term debt	7,872	5,630	76,425
Repayments of long-term debt	(11,001)	(6,715)	(106,802)
Proceeds from issuance of bonds with subscription rights to shares	20,000	—	194,175
Dividends paid	(3,366)	(2,657)	(32,676)
Other	(4)	738	(41)
Net cash provided by financing activities	8,511	(5,305)	82,632
Effect of exchange rate changes on cash and cash equivalents	593	(124)	5,756
Net increase (decrease) in cash and cash equivalents	52,685	11,819	511,502
Cash and cash equivalents at the beginning of the year	75,658	63,839	734,544
Cash and cash equivalents at the end of the year (Note 12)	¥128,343	¥75,658	\$1,246,046

See accompanying notes to consolidated financial statements.

Sumitomo Forestry Co., Ltd. and Consolidated Subsidiaries  
As of March 31, 2014 and 2013

## 1. Nature of Operations

Sumitomo Forestry Co., Ltd. (the "Company") and its Group companies are involved in various business activities related to wood and houses, with timberland operations serving as the foundation of its business. Specifically, the Company's operations encompass forest management as well as timber and building materials-related operations, including the procurement, manufacture and sale of timber and building materials; housing-related operations, including the construction, sale, after-sales maintenance and landscaping of custom-built and other homes and sale and brokerage of real estate; and other lifestyle-related businesses, including the leasing, insurance agent business and management of residential care facilities for the elderly.

## 2. Basis of Presenting Consolidated Financial Statements

The Company and its domestic subsidiaries maintain their books of account in conformity with the financial accounting standards of Japan, and its foreign subsidiaries maintain their books of account in conformity with those of their countries of domicile.

Effective April 1, 2008, the Company adopted the "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements (PITF No. 18)."

In accordance with PITF No. 18, the accompanying consolidated financial statements for the year ended March 31, 2009 have been prepared by using the accounts of foreign consolidated subsidiaries prepared in accordance with either International Financial Reporting Standards (IFRS) or accounting principles generally accepted in the United States as adjusted for certain items including those for goodwill, actuarial differences and capitalized development costs.

The accompanying consolidated financial statements of the Company and consolidated subsidiaries (together, the "Companies") are prepared on the basis of accounting principles generally accepted in Japan ("Japanese GAAP"), which are different in certain respects as to the application and disclosure requirements of IFRS, and are compiled from the consolidated financial statements prepared by the Company as required by the Financial Instruments and Exchange Law of Japan.

The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The accompanying consolidated financial statements incorporate certain reclassifications and rearrangements in order to present these statements in a form which is more familiar to the readers of these statements outside Japan. In addition, the Notes to consolidated financial statements include information which is not required under Japanese GAAP but is presented herein as additional information.

As permitted, amounts of less than one million yen are rounded in this annual report.

As of March 31, 2014, the numbers of consolidated subsidiaries and affiliates accounted for by the equity method were 58 and 16 (48 and 22 in 2013), respectively.

Okhotsk Bio Energy Co., Ltd. and Mombetsu Biomass Electric Power Co., Ltd., both of which were newly established, and Henley Arch Unit Trust and eight other companies whose equity was additionally acquired and to which the equity method was applied for the previous fiscal year were included in the scope of consolidation from the current fiscal year.

On the other hand, Fuxin Sumirin Wood Products Co., Ltd., which was a consolidated subsidiary for the previous fiscal year, was excluded from the scope of consolidation due to the partial transfer of equity.

In addition, Bloomfield Homes, L.P. and two other companies whose equities were newly acquired and TOCRAS CORPORATION whose shares were newly acquired were included as equity-method affiliates from the current fiscal year.

On the other hand, Henley Arch Unit Trust and eight other companies, all of which the equity method was applied to for the previous fiscal year, and Henley-SFC Housing Pty Ltd. were excluded from the application of the equity method from the current fiscal year due to the additional acquisition of equity and the completion of its liquidation, respectively.

Certain subsidiaries and affiliates have fiscal years ending on the day other than March 31 and necessary adjustments for significant transactions, if any, are made on consolidation.

## 3. Summary of Significant Accounting Policies

### (a) Basis of consolidation and investments in affiliates

The consolidated financial statements include the accounts of the Company and, with exceptions that are not material, those of its subsidiaries. All significant intercompany transactions and accounts and unrealized intercompany profits are eliminated on consolidation.

The material difference between the cost and underlying net equity of investments in consolidated subsidiaries is deferred and amortized within twenty years. Immaterial differences are expensed when incurred.

Investments in affiliates (15 to 50 percent-owned companies except subsidiaries) in which the ability to exercise significant influence exists are stated at cost plus equity in undistributed earnings (losses). Net consolidated income includes the Company's share of the current net earnings (losses) of such companies, after elimination of unrealized intercompany profits.

### (b) Translation of foreign currency transactions and accounts

Current and long-term receivables and payables in foreign currencies are translated into Japanese yen at the exchange rates at the balance sheet date.

The Company translates the revenue and expense accounts of the foreign consolidated subsidiaries at the average rates of exchange in effect during the year. The balance sheet accounts, except for the components of net assets, are also translated into yen at the rates of exchange in effect at the balance sheet date. The components of net assets are translated at their historical rates.

### (c) Statement of cash flows

Cash and cash equivalents include all highly liquid investments, generally with original maturities of three months or less, that are readily convertible to known amounts of cash and are near enough to maturity that they present only an insignificant risk of changes in value.

### (d) Allowance for doubtful accounts

The allowance for doubtful accounts is stated based on the default ratio sustained over a specific period in the past and the estimated uncollectible amount based on the analysis of certain individual accounts, including probable bad debts and claims in bankruptcy.

This amount is considered sufficient to cover possible losses on collection.

**(e) Accrued employees' bonuses**

Accrued employees' bonuses are provided based on estimated bonuses to be paid to employees, which are to be charged to income in the current year.

**(f) Accrued directors' and corporate auditors' bonuses**

Accrued directors' and corporate auditors' bonuses are provided for payments of bonuses to directors and corporate auditors based on an estimated amount.

**(g) Warranty reserve for completed construction**

A warranty reserve is provided for repair costs which may be required for completed construction. The reserve is estimated based on past experience and future estimates.

The balance of the reserves at March 31, 2014, which was included in other current liabilities in the accompanying consolidated balance sheet, was ¥2,035 million (US\$19,761 thousand).

**(h) Accrued employees' retirement benefits**

Accrued retirement benefits and prepaid pension cost for employees have been recorded mainly at the amount calculated based on the retirement benefit obligation and the fair value of the pension plan assets as of balance sheet date.

The retirement benefit obligation for employees is attributed to each period by the straight-line method over the estimated years of service of the eligible employees.

Unrecognized actuarial gains (losses) and unrecognized prior service cost are amortized in the fiscal year in which they arise.

**(i) Accrued retirement benefits to directors and corporate auditors**

Accrued retirement benefits to directors and corporate auditors of some subsidiaries are provided based on the amount required for at year-end in accordance with established internal regulations.

The balance of these reserves at March 31, 2014, which was included in other long-term liabilities in the accompanying consolidated balance sheet, was ¥64 million (US\$626 thousand).

**(j) Marketable securities and investments**

Marketable securities and investments are classified and accounted for, depending on management's intent, as follows:

i) held-to-maturity debt securities, which are expected to be held to maturity with the positive intent and ability to hold to maturity, are reported at amortized cost; and ii) marketable available-for-sale securities, which are not classified as the aforementioned securities, are reported at fair value, with unrealized gains and losses, net of applicable taxes, reported in a separate component of net assets.

Non-marketable available-for-sale securities are carried at cost.

The Company determines cost of securities sold by the moving average method.

**(k) Derivatives**

Derivatives are carried at fair value with changes in unrealized gain or loss charged or credited to profit or loss, except for those which meet the criteria for hedge accounting.

**(l) Inventories**

Finished goods, logs and lumber are stated at moving average cost.

Developed land and housing for sale and land and housing projects in progress are stated at cost, which is determined by the specific identification method.

The amount on the balance sheet is calculated by write-down method based on the decrease in profitability.

The company recognized ¥1,857 million (\$18,030 thousand) in valuation loss on inventories in cost of sales for the year ended March 31, 2014.

**(m) Property, plant and equipment**

Property, plant and equipment, including significant renewals and additions, are capitalized at cost. Maintenance, repairs, minor renewals and improvements are charged to income. Depreciation is computed, with minor exceptions, by the declining balance method at rates based on the estimated useful lives of the assets according to general class, type of construction and use. In the case of retirement or disposal, the difference between the net book value and salvage or sales proceeds is charged or credited to income.

**(n) Intangible assets**

Depreciation for intangible assets is computed by the straight-line method. Internal use software costs are depreciated by the straight-line method over the estimated useful life of five years.

**(o) Impairment of fixed assets**

Fixed assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. When amounts of undiscounted future cash flows of fixed assets are less than the carrying amounts, the fixed assets are determined to be impaired. Then, the amount by which the carrying amount exceeds the recoverable amount is recognized as an impairment loss in earnings. The recoverable amount of fixed assets is the greater of the net selling price or the present value of the future cash flows expected to be derived from the fixed assets.

**(p) Hedge accounting**

i) Hedge accounting method:

The deferred method is applied as hedge accounting method.

Appropriated accounting for foreign currency transactions is applied to foreign exchange hedging transactions. A special accounting procedure is used for interest rate swaps in case they satisfy the requirements for a special accounting procedure.

ii) Hedging method:

Foreign exchange forward contracts and foreign currency swaps are utilized to mitigate foreign exchange risks. Interest rate swap transactions are utilized to mitigate interest rate risks.

iii) Scope of hedging:

Certain transactions, including planned transactions, in accordance with policies laid out in management regulations.

iv) Hedge effectiveness evaluation method:

The Companies believe foreign exchange forward contracts and foreign currency swaps to be highly effective as hedging instruments and a special accounting procedure is used for interest rate swaps; therefore, effectiveness evaluation is not carried out.

**(q) Amortization method and period of goodwill**

Goodwill is amortized using the straight-line method over its estimated useful life, up to a maximum of 20 years. Insignificant amounts are charged to income when incurred.

**(r) Timberland**

Timberland consists of standing timber and related land. Standing timber, consisting of timber stock in natural forests, purchased forests and planted forests, is classified either as mature timber or growing timber. Mature timber represents costs related to trees that are 21 or more years old, of which costs have been transferred from growing timber. Growing timber represents costs of trees less than 21 years old (see Note 6).

The timber stock from both natural forests and purchased forests is carried at the specific acquisition cost.

The timber stock from planted forests is stated at cost, which consists of sowing, seeding and planting.

Intensive forest management generally practiced in Japan results in high yields of quality logs. Such management, implemented by the Company, includes the following procedures:

Age in Years	Procedures
0	Sowing, seeding at nursery
1	Planting after land preparation
1-6	Weeding
8	Vine cutting
10-14	Salvage cutting
14	Pruning
16-25	Thinning and debranching
Over 50	Final cutting

The charges for weeding, vine cutting, salvage cutting, pruning and thinning and debranching are charged to selling, general and administrative expenses as incurred.

When finally harvested from timberland for sale, the harvested timber has its cost calculated based on the proportion of metric volume of the timber harvested to that of the particular area, applied to the book value of the area. The calculated cost is the cost of sales.

**(s) Revenue recognition**

Sales are generally recognized at the time the goods are delivered to the customers.

Contract revenues, representing revenues from custom-built houses, are recorded by the percentage-of-completion method, if the outcome of a construction contract can be estimated reliably. The Companies account for short-term construction contracts in the completed-contract-method.

**(t) Income taxes**

The Companies accrue income taxes based on taxable income. The Companies include many items for financial reporting purposes which, in the case of expenses, are not currently deductible and, in the case of income, are not currently taxable.

Income taxes based on temporary differences between tax and financial reporting purposes are reflected as deferred income taxes in the consolidated financial statements using the asset and liability method.

**(u) Consumption taxes**

Transactions subject to consumption taxes are recorded at amounts exclusive of consumption taxes.

**(v) Appropriations of retained earnings**

Appropriations of retained earnings reflected in the accompanying consolidated financial statements are recorded upon approval by shareholders as required under Japanese law.

**(w) Earnings per share of common stock**

The computation of net income and cash dividends per share is based on the average number of shares outstanding during each period.

**(x) Reclassifications**

Certain accounts in the consolidated financial statements for the year ended March 31, 2013 have been reclassified to conform to presentation in 2014.

**(y) Accounting Change**

The Company adopted "Accounting Standard for Retirement Benefits" (ASBJ Statement No. 26 of May 17, 2012) and "Guidance on Accounting Standard for Retirement Benefits" (ASBJ Guidance No. 25 of May 17, 2012) (except for certain provisions described in the main clause of Section 35 of the standard and in the main clause of Section 67 of the guidance) as of the end of the fiscal year ended March 31, 2014. These accounting standards require entities to apply a revised method for recording the retirement benefit obligation, after deducting pension plan assets, as a liability for retirement benefits. In addition, unrecognized actuarial differences and unrecognized prior service costs are recorded as a liability for retirement benefits. Concerning the application of the Accounting Standard for Retirement Benefits, based on the provisional treatment set out in Clause 37 of the standard, the effects of such changes in the current fiscal year have been recorded in retirement benefits liability adjustments through accumulated other comprehensive income. As a result of this change, a liability for retirement benefits and asset for retirement benefits were recognized in the amount of ¥11,038 million (\$107,168 thousand) and ¥68 million (\$661 thousand) respectively, accumulated other comprehensive income decreased by ¥112 million (\$1,089 thousand) and minority interests decreased by ¥0 million (\$1 thousand) as of March 31, 2014. In addition, net assets per share decreased by ¥0.63 (\$0.006).

**(z) Standards issued but not yet effective**

(Accounting standards for retirement benefits)

On May 17, 2012, the Accounting Standards Board of Japan (the "ASBJ") issued "Accounting Standard for Retirement Benefits" (ASBJ Statement No. 26) and "Guidance on Accounting Standard for Retirement Benefits" (ASBJ Guidance No. 25).

**i) Overview**

Under the revised accounting standard, actuarial gains (losses) and prior service cost shall be recognized within net assets after adjusting for tax effects and the difference between retirement benefit obligations and plan assets shall be recognized as a liability or asset. With respect to a method of attributing expected benefits to periods, the straight-line basis was required, but the standard allows the choice of the method of attributing expected benefit to periods on a benefit formula basis (the expected benefit attributed to periods of service under the plan's benefit formula would be deemed as arising in each period). In addition, the computation method of a discount rate has been revised.

**ii) Scheduled date of adoption**

Revisions to the method of attributing expected benefits to periods and the computation method of discount rate are scheduled to be adopted from the beginning of the fiscal year ending March 31, 2015. This accounting standard will not be retrospectively applied since it provides a transitional treatment.

**iii) Impact of adopting revised accounting standards and guidance**

The Company is currently evaluating the effect these modifications will have on its consolidated results of operations and financial position.

(Accounting standards for business combinations)

On September 13, 2013, the ASBJ issued "Revised Accounting Standard for Business Combinations" (ASBJ Statement No. 21), "Revised Accounting Standard for Consolidated Financial Statements" (ASBJ Statement No. 22), and "Revised Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures" (ASBJ Guidance No. 10).

i) Overview

Under these revised accounting standards, major accounting changes are as follows:

- (1) Any differences arising from the movement of ownership interests in its subsidiaries shall be accounted for as changes in capital surplus as long as the parent company retains control over its subsidiary. In addition, "Minority interests" in the current year's present consolidated balance sheet will be changed to "non-controlling interests."
- (2) Acquisition-related costs shall be accounted for as expenses when incurred.
- (3) If the initial accounting for a business combination is incomplete by the end of the reporting period in which the business combination occurs, an acquirer shall report provisioned amounts for the items whose accounting is incomplete in its financial statements ("provisional accounting"). Under these revised accounting standards, if accounting for a business combination is completed during the next fiscal year (the "completion period") and consolidated financial statements for the completion period and those for the acquisition period are comparatively disclosed, the acquirer shall retrospectively adjust the provisional amounts recognized at the acquisition date to the completed amounts and shall reflect new information on facts and circumstances that existed as of the acquisition date. Such adjustments shall be recognized as if the accounting for the business combination had been completed at the acquisition date.
- (4) "Income before minority interests" in the current year's consolidated statement of income will be changed to "net income" and "net income" in the current year's consolidated statement of income will be changed to "net income attributable to shareholders of the parent company."

ii) Scheduled date of adoption

The Company expects to adopt these revised accounting standards and guidance from the beginning of the fiscal year ending March 31, 2016.

iii) Impact of adopting revised accounting standards and guidance  
The effect of adopting these revised standards on its consolidated financial statements is not yet fixed.

#### 4. U.S. Dollar Amounts

The U.S. dollar amounts are included solely for convenience and have been translated, as a matter of arithmetical computation only, at the rate of ¥103 = US\$1, the approximate exchange rate prevailing in the Japanese foreign exchange market at the end of March 2014. The approximate rate of exchange prevailing at May 30, 2014 was ¥102 = US\$1. This translation should not be construed as a representation that the yen amounts actually represent, or have been or could be converted into, U.S. dollars.

#### 5. Securities

(a) The carrying amounts and estimated fair value of the securities classified as available-for-sale and held-to-maturity at March 31, 2014 and 2013 were as follows:

Millions of yen				
2014				
	Acquisition cost	Unrealized gains	Unrealized losses	Carrying amounts (Estimated Fair Value)
Securities classified as:				
Available-for-sale:				
Equity securities	¥26,748	¥21,815	¥(76)	¥48,488
Debt securities	—	—	—	—
Other	¥43,000	¥ —	¥ —	¥43,000

Millions of yen				
2014				
	Carrying amounts	Unrealized gains	Unrealized losses	Estimated fair value
Securities classified as:				
Held-to-maturity:				
Debt securities	¥1,646	¥64	¥(0)	¥1,709

Millions of yen				
2013				
	Acquisition cost	Unrealized gains	Unrealized losses	Carrying amounts (Estimated Fair Value)
Securities classified as:				
Available-for-sale:				
Equity securities	¥25,601	¥18,066	¥(263)	¥43,404
Debt securities	—	—	—	—
Other	¥11,000	¥ —	¥ —	¥11,000

Millions of yen				
2013				
	Carrying amounts	Unrealized gains	Unrealized losses	Estimated fair value
Securities classified as:				
Held-to-maturity:				
Debt securities	¥1,454	¥72	¥—	¥1,525

Thousands of U.S. dollars				
2014				
	Acquisition cost	Unrealized gains	Unrealized losses	Carrying amounts (Estimated Fair Value)
Securities classified as:				
Available-for-sale:				
Equity securities	\$259,691	\$211,799	\$(734)	\$470,756
Debt securities	—	—	—	—
Other	\$417,476	\$ —	\$ —	\$417,476

Thousands of U.S. dollars				
2014				
	Carrying amounts	Unrealized gains	Unrealized losses	Estimated fair value
Securities classified as:				
Held-to-maturity:				
Debt securities	\$15,981	\$620	\$(5)	\$16,596

(b) Proceeds from sales of available-for-sale securities and the corresponding gross gains and losses, which are included in other gains (losses), net in the accompanying consolidated statement of income for the year ended March 31, 2014 and 2013 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Proceeds	¥106	¥69	\$1,025
Gross gains	31	18	297
Gross losses	—	—	—

(c) Impairment of securities

Impairment losses for other securities were ¥193 million (\$1,870 thousand) and ¥235 million (\$2,497 thousand) for the years ended March 31, 2014 and 2013, respectively.

(d) Investments in affiliates included in "Investment securities" as of March 31, 2014 and 2013 were ¥10,857 million (\$105,409 thousand) and ¥10,350 million (\$110,111 thousand), respectively.

## 6. Timberland

The investment in timberland at March 31, 2014 and 2013 comprised the following:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Standing timber:			
Mature timber	¥12,110	¥11,587	\$117,572
Growing timber	332	286	3,222
	12,442	11,872	120,794
Land	1,146	1,028	11,130
	¥13,588	¥12,901	\$131,924

The timberland accounts at March 31, 2014 and 2013 were reduced by ¥242 million (US\$2,351 thousand) and ¥242 million in aggregate, representing the accumulated deferred gains from disposals of timberland.

## 7. Short-Term and Long-Term Debt

Short-term debt at March 31, 2014 and 2013 generally represented short-term borrowings which bore interest of 1.23% and 1.77% per annum, respectively. Long-term debt at March 31, 2014 and 2013 were summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Loans, principally from banks and insurance companies, due 2014 to 2035 with interest of 1.09%:			
Secured			
Loans from banks or other	¥ 2,662	¥ 461	\$ 25,841
Unsecured			
Bonds issued	15,000	15,000	145,631
Bonds with subscription rights to shares	20,000	—	194,175
Loans from banks or other	30,639	34,299	297,463
Lease obligation	4,926	4,045	47,824
	73,226	53,805	710,934
Portion due within one year			
Bonds issued	10,000	—	97,087
Loans from banks or other	6,685	10,571	64,901
Lease obligation	1,468	1,067	14,253
	18,153	11,638	176,241
	¥55,073	¥42,167	\$534,693

The following assets were pledged to secure bank loans and long-term debt at March 31, 2014 and 2013:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Cash and time deposits	¥ 2,607	¥ —	\$ 25,312
Receivables — Notes and accounts, trade	1,762	456	17,109
Finished goods, logs and lumber	1,556	1,659	15,105
Developed land and housing for sale	8,691	—	84,379
Land and housing projects in progress	8,143	—	79,058
Accounts receivable-other	555	—	5,385
Land	3,190	15	30,974
Buildings and structures	4,527	459	43,947
Machinery, equipment and vehicles	1,440	1,020	13,980
Construction in progress	943	—	9,156
Investment securities	1,401	68	13,599
Other	950	—	9,227
	¥35,765	¥3,677	\$347,231

In addition to the above, certificates of deposit as security on entering into tree-planting business agreements at March 31, 2014 and 2013 were ¥11 million (US\$109 thousand) and ¥11 million, investment securities as security for deferred payment of customs duties at March 31, 2014 and 2013 were ¥12,215 million (US\$118,596 thousand) and ¥11,371 million, and investment securities as deposit for housing warranty were ¥1,646 million (US\$15,981 thousand) and ¥1,454 million, respectively.

The aggregate annual maturities of long-term debt and lease obligation at March 31, 2014 were as follows:

Years ending March 31	Bonds issued		Long-term debt		Lease obligation	
	Millions of yen	Thousands of U.S. dollars	Millions of yen	Thousands of U.S. dollars	Millions of yen	Thousands of U.S. dollars
2014	¥10,000	\$ 97,087	¥ 6,685	\$ 64,901	¥1,468	\$14,253
2015	—	—	7,633	74,108	1,723	16,732
2016	5,000	48,544	2,317	22,497	1,151	11,175
2017	—	—	3,504	34,017	485	4,712
2018	20,000	194,175	2,403	23,326	88	850
Thereafter	—	—	10,759	104,456	11	102
	¥35,000	\$339,806	¥33,300	\$323,305	¥4,926	\$47,824

## 8. Loss on Impairment of Fixed Assets

Loss on impairment of fixed assets for the years ended March 31, 2014 and 2013 consisted of the following:

Location	Major use	Asset category	Millions of	Thousands of
			yen	U.S. dollars
			2014	2014
Sakura City, Chiba Prefecture	Culture soil producing plant	Buildings and structures	¥134	\$1,302
		Machinery, equipment and vehicles	12	117
		Other	0	5
		Total	147	1,424
Nagoya City, Aichi Prefecture	Backbone system	Intangible assets (Software in progress)	158	1,531
		Total	158	1,531
Ashigara- shimogun, Kanagawa Prefecture	Idle assets	Land	35	344
		Total	35	344
Shiraoka City, Saitama Prefecture	Idle assets	Land	90	869
		Total	90	869
			¥429	\$4,168

Location	Major use	Asset category	Millions of
			yen
			2013
Osaka City, Osaka Prefecture	2 buildings of rental condominiums	Buildings and structures	¥104
		Land	35
		Total	140
Saijo City, Ehime Prefecture	Warehouse	Buildings and structures	8
		Machinery, equipment and vehicles	1
		Land	17
		Total	25
Ashigara- shimogun, Kanagawa Prefecture	Idle assets	Land	46
		Total	46
			¥211

## 9. Income Taxes

Income taxes in Japan applicable to the Companies generally comprise Corporation Tax, Enterprise Tax and Prefectural and Municipal Inhabitants Taxes. The effective statutory tax rate for the fiscal years ended March 31, 2014 and 2013 were 38.0%.

The chart below shows the differences in the statutory tax rate and effective income tax rate.

	2014	2013
Statutory tax rate	38.0%	—%
Non-deductible expense for purposes	0.9	—
Non-taxable dividend income	(0.6)	—
Per capita portion of Inhabitant tax	0.9	—
Amortization of goodwill	0.9	—
Valuation allowance	(1.0)	—
Equity in losses of affiliates	0.6	—
Taxes on undistributed earnings of subsidiaries	(5.5)	—
Gain on step acquisitions	(2.3)	—
Effect of changes in corporate tax rates	1.3	—
Other	0.1	—
Effective tax rate	33.2%	—%

The difference between the statutory tax rate and the effective tax rate for the year ended March 31, 2013 is not disclosed because such difference is less than 5% of the statutory tax rate.



The significant components of deferred tax assets and liabilities at March 31, 2014 and 2013 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
<b>Deferred tax assets:</b>			
Allowance for doubtful accounts	¥ 335	¥ 570	\$ 3,253
Accrued employees' bonuses	3,684	3,564	35,767
Accrued legal welfare expense on employees' bonuses	496	465	4,819
Enterprise taxes	600	495	5,824
Devaluation of real estate for sale	1,069	677	10,381
Accrued employees' retirement benefits	—	3,413	—
Liability for retirement benefits	3,746	—	36,372
Devaluation of property	1,284	1,743	12,469
Devaluation of financial instruments	2,100	1,881	20,388
Tax loss carryforwards	2,977	2,906	28,904
Impairment loss	1,261	1,201	12,243
Warranty reserve for completed construction	599	685	5,811
Provision for loss on business liquidation	—	511	—
Unrealized profit on fixed assets	499	553	4,843
Other	4,350	5,381	42,233
Gross deferred tax assets	23,001	24,045	223,307
Valuation allowance	(9,435)	(10,567)	(91,599)
Total deferred tax assets	13,566	13,478	131,708
<b>Deferred tax liabilities:</b>			
Deferred gains on sales of property	(799)	(799)	(7,762)
Gain on securities contributed to employee retirement benefit trusts	(1,417)	(1,417)	(13,758)
Unrealized gain on available-for-sale securities	(6,980)	(5,470)	(67,764)
Land revaluation differences	(1,156)	(1,157)	(11,226)
Taxes on undistributed earnings of subsidiaries	(518)	(2,430)	(5,032)
Other	(2,950)	(2,982)	(28,644)
Gross deferred tax liabilities	(13,821)	(14,256)	(134,186)
Net deferred tax assets (liabilities)	¥ (255)	¥ (778)	\$ (2,478)

Net deferred tax assets were included in the consolidated balance sheets at March 31, 2014 and 2013 as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
<b>Current assets —</b>			
Deferred tax assets	¥ 8,754	¥ 8,077	\$ 84,990
<b>Investment and other assets —</b>			
Deferred tax assets	1,797	1,343	17,450
<b>Current liabilities — Other</b>	—	(1)	—
<b>Long-term liabilities —</b>			
Deferred tax liabilities	(10,807)	(10,198)	(104,918)
Net deferred tax assets (liabilities)	¥ (255)	¥ (778)	\$ (2,478)

The "Act for Partial Amendment of the Income Tax Act, etc." (Act No. 10 of 2014) was promulgated on March 31, 2014 and, as a result, the Company is no longer subject to the Special Reconstruction Corporation Tax effective for fiscal years beginning on or after April 1, 2014.

As a result, the effective statutory tax rate used to measure the Company's deferred tax assets and liabilities was changed from 38.0% to 35.6% for the temporary differences expected to be realized or settled from fiscal years beginning April 1, 2014. The effect of the announced reduction of the effective statutory tax rate was to decrease deferred tax assets after offsetting deferred tax liabilities by ¥451 million (US \$4,380 thousand) and increase deferred income taxes by ¥452 million (US \$4,390 thousand) and increase deferred gain on hedges by ¥1 million (US \$10 thousand) as of and for the year ended March 31, 2014.

## 10. Other Gains (Losses), Net

Other gains (losses), net, for the years ended March 31, 2014 and 2013 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Gain on foreign exchange	¥ —	¥ 941	\$ —
Loss on foreign exchange	(240)	—	(2,331)
Gain on sales of property, plant and equipment	99	88	965
Loss on sales of property, plant and equipment	(26)	(27)	(254)
Loss on disposal of property, plant and equipment	(261)	(98)	(2,537)
Provision for loss on liquidation of subsidiaries and affiliates	—	(344)	—
Loss on liquidation of subsidiaries and affiliates	(275)	—	(2,669)
Other, net	520	733	5,046
	¥(183)	¥1,293	\$ (1,780)

## 11. Selling, General and Administrative Expenses

The components of "Selling, General and Administrative Expenses" for the years ended March 31, 2014 and 2013 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Salaries and allowances	¥40,714	¥37,803	\$395,281
Provision for employees' bonuses	9,092	8,330	88,274
Provision for directors' and corporate auditors' bonuses	120	110	1,165
Retirement benefit expenses	3,067	1,724	29,779
Provision for directors' and corporate auditors' retirement benefits	8	13	79
Provision of allowance for doubtful accounts	(115)	(271)	(1,113)
Provision for warranty reserve for completed construction	1,247	1,202	12,109
Reversal of provision for loss on business liquidation	(210)	—	(2,039)

Research and development expenses charged to selling, general and administrative expenses for the years ended March 31, 2014 and 2013 were ¥1,551 million (US \$15,061 thousand) and ¥1,352 million, respectively.

## 12. Cash and Cash Equivalents

Cash and cash equivalents at March 31, 2014 and 2013 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Cash and time deposits	¥ 75,694	¥56,155	\$ 734,892
Short-term investments	43,000	11,000	417,476
Cash equivalents included in short-term loans receivable	28,997	28,598	281,523
Less: Cash deposits and short-term investments which mature or become due over three months after the date of acquisition	(19,348)	(20,095)	(187,845)
Cash and cash equivalents	¥128,343	¥75,658	\$1,246,046

Assets and liabilities of newly consolidated subsidiaries by acquisition of shares at the inception of the consolidation, related acquisition cost and net expenditure for acquisition of shares for the fiscal year ended March 31, 2014 are as follows:

	Millions of yen	Thousands of U.S. dollars
	2014	2014
Current assets	¥18,138	\$176,098
Non-current assets	8,866	86,076
Goodwill	2,986	28,992
Current liabilities	(15,292)	(148,467)
Long-term liabilities	(5)	(52)
Minority interests	(5,838)	(56,681)
Translation adjustments	261	2,536
Gain on step acquisitions	(2,124)	(20,625)
Previously held equity interest before obtaining control	(6,825)	(66,262)
Acquisition cost	166	1,615
Cash and cash equivalents	(162)	(1,578)
Net expenditure for acquisition of shares	¥ 4	\$ 37

Assets and liabilities of subsidiary at the time it was excluded from the scope of consolidation, related sales price of shares and net expenditure for sale of shares for the fiscal year ended March 31, 2014 are as follows:

	Millions of yen	Thousands of U.S. dollars
	2014	2014
Current assets	¥205	\$1,987
Non-current assets	0	4
Current liabilities	(0)	(1)
Long-term liabilities	—	—
Translation adjustments	414	4,019
Net losses on sale of shares	(619)	(6,009)
Sales price of shares	—	—
Cash and cash equivalents	(3)	(30)
Net expenditure for sale of shares	¥ (3)	\$ (30)

## 13. Shareholders' Equity

The Japanese Corporate Law ("the Law") enforced on May 1, 2006 provides that an amount equivalent to 10% of cash dividends must be appropriated as a legal reserve (a component of retained earnings) or as additional paid-in capital (a component of capital surplus) depending on the equity account charged upon the payment of such dividends. Legal reserve and additional paid-in capital may be reversed without limitation and no further appropriation is required when the sum of legal reserve and additional paid-in capital equals 25% of the common stock.

The Law also provides that the common stock, legal reserve, additional paid-in capital, other capital surplus and retained earnings can be transferred among the accounts under certain conditions upon resolution of shareholders.

The balances of the legal reserve of the Company at March 31, 2014 and 2013, which were included in retained earnings in the accompanying consolidated balance sheets, were ¥2,857 million (US\$27,739 thousand) and ¥2,857 million, respectively.

Year-end dividends are approved by shareholders at a meeting held subsequent to the fiscal year to which the dividends are applicable. In addition, semi-annual interim dividends may be paid upon resolution of the Board of Directors, subject to limitations imposed by the Law.

## 14. Finance Leases

(Lessee)

Depreciation costs of finance lease transactions that do not transfer ownership are calculated based on the straight-line method over the lease periods of the leased assets, with no residual value of the assets at the end of the lease periods.

Disclosure of information concerning lease transaction as lessor has been omitted, due to insignificance of disclosure of such information in the financial statements.

## 15. Contingent Liabilities

Contingent liabilities as at March 31, 2014 and 2013, for loans guaranteed amounted to ¥34,960 million (US\$339,414 thousand) and ¥31,199 million.

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Guarantee on loans from financial institutions			
Kawasaki Biomass Electric Power Co., Ltd.	¥ 1,582	¥ 1,980	\$ 15,356
Cascadia Resort Communities LLC	53	43	512
Guarantees of housing loans to customers	33,186	29,023	322,196
Other	—	1	—
Guarantee on rent payment			
Sumikyo Co. Ltd.	139	151	1,350
Total	¥34,960	¥31,199	\$339,414

## 16. Financial Instruments

### (a) Policy for financial instruments

The Companies invest temporary cash surplus in financial assets with high degrees of safety and mainly use bank loans and bonds in order to raise funds. Furthermore, the Companies use derivative transactions to mitigate the risk of currency exchange rates related to normal foreign currency-denominated transactions and the risk of interest rate fluctuation related to interest payment for loans, and do not conduct for speculative purposes.

### (b) Details of financial instruments and related risk

Trade receivables are exposed to customer's credit risk. Short-term investments securities are negotiable deposit certificates subject to settlement in the short term. Investment securities are mainly bonds for held-to-maturity and equities of customers and suppliers of the Companies and those are exposed to market price fluctuation risk. Almost all of trade payables have payment due dates within one year. Uses of loans and bonds are mainly for operating capital expenses and capital investment. Although loans with floating rate interest are exposed to market risk of interest rate fluctuation, the Companies use derivative transaction (interest rate swap) for hedging about a part. Derivative transactions include forward foreign currency exchange contracts and currency swaps to mitigate market risk of fluctuation in foreign currency exchange rate related to foreign currency-denominated transactions and interest rate swaps to mitigate market risk of interest rate fluctuation related to interest payment for loans.

### (c) Risk management for financial instruments

(Credit risk management)

The Companies review due date and receivable balance of each customer in accordance with the Credit Management Guideline. In addition, the Companies monitor credit standing of principal customer at least once a year.

(Risk management of foreign currency exchange rate fluctuation and interest rate fluctuation)

With respect to investment securities, the Companies regularly monitor prices and issuer's financial status. Except for held-to-maturity bonds, the Companies constantly review investment strategy by taking market situation and relationship with issuers into consideration. Derivative transactions are executed and managed in accordance with internal rules and policies by the responsible section of each Group Company, and the status of derivative positions is reported regularly to the Board of Directors.

The Companies believe that market risk relating to derivative instruments is very low since the contracts entered into are spread among highly creditworthy financial institutions both in Japan and abroad.

(Risk management of liquidity risk that the Companies cannot meet its contractual obligation in full on maturity dates)

The Finance Department of Company manages liquidity risk by establishing and revising cash flow plan based on report from each section.

### (d) Supplementary explanation of items relating to the fair values of financial instruments

The fair values of financial instruments include market prices or reasonably estimated values if there are no market prices. Because estimation of fair values incorporates variable factors, adopting different assumptions can change the values.

### (e) Fair value of financial instrument

Fair values of financial instruments are as follows. Items for which fair values are extremely difficult to establish are not included in the following table.

	Millions of yen		
	2014		
	Carrying amount	Fair value	Unrealized gain
Cash and time deposits	¥ 75,694	¥ 75,694	¥ —
Receivables-notes and accounts, trade	128,580	128,580	—
Marketable securities and investment securities			
Held-to-maturity	1,646	1,709	63
Available-for-sale	91,488	91,488	—
Receivables-loans and other	87,651	87,651	—
Total	¥385,058	¥385,122	¥ 63
Payables-notes and accounts, trade	¥191,430	¥191,430	¥ —
Total	¥191,430	¥191,430	¥ —
Derivatives*			
Hedge accounting not applied	¥ 248	¥ 248	¥ —
Hedge accounting applied	33	(26)	(59)
Total	¥ 281	¥ 222	¥(59)

	Millions of yen		
	2013		
	Carrying amount	Fair value	Unrealized gain
Cash and time deposits	¥ 56,155	¥ 56,155	¥—
Receivables-notes and accounts, trade	121,053	121,053	—
Marketable securities and investment securities			
Held-to-maturity	1,454	1,525	72
Available-for-sale	54,404	54,404	—
Receivables-loans and other	84,787	84,787	—
Total	¥317,853	¥317,924	¥72
Payables-notes and accounts, trade	¥169,623	¥169,623	¥—
Total	¥169,623	¥169,623	¥—
Derivatives*			
Hedge accounting not applied	¥ 315	¥ 315	¥—
Hedge accounting applied	404	404	—
Total	¥ 719	¥ 719	¥—

	Thousands of U.S. dollars		
	2014		
	Carrying amount	Fair value	Unrealized gain
Cash and time deposits	\$ 734,892	\$ 734,892	\$ —
Receivables-notes and accounts, trade	1,248,349	1,248,349	—
Marketable securities and investment securities			
Held-to-maturity	15,980	16,596	616
Available-for-sale	888,232	888,232	—
Receivables-loans and other	850,977	850,977	—
Total	\$3,738,430	\$3,739,046	\$ 616
Payables-notes and accounts, trade	\$1,858,544	\$1,858,544	\$ —
Total	\$1,858,544	\$1,858,544	\$ —
Derivatives*			
Hedge accounting not applied	\$ 2,406	\$ 2,406	\$ —
Hedge accounting applied	321	(251)	(572)
Total	\$ 2,727	\$ 2,155	\$(572)

\* Assets and liabilities from derivatives transactions are shown in the net amount. If the total is negative figure, the amount is shown in brackets.

**Notes:**

**1. Method of estimating the fair values of financial instruments and items relating to securities and derivative transactions.**

(1) Assets

(Cash and time deposits, Receivable-notes and accounts, trade, receivable-loans and other)

Because these are settled in short terms, fair values and book values are nearly equivalent. Therefore, relevant book values are used.

(Marketable securities and Investment securities)

The fair values of equity securities are based on market prices. The fair values of debt securities are based on market prices or quoted prices obtained from the financial institution. For negotiable deposit certificates, the book value is almost the same as the market value because of their short maturities.

(2) Liabilities

(Payables-notes and accounts, trade)

Because these are settled in short terms, fair values and book values are nearly equivalent. Therefore, relevant book values are used.

(3) Derivative transactions

See Note 17.

**2. Financial instruments whose fair values are extremely difficult to determine**

	Carrying amount		
	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Unlisted equity securities	¥ 1,508	¥ 1,380	\$ 14,637
Preferred stock	3,000	3,000	29,126
Investment in affiliates	10,857	10,350	105,409

**3. The redemption schedule for monetary claims and held-to-maturity debt securities after the consolidated balance sheet date**

	Millions of yen			
	2014			
	1 year or less	5 years or less but more than 1 year	10 years or less but more than 5 years	More than 10 years
Cash and time deposits	¥ 75,394	¥ —	¥ —	¥—
Receivables-notes and accounts, trade	128,580	—	—	—
Marketable securities and investment securities				
Government bonds	—	121	1,525	—
Other	43,000	—	—	—
Receivables-loans and other	87,651	—	—	—
<b>Total</b>	<b>¥334,625</b>	<b>¥121</b>	<b>¥1,525</b>	<b>¥—</b>

	Millions of yen			
	2013			
	1 year or less	5 years or less but more than 1 year	10 years or less but more than 5 years	More than 10 years
Cash and time deposits	¥ 55,555	¥ —	¥ —	¥—
Receivables-notes and accounts, trade	121,053	—	—	—
Marketable securities and investment securities				
Government bonds	—	111	1,343	—
Other	11,000	—	—	—
Receivables-loans and other	84,787	—	—	—
<b>Total</b>	<b>¥272,395</b>	<b>¥111</b>	<b>¥1,343</b>	<b>¥—</b>

	Thousands of U.S. dollars			
	2014			
	1 year or less	5 years or less but more than 1 year	10 years or less but more than 5 years	More than 10 years
Cash and time deposits	\$ 731,985	\$ —	\$ —	\$—
Receivables-notes and accounts, trade	1,248,349	—	—	—
Marketable securities and investment securities				
Government bonds	—	1,179	14,802	—
Other	417,476	—	—	—
Receivables-loans and other	850,977	—	—	—
<b>Total</b>	<b>\$3,248,787</b>	<b>\$1,179</b>	<b>\$14,802</b>	<b>\$—</b>

## 17. Derivatives and Hedging Activities

Derivative transactions to which hedge accounting is not applied at March 31, 2014

	Millions of yen			
	2014			
	Contract notional amount	Contract amount due after one year	Fair value	Unrealized gain
Forward foreign currency exchange contracts:				
Sell (Yen)	¥1,200	¥ —	¥152	¥152
Buy (NZ dollar)	3,528	—	72	72
Buy (U.S. dollar)	47	—	1	1
Total	¥4,775	¥ —	¥225	¥225
Interest rate swaps:				
Receive floating pay fixed	1,518	1,296	22	22
Total	¥1,518	¥1,296	¥ 22	¥ 22

	Thousands of U.S. dollars			
	2014			
	Contract notional amount	Contract amount due after one year	Fair value	Unrealized gain
Forward foreign currency exchange contracts:				
Sell (Yen)	\$11,652	\$ —	\$1,476	\$1,476
Buy (NZ dollar)	34,255	—	702	702
Buy (U.S. dollar)	453	—	10	10
Total	\$46,360	\$ —	\$2,188	\$2,188
Interest rate swaps:				
Receive floating pay fixed	14,734	12,585	218	218
Total	\$14,734	\$12,585	\$ 218	\$ 218

Derivative transactions to which hedge accounting is applied at March 31, 2014

	Hedged item	Millions of yen		
		2014		
		Contract amount	Contract amount due after one year	Fair value
Forward foreign currency exchange contracts:				
Accounting in principle				
Sell (U.S. dollar)	Accounts amount payable	¥ 4,503	¥ —	¥(43)
Sell (Euro)		2,723	—	(11)
Buy (U.S. dollar)	Accounts amount payable	10,773	—	65
Buy (Euro)		4,760	—	21
Appropriated accounting for foreign currency				
Buy (U.S. dollar)	Accounts amount payable	856	—	*
Buy (Euro)		146	—	*
Total		¥23,761	¥ —	¥33
Interest rate swaps:				
Accounted for by short-cut method				
Receive floating pay fixed	Long-term bank loans	13,573	2,911	(59)
Total		¥13,573	¥2,911	¥(59)

	Hedged item	Thousands of U.S. dollars		
		2014		
		Contract amount	Contract amount due after one year	Fair value
Forward foreign currency exchange contracts:				
Accounting in principle				
Sell (U.S. dollar)	Accounts amount payable	\$ 43,722	\$ —	\$(419)
Sell (Euro)		26,433	—	(102)
Buy (U.S. dollar)	Accounts amount payable	104,596	—	636
Buy (Euro)		46,213	—	206
Appropriated accounting for foreign currency				
Buy (U.S. dollar)	Accounts amount payable	8,307	—	*
Buy (Euro)		1,419	—	*
Total		\$230,690	\$ —	\$321
Interest rate swaps:				
Accounted for by short-cut method				
Receive floating pay fixed	Long-term bank loans	131,777	28,266	(572)
Total		\$131,777	\$28,266	\$(572)

\* Derivative transactions that meet certain hedging criteria, regarding forward foreign currency exchange contracts, or interest rate swaps, are treated in combination with the hedged items; accounts payable or long-term bank loans, the fair values of these derivatives are included in those of hedge items.

Derivative transactions to which hedge accounting is not applied at March 31, 2013

	Millions of yen			
	2013			
	Contract notional amount	Contract amount due after one year	Fair value	Unrealized gain
Forward foreign currency exchange contracts:				
Sell (Yen)	¥1,553	¥244	¥306	¥306
Buy (NZ dollar)	2,230	—	9	9
Buy (U.S. dollar)	45	—	(0)	(0)
Total	¥3,828	¥244	¥315	¥315

Derivative transactions to which hedge accounting is applied at March 31, 2013

	Hedged item	Millions of yen		
		Contract amount	Contract amount due after one year	Fair value
Forward foreign currency exchange contracts:				
Accounting in principle				
Sell (U.S. dollar)	Accounts amount payable	¥ 3,501	¥ —	¥ 34
Sell (Euro)		2,302	—	44
Sell (Yen)		38	—	2
Buy (U.S. dollar)	Accounts amount payable	10,317	—	152
Buy (Euro)		7,138	—	171
Appropriated accounting for foreign currency				
Sell (U.S. dollar)	Accounts amount receivable	46	—	*
Buy (U.S. dollar)	Accounts amount payable	348	—	*
Buy (Euro)		114	—	*
<b>Total</b>		<b>¥23,804</b>	<b>¥ —</b>	<b>¥404</b>
Interest rate swaps:				
Accounted for by short-cut method				
Receive floating pay fixed	Long-term bank loans	11,000	4,400	(92)
<b>Total</b>		<b>¥11,000</b>	<b>¥4,400</b>	<b>¥ (92)</b>

The market price at the end of the fiscal year is based on the forward foreign exchange rate then prevailing in the market. Items for which hedge accounting is applied are excluded from the above table disclosure.

## 18. Employees' Retirement Benefits and Pension Plans

The Company and some of its consolidated subsidiaries offer their employees both a lump-sum benefit at retirement and a non-contributory funded defined-benefit pension plan. A certain domestic subsidiary uses Smaller Enterprise Retirement Allowance Mutual Aid Plan. Others offer a lump-sum benefit at retirement only.

These plans are open to employees who meet set conditions, but substantially all employees are eligible.

Retirement benefits are calculated based on the employee's basic rate of pay, length of service, termination circumstance and other factors. The employees of the companies that adopt a defined-benefit pension plan may opt for either a lump-sum payment or annuity payments.

For the year ended March 31, 2014

The changes in the retirement benefit obligation during the year ended March 31, 2014 are as follows (except the plans under the simplified method):

	Millions of yen	Thousands of U.S. dollars
	2014	2014
Retirement benefit obligation at April 1, 2013	¥54,676	\$530,838
Service cost	2,771	26,908
Interest cost	893	8,666
Actuarial loss	1,494	14,501
Retirement benefits paid	(1,630)	(15,828)
Prior service cost	8	81
Other	0	5
<b>Retirement benefit obligation at March 31, 2014</b>	<b>¥58,213</b>	<b>\$565,171</b>

The changes in plan assets during the year ended March 31, 2014 are as follows (except the plans under the simplified method):

	Millions of yen	Thousands of U.S. dollars
	2014	2014
Plan assets at April 1, 2013	¥45,695	\$443,642
Expected return on plan assets	1,188	11,535
Actuarial loss	323	3,138
Contributions by the Company	2,199	21,346
Retirement benefits paid	(1,381)	(13,407)
<b>Plan assets at March 31, 2014</b>	<b>¥48,024</b>	<b>\$466,254</b>

The changes in the liability for retirement benefits, which were calculated by the simplified method during the year ended March 31, 2014 are as follows:

	Millions of yen	Thousands of U.S. dollars
	2014	2014
Liability for retirement benefits at April 1, 2013	¥698	\$6,776
Retirement benefit expense	162	1,571
Retirement benefits paid	(47)	(454)
Contributions by the Company	(56)	(541)
Other	24	239
<b>Liability for retirement benefits at March 31, 2014</b>	<b>¥782</b>	<b>\$7,591</b>

The following table sets forth the funded status of the plans and the amounts recognized in the consolidated balance sheet as of March 31, 2014 for the Company's and the consolidated subsidiaries' defined benefit plans:

	Millions of yen	Thousands of U.S. dollars
	2014	2014
Funded retirement benefit obligation	¥55,801	\$541,759
Plan assets at fair value	(48,475)	(470,634)
	7,326	71,125
Unfunded retirement benefit obligation	3,644	35,382
Net liability for retirement benefits in the balance sheet	10,970	106,507
Liability for retirement benefits	11,038	107,168
Asset for retirement benefits	(68)	(661)
<b>Net liability for retirement benefits in the balance sheet</b>	<b>¥10,970</b>	<b>\$106,507</b>

Note: The table above includes the plans under the simplified method.

The components of retirement benefit expense for the year ended March 31, 2014 are as follows:

	Millions of yen	Thousands of U.S. dollars
	2014	2014
Service cost	¥2,771	\$26,908
Interest cost	893	8,666
Expected return on plan assets	(1,188)	(11,535)
Amortization of actuarial loss	1,029	9,993
Amortization of prior service cost	2	21
Retirement benefit expense under the simplified method	162	1,571
Other	9	89
Retirement benefit expense	¥3,678	\$35,713

Unrecognized actuarial loss and unrecognized prior service cost included in accumulated other comprehensive income (before tax effect) as of March 31, 2014 are as follows:

	Millions of yen	Thousands of U.S. dollars
	2014	2014
Unrecognized actuarial loss	¥141	\$1,365
Unrecognized prior service cost	6	60
Total	¥147	\$1,425

The fair value of plan assets, by major category, as a percentage of total plan assets as of March 31, 2014 are as follows:

	2014
Bonds	62%
Stocks	23%
Other	15%
Total	100%

The expected return on assets has been estimated based on the anticipated allocation to each asset class and the expected long-term returns on assets held in each category.

The assumptions used in accounting for the above plans were as follows:

	2014
Discount rates	1.5%
Expected rates of return on plan assets	2.6%

Contributions to defined contribution retirement benefit plans were ¥691 million (\$6,705 thousand) for the year ended March 31, 2014.

For the year ended March 31, 2013

The liability for employees' retirement benefits at March 31, 2013 consisted of the following:

	Millions of yen
	2013
Projected benefit obligation	¥(55,782)
Fair value of plan assets	46,103
Unrecognized actuarial loss	—
Unrecognized prior service cost	—
Prepaid pension cost	—
Net liability for retirement benefits	¥ (9,679)
Net liability for retirement benefits consist of:	
Prepaid pension cost	¥ 41
Accrued employees' retirement benefits	(9,720)
	¥ (9,679)

The components of net periodic benefit cost for the years ended March 31, 2013 were as follows:

	Millions of yen
	2013
Service cost	¥2,795
Interest cost	926
Expected return on plan assets	(1,098)
Recognized actuarial loss	(352)
Amortization of prior service cost	—
Expense of changing accounting method	—
Net periodic benefit cost	¥2,271
Gain on transition to defined contribution pension plan	(19)
Gain on abolishment of retirement benefit plan	—
Other	703
Total periodic benefit cost	¥2,955

Certain consolidated subsidiaries have adopted the conventional method in calculating their projected benefit obligation.

Assumptions used for the years ended March 31, 2013 were set forth as follows:

	2013
Discount rate	1.6%
Expected rate of return on plan assets	2.6%
Recognition period of actuarial gain / loss	1 year

## 19. Investment Property

The Company and some of its consolidated subsidiaries hold some rental properties such as apartment houses in Tokyo and other areas. The net income for the investment properties for the years ended March 31, 2014 and 2013 were ¥469 million (US\$4,551 thousand) and ¥615 million. The Income is recognized in net sales and the expense is principally charged to cost of sales. The amounts recognized in the consolidated balance sheet and fair values related to investment properties are as follows:

	Millions of yen		Thousands of U.S. dollars			
	Carrying amount	Fair value	Carrying amount	Fair value		
	2013	Increase / (Decrease)	2014	2014	2014	2014
	¥9,308	¥(625)	¥8,683	¥8,300	\$84,297	\$80,583

The main components of net change in carrying amount above are the increase of ¥40 million (\$392 thousand) in acquisitions of real estate and the decrease of ¥506 million (\$4,908 thousand) in sales of real estate and of ¥35 million (\$344 thousand) in impairment loss for the year ended March 31, 2014.

## 20. Segment Information

The reportable segments of the Group are components for which discrete financial information is available and whose operating results are regularly reviewed by the board of directors to make decisions about resource allocation and to assess performance. The Group's operations are based on the comprehensive strategies for products and services planned by each division. Accordingly, the Company is classified into the following three segments based on division and identified by products, services and geographical areas:

Timber and Building Materials: purchase, manufacture, processing and sale etc. of timber and building materials.

Housing: construction, sale, maintenance and renovation of detached houses and apartment buildings, the sale of interior goods, the sale of spec homes, the leasing, management, purchase and sale and brokerage of real estate, house exterior fixtures, landscaping works contracting, urban greening works, CAD, site surveys, etc.

Overseas: manufacture and sale of timber and building materials, construction and sale of detached houses, etc., afforestation business, sale of forest lumber, etc. in overseas markets.

Other: biomass power generation business, private-pay elderly care facilities business, leasing business, insurance agency business and farming and gardening material manufacturing and sales business and other.

The tables below present sales, income or loss, assets and other items by reportable segment.

Millions of yen								
Year ended March 31, 2014	Timber and Building Materials	Housing	Overseas	Subtotal	Other	Total	Adjustments	Consolidated
Sales and contract revenues:								
Unaffiliated customers	¥437,727	¥464,777	¥61,926	¥ 964,430	¥ 7,676	¥ 972,106	¥ 862	¥972,968
Intersegment transfers	20,884	591	14,395	35,869	9,610	45,479	(45,479)	—
Total	458,611	465,368	76,320	1,000,299	17,286	1,017,585	(44,617)	972,968
Segment income (loss)	4,950	32,211	(149)	37,013	821	37,835	(4,268)	33,567
Segment assets	164,324	146,267	101,408	412,000	24,303	436,302	208,895	645,197
Other items								
Depreciation and amortization	¥ 670	¥ 4,244	¥ 3,073	¥ 7,986	¥ 981	¥ 8,967	¥ 842	¥ 9,810
Amortization of goodwill	(0)	8	836	844	3	847	—	847
Interest income	50	55	201	305	1	306	141	448
Interest expense	574	612	952	2,138	100	2,237	(1,110)	1,127
Equity in earnings of affiliates	(188)	0	(409)	(597)	75	(522)	0	(522)
Investments in affiliates	1,328	5	7,138	8,472	393	8,865	(10)	8,855
Increase in tangible and intangible fixed assets	¥ 924	¥ 4,991	¥ 5,012	¥ 10,927	¥ 5,238	¥ 16,165	¥ 1,239	¥ 17,404

Millions of yen								
Year ended March 31, 2013	Timber and Building Materials	Housing	Overseas	Subtotal	Other	Total	Adjustments	Consolidated
Sales and contract revenues:								
Unaffiliated customers	¥381,161	¥430,429	¥26,067	¥837,657	¥ 6,643	¥844,299	¥ 885	¥845,184
Intersegment transfers	20,105	345	12,590	33,041	8,763	41,804	(41,804)	—
Total	401,266	430,774	38,657	870,697	15,406	886,103	(40,919)	845,184
Segment income (loss)	4,704	26,227	(1,840)	29,090	754	29,845	(2,863)	26,981
Segment assets	157,122	144,978	65,662	367,761	18,252	386,013	161,960	547,973
Other items								
Depreciation and amortization	¥ 772	¥ 4,123	¥ 2,264	¥ 7,160	¥ 857	¥ 8,018	¥ 960	¥ 8,978
Amortization of goodwill	(11)	8	270	267	—	267	—	267
Interest income	60	53	184	297	0	298	87	385
Interest expense	649	808	985	2,442	88	2,529	(1,259)	1,270
Equity in earnings of affiliates	52	0	(193)	(141)	—	(141)	0	(140)
Investments in affiliates	335	4	9,373	9,712	—	9,712	(10)	9,701
Increase in tangible and intangible fixed assets	¥ 1,099	¥ 5,548	¥ 2,018	¥ 8,665	¥ 1,140	¥ 9,805	¥ 486	¥ 10,291



Thousands of U.S. dollars

Year ended March 31, 2014	Timber and Building Materials	Housing	Overseas	Subtotal	Other	Total	Adjustments	Consolidated
Sales and contract revenues:								
Unaffiliated customers	\$4,249,780	\$4,512,398	\$601,219	\$9,363,397	\$ 74,522	\$9,437,919	\$ 8,372	\$9,446,291
Intersegment transfers	202,756	5,735	139,753	348,244	93,305	441,549	(441,549)	—
Total	4,452,536	4,518,133	740,972	9,711,641	167,827	9,879,468	(433,177)	9,446,291
Segment income (loss)	48,063	312,732	(1,444)	359,351	7,975	367,326	(41,438)	325,888
Segment assets	1,595,382	1,420,069	984,545	3,999,996	235,949	4,235,945	2,028,106	6,264,051
Other items								
Depreciation and amortization	\$ 6,502	\$ 41,202	\$ 29,833	\$ 77,537	\$ 9,526	\$ 87,063	\$ 8,177	\$ 95,240
Amortization of goodwill	(2)	76	8,120	8,194	29	8,223	—	8,223
Interest income	483	533	1,948	2,964	12	2,976	1,372	4,348
Interest expense	5,570	5,943	9,240	20,753	967	21,720	(10,775)	10,945
Equity in earnings of affiliates	(1,822)	0	(3,973)	(5,795)	725	(5,070)	4	(5,066)
Investments in affiliates	12,895	49	69,304	82,248	3,817	86,065	(97)	85,968
Increase in tangible and intangible fixed assets	\$ 8,970	\$ 48,458	\$ 48,656	\$ 106,084	\$ 50,858	\$ 156,942	\$ 12,031	\$ 168,973

(Related information)

(1) Products and services information

Millions of yen

Year ended March 31, 2014	Timber and Building Materials	Housing	Other	Total
Sales and contract revenues to unaffiliated customers	¥467,841	¥499,215	¥5,912	¥972,968

Millions of yen

Year ended March 31, 2013	Timber and Building Materials	Housing	Other	Total
Sales and contract revenues to unaffiliated customers	¥403,548	¥436,663	¥4,972	¥845,184

Thousands of U.S. dollars

Year ended March 31, 2014	Timber and Building Materials	Housing	Other	Total
Sales and contract revenues to unaffiliated customers	\$4,542,149	\$4,846,748	\$57,394	\$9,446,291

(2) Geographic area information

Sales information by geographic area has been omitted since sales and contract revenues from unaffiliated customers in the Japan area accounted for more than 90% of consolidated net sales.

Information of property, plant and equipment by geographical areas is as follows:

Millions of yen

Year ended March 31, 2014	Japan	Oceania	Asia	Other	Total
	¥61,864	¥26,471	¥13,208	¥2,190	¥103,733

Millions of yen

Year ended March 31, 2013	Japan	Oceania	Asia	Other	Total
	¥57,769	¥16,169	¥10,879	¥1,082	¥85,900

Thousands of U.S. dollars

Year ended March 31, 2014	Japan	Oceania	Asia	Other	Total
	\$600,622	\$257,001	\$128,233	\$21,261	\$1,007,117

(3) Customer information

Customer information has been omitted since sales and contract revenues from no single customer exceeded 10% of consolidated net sales.

(Information of loss on impairment of fixed assets)

Year ended March 31, 2014	Millions of yen					Total
	Timber and Building Materials	Housing	Overseas	Other	Elimination and/or Corporate	
Loss on impairment of fixed assets	¥158	¥131	¥—	¥147	¥—	¥436

Year ended March 31, 2013	Millions of yen					Total
	Timber and Building Materials	Housing	Overseas	Other	Elimination and/or Corporate	
Loss on impairment of fixed assets	¥25	¥186	¥—	¥—	¥—	¥211

Year ended March 31, 2014	Thousands of U.S. dollars					Total
	Timber and Building Materials	Housing	Overseas	Other	Elimination and/or Corporate	
Loss on impairment of fixed assets	\$1,531	\$1,273	\$—	\$1,424	\$—	\$4,228

(Amortization and balance of goodwill)

Year ended March 31, 2014	Millions of yen					Total
	Timber and Building Materials	Housing	Overseas	Other	Elimination and/or Corporate	
Amortization of goodwill	¥ (0)	¥ 8	¥ 836	¥ 3	¥—	¥ 847
Balance of goodwill	—	13	3,108	—	—	3,122

Year ended March 31, 2013	Millions of yen					Total
	Timber and Building Materials	Housing	Overseas	Other	Elimination and/or Corporate	
Amortization of goodwill	¥(11)	¥ 8	¥270	¥—	¥—	¥267
Balance of goodwill	(0)	21	716	—	—	737

Year ended March 31, 2014	Thousands of U.S. dollars					Total
	Timber and Building Materials	Housing	Overseas	Other	Elimination and/or Corporate	
Amortization of goodwill	\$ (2)	\$ 76	\$ 8,119	\$29	\$—	\$ 8,222
Balance of goodwill	—	130	30,178	—	—	30,308

## 21. Amounts per Share

(a) Basic and diluted net income per share

The computation of net income per share and net income per share fully diluted for the years ended March 31, 2014 and 2013 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Net income per share:			
Net income	¥22,531	¥15,923	\$218,747
Income not available to common stockholders	—	—	—
Income available to common stockholders	22,531	15,923	218,747
Weighted average number of shares issued	177,134,880	177,137,337	
Net income per share fully diluted			
Adjusted net income	—	—	
Common shares increase	7,303,981	—	
(Convertible bonds with stock acquisition rights)	(7,303,981)	(—)	

The diluted net income per share for the year ended March 31, 2013 was not presented because there were no shares with dilutive effect.

(b) Net assets per share

The computation of net assets per share for the years ended March 31, 2014 and 2013 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Net assets per share:			
Total net assets	¥226,078	¥193,250	\$2,194,929
Amounts deducted from total net assets	7,401	760	71,856
Minority interests	7,401	760	71,856
Net assets attributable to shares of common stock	218,676	192,491	2,123,073
The number of shares of common stock used for the calculation of net assets per share	177,133,771	177,136,527	

## 22. Other Comprehensive Income

Reclassifications and income tax effects attributable to other comprehensive income for the year ended March 31, 2014 and 2013 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Unrealized gain on available-for-sale securities			
Amount incurred during the year	¥3,751	¥ 9,093	\$36,419
Reclassification adjustments for gains and losses included in net income	185	216	1,800
Amount before tax effect	3,937	9,309	38,219
Tax effect	(1,511)	(2,911)	(14,671)
Unrealized gain on available-for-sale securities	2,425	6,398	23,548
Deferred gain on hedges			
Amount incurred during the year	(373)	90	(3,620)
Reclassification adjustments for gains and losses included in net income	2	2	21
Amount before tax effect	(371)	93	(3,599)
Tax effect	143	(36)	1,384
Deferred gains on hedges	(228)	57	(2,215)
Translation adjustments			
Amount incurred during the year	4,526	2,866	43,944
Reclassification adjustments for gains and losses included in net income	414	—	4,018
Amount before tax effect	4,940	2,866	47,962
Tax effect	—	—	—
Translation adjustments	4,940	2,866	47,962
Share of other comprehensive income of affiliated companies accounted for by the equity method			
Amount incurred during the year	767	799	7,444
Reclassification adjustments for gains and losses included in net income	(660)	—	(6,411)
Share of other comprehensive income of affiliated companies accounted for by the equity method	106	799	1,033
Total other comprehensive income	¥7,244	¥10,120	\$70,328

## 23. Asset Retirement Obligations

In accordance with exhibition contracts at housing exhibition sites and tenancy contracts for offices, the Company and certain subsidiaries are obligated to remove leasehold improvements attached to these housing exhibitions and offices and return the property to its original state after vacating the premises.

The asset retirement obligations are determined and discounted to their present value using the discount rates ranging from 0.14% to 2.15% and the anticipated future useful lives ranging from 5 years to 29 years.

Breakdowns of the total amount of the asset retirement obligations for the years ended March 31, 2014 and 2013 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Balance at beginning of the year	¥1,382	¥1,380	\$13,416
Liability incurred for assets acquired	130	95	1,263
Accretion expense	11	11	104
Liabilities settled	(137)	(104)	(1,329)
Other increases(decreases)	47	—	460
Balance at end of the year	¥1,433	¥1,382	\$13,914

## 24. Related Party Transactions

Principal transactions between the Company's consolidated subsidiaries and their related parties for the year ended March 31, 2014 are summarized as follows:

Name	Title	Transactions	Millions of yen	Thousands of U.S. dollars
			Amounts	Amounts
Hideyuki Kamiyama	Director of the Company	Renovation of residence	¥11	\$106

Prices for renovation of residence were determined based on the same terms as third party transactions.

There were no transactions to be disclosed for the year ended March 31, 2013.

## 25. Business Combination

Acquisition of equities of Henley Arch Unit Trust and eight other companies

The Company acquired shares of Henley Arch Unit Trust and eight other companies through its subsidiary, Sumitomo Forestry Australia Pty Ltd., to make them its subsidiaries.

### 1. Summary of the business combination

(1) Name of the acquiree and description of its business

Name of the acquiree: Henley Arch Unit Trust and eight other companies  
Description of business: Construction and sale of custom-built homes and spec homes

(2) Main Reason for implementing the business combination

The Company has developed the Australia housing business since the acquisition of equities of Henley Arch Unit Trust and eight other companies in September 2009 while maintaining an equal partnership, and has also introduced and developed its distinctive sales methods in the United States housing market since 2011. The Company has acquired an additional equity interest and made them subsidiaries in order to establish a new management structure that clarifies the management initiative of the Company and to expand the housing business in Australia and the United States further.

(3) Date of the business combination: September 27, 2013

(4) Legal form of the business combination: Acquisition of equities for cash consideration

(5) Name of the merged entity: The names will not be changed.

(6) Ratio of voting rights acquired: 51%

Equity interest held by the Company before acquisition	50%
Equity Interest to be acquired	1%
Equity interest to be held by the Company after acquisition	51%

(7) Main reasons for determination of the acquirer

The Company's consolidated subsidiary, Sumitomo Forestry Australia Pty Ltd., acquiring the equities for cash consideration.

### 2. Period for which the business results of the acquiree are included in the consolidated financial statements of the Company

From July 1, 2013 to December 31, 2013

Operational results of the acquiree from January 1, 2013 to June 30, 2013 is recorded in equity in losses of affiliates as the transaction is regarded to complete on June 30, 2013.

### 3. Breakdown of the acquisition cost of the acquiree

Consideration for acquisition:	¥8,949 million (US\$86,887 thousand)
Costs incurred additionally for acquisition:	¥166 million (US\$1,615 thousand)
Acquisition cost:	¥9,116 million (US\$88,502 thousand)

### 4. Difference of total cost of acquisition and individual acquisition costs

Gain on step acquisition: ¥2,124 million (US\$20,625 thousand)

### 5. Amount of goodwill, reason for recognition, and amortization method and period

(1) Amount of goodwill: ¥2,986 million (US\$28,992 thousand)

(2) Reason for recognition

The acquisition cost was more than net asset value at the date of business combination.

(3) Amortization method and period

Straight-line amortization over 3 years

### 6. Amount and major components of assets and liabilities assumed at the date of business combination

See Note 12.

### 7. Content of the contingent consideration for acquisition set out in the business combination contract and the accounting treatment policy for the current and subsequent consolidated fiscal years

(1) Content of the contingent consideration for acquisition

The contingent consideration depends on the degree of achievement of business performance and others after the acquisition date.

(2) Accounting treatment policy for the relevant and subsequent consolidated fiscal years

In the event an additional payment has been made, the Company deems it as having been paid at the time of acquisition and modifies the goodwill amount and the accumulated amortization amount.

### 8. Estimated impact on the consolidated statement of income in the current consolidated fiscal year, if it is assumed that the business combination was concluded on April 1, 2013, and the method of calculation

	Millions of yen	Thousands of U.S. dollars
Sales	¥22,725	\$220,627
Income before income taxes	194	1,888
Net income	(260)	(2,528)

(Method by which estimated amounts were calculated)

The estimated amounts were calculated according to the difference between information on sales and income calculated on the assumption that the business combination was concluded on the first day of this consolidated fiscal year and information on sales and income contained in the consolidated statement of income of the acquiring company.

The estimated amounts of impact have not been audited.

## 26. Subsequent Events

Acquisition of equities of Gehan Homes, Ltd. and six other companies

The Company acquired shares of Gehan Homes, Ltd. and six other companies through its US subsidiary, Sumitomo Forestry America, Inc. (the company name was changed from Sumitomo Forestry Seattle, Inc. on February 10, 2014), to make them its subsidiaries.

### 1. Summary of the business combination

(1) Name of the acquiree and description of its business

Name of the acquiree: Gehan Homes, Ltd. and six other companies

Description of business: Housing business and related businesses

(2) Main Reason for implementing the business combination

The Company has been focusing on business expansion with a view to becoming a builder covering the entire US nation in the US housing business under a policy that places the overseas business as one of its core growth businesses. In the course of this expansion, the equities of Gehan Homes, Ltd. and six other companies were acquired to make them subsidiaries.

(3) Date of the business combination: April 30, 2014 (US date)

(4) Legal form of the business combination: Acquisition of equities for cash consideration

(5) Name of the merged entity: The names will not be changed.

(6) Ratio of voting rights acquired: 51%

(7) Main reasons for determination of the acquirer

The Company's consolidated subsidiary, Sumitomo Forestry America, Inc., acquiring the equities for cash consideration.

### 2. Breakdown of the acquisition cost of the acquiree

Consideration for acquisition: ¥7,306 million (US\$70,927 thousand) (estimate)\*

Acquisition cost: ¥7,306 million (US\$70,927 thousand) (estimate)\*

\* The amounts described above are estimates at the time of acquisition, and the actual amounts may differ from these due to future price adjustments and other reasons.

### 3. Value, reason, and amortization method and period of goodwill

Undetermined at the present time.

### 4. Value of assets acquired and liabilities assumed on the date of the business combination and their major breakdown

Undetermined at the present time.

## Independent Auditor's Report

The Board of Directors  
Sumitomo Forestry Co., Ltd.

We have audited the accompanying consolidated financial statements of Sumitomo Forestry Co., Ltd. and its consolidated subsidiaries, which comprise the consolidated balance sheet as at March 31, 2014, and the consolidated statements of income, comprehensive income, changes in net assets, and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

### *Management's Responsibility for the Consolidated Financial Statements*

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for designing and operating such internal control as management determines is necessary to enable the preparation and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditor's Responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. The purpose of an audit of the consolidated financial statements is not to express an opinion on the effectiveness of the entity's internal control, but in making these risk assessments the auditor considers internal controls relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

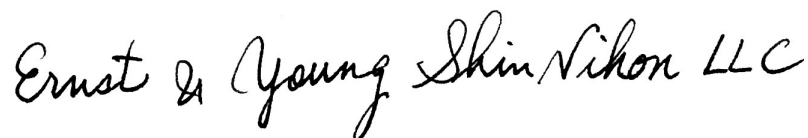
### *Opinion*

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Sumitomo Forestry Co., Ltd. and its consolidated subsidiaries as at March 31, 2014, and their consolidated financial performance and cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

### *Convenience Translation*

We have reviewed the translation of these consolidated financial statements into U.S. dollars, presented for the convenience of readers, and, in our opinion, the accompanying consolidated financial statements have been properly translated on the basis described in Note 4.

June 20, 2014  
Tokyo, Japan



# Sumitomo Forestry Group at a Glance

(As of May 30, 2014)

## Domestic

### Timber and Building Materials Business Segment

1 Sumitomo Forestry Wood Products Co., Ltd.	Forest management; various forestry businesses; procurement and sales of Japanese timber, etc.
2 Sumitomo Forestry Crest Co., Ltd.	Manufacture and sales of various types of plywood, building components for housing, furniture, etc.
3 Sumirin Sash Co., Ltd.	Secondary processing and sales of aluminum sashes; exterior finishing
4 Sumikyo Wintec Co., Ltd.	Sales of door and window sashes for housing and low- and mid-rise buildings; sales of exterior finishing materials
5 Sumikyo Co., Ltd.	Sales of door and window sashes for housing; sales and installation of sidings; sales of exterior finishing materials
6 Igeto Co., Ltd.	Sales of housing materials and equipment
7 Daiichisansho Co., Ltd.	Sales of construction materials; interior and exterior finishing
8 Nihei Co., Ltd.	Sales of construction materials; ancillary work
9 Home Eco Logistics Co., Ltd.	Distribution services for home building materials
10 Nichiha Fuji Tech Co., Ltd.	Manufacture and sales of construction materials
11 TOCLAS CORPORATION	Manufacture and sales of housing equipment

### Housing Business Segment

12 Sumitomo Forestry Home Service Co., Ltd.	Sales agent for land and housing
13 Sumitomo Forestry Residential Co., Ltd.	Management of condominiums and apartments
14 Sumitomo Forestry Home Tech Co., Ltd.	Renovation and maintenance of Sumitomo Forestry's custom-built wooden detached homes and renovation of regular detached houses, as well as condominiums
15 Sumitomo Forestry Landscaping Co., Ltd.	Urban greening; landscaping for private residences; plant rental, etc.
16 Sumitomo Forestry Home Engineering Co., Ltd.	Construction and construction supervision of Sumitomo Forestry's custom-built wooden detached homes
17 Sumitomo Forestry Archi Techno Co., Ltd.	CAD and CAM work, site surveys, analysis of foundation and application for housing performance evaluation for Sumitomo Forestry's custom-built wooden detached homes
18 Meikan Honchosha PFI Co., Ltd.	Redevelopment of headquarters, etc. of Nagoya Port Authority

### Other Businesses Segment

19 Sumitomo Forestry Information Systems Co., Ltd.	Development of computer systems, etc.
20 Sumirin Enterprises Co., Ltd.	Various services for insurance agency, equipment leasing, office services (central purchasing and business contracting), etc.
21 Sumirin Business Service Co., Ltd.	Staffing business, training, business contracting
22 Sumirin Agro-Products Co., Ltd.	Production and sales of nursery compost, culture soil for gardening, soil conditioning materials, fertilizer, etc.
23 Kawanokita Development Co., Ltd.	Management of the Takinomiya Country Club golf course
24 Fill Care Co., Ltd.	Management of nursing care facilities for senior citizens, etc.
25 JAPAN BIO ENERGY HOLDING CORPORATION	Management direction and holding of shares in wood chip supply companies
26 Japan Bio Energy Co., Ltd.	Intermediate processing of industrial waste products, and supply and sales of wood chips
27 Kawasaki Biomass Electric Power Co., Ltd.	Electric power generation using wood-chip biomass; wholesale electric power
28 Okhotsk Bio Energy Co., Ltd.	Supply and sales of wood chips
29 Mombetsu Biomass Electric Power Co., Ltd.	Electric power generation using wood-chip biomass; wholesale electric power

## Overseas

### Timber and Building Materials Business Segment

1	Shouei Furniture Co., Ltd. (Thailand)	Manufacture and sales of furniture
2	PT. Sumitomo Forestry Indonesia (Indonesia)	Import / export and wholesale of timber and building materials, etc.
3	Sumitomo Forestry (Dalian) Ltd. (China)	Import / export and wholesale of timber and building materials, etc.
4	Sumitomo Forestry (Singapore) Ltd. (Singapore)	Procurement and sales of timber and building materials, etc.; investment and financing
5	Sumitomo Forestry (Shanghai) Ltd. (China)	Import / export and wholesale of timber and building materials, etc.; management of housing business in China
6	Sumitomo Forestry (Vietnam) Co., Ltd. (Vietnam)	Import / export and wholesale of timber and building materials, etc.

### Overseas Business Segment

7	Kowa Lumber Co., Ltd. (Japan)	Import / export and sales of logs; export of forestry equipment and equipment parts
8	Sumitomo Forestry America, Inc. (U.S.A.)	Oversight and participation in management of affiliates in U.S.A.
9	SFC Homes LLC (U.S.A.)	Construction and sales of detached wooden homes
10	Canyon Creek Cabinet Company (U.S.A.)	Manufacture and sales of kitchen cabinets
11	Cascadia Resort Communities LLC (U.S.A.)	Land development, housing business
12	Creekstone Development LLC (U.S.A.)	Land development and sales of housing lots
13	Henley USA LLC (U.S.A.)	Construction and sales of detached wooden homes
14	Bloomfield Homes, L.P. (U.S.A.)	Construction and sales of detached wooden homes
15	Gehan Homes, Ltd. (U.S.A.)	Construction and sales of detached wooden homes
16	Sumitomo Forestry Australia Pty Ltd. (Australia)	Oversight and participation in management of affiliates in Australia
17	Alpine MDF Industries Pty Ltd. (Australia)	Manufacture and sales of medium density fiberboard (MDF)
18	Grices Road Management Pty Ltd. (Australia)	Land development
19	SPJR Land Developments Pty Ltd. (Australia)	Holding company of land development company
20	Henley Arch Unit Trust (Australia)	Construction and sales of custom-built detached wooden homes and detached spec homes





21	Henley Arch Pty Ltd. (Australia)	Construction and sales of custom-built detached wooden homes and detached spec homes
22	Edgewater Homes Pty Ltd. (Australia)	Construction and sales of detached wooden homes and collective housing
23	Sumitomo Forestry NZ Ltd. (New Zealand)	Information gathering in Oceania
24	Nelson Pine Industries Ltd. (New Zealand)	Manufacture and sales of medium density fiberboard (MDF), veneer and laminated veneer lumber (LVL)
25	Open Bay Timber Ltd. (Papua New Guinea)	Large-scale afforestation; log harvesting and export
26	PT. Mayangkara Tanaman Industri (Indonesia)	Large-scale afforestation; log harvesting
27	PT. Wana Subur Lestari (Indonesia)	Large-scale afforestation; log harvesting
28	PT. Kutai Timber Indonesia (Indonesia)	Manufacture and sales of plywood, secondary processed plywood, processed timber products and particle board
29	PT. Rimba Partikel Indonesia (Indonesia)	Manufacture and sales of particle board
30	PT. Sinar Rimba Pasifik (Indonesia)	Manufacture and sales of wooden interior products
31	PT. AST Indonesia (Indonesia)	Manufacture and sales of materials for musical instruments and wooden building materials
32	Vina Eco Board Co., Ltd. (Vietnam)	Manufacture and sales of particle board
33	SUMIRIN HONG KONG LIMITED (Hong Kong)	Oversight and participation in management of affiliate in Hong Kong
34	Partner Ally Limited (Hong Kong)	Information gathering in Hong Kong and China
35	Rainbow Alpha Holdings Limited (Hong Kong)	Complex condominium development
36	Paragon Wood Product (Dalian) Co., Ltd. (China)	Design and construction of wooden housing; interior design and construction of housing and offices
37	Paragon Wood Product (Shanghai) Co., Ltd. (China)	Interior design and construction of housing and office; manufacturing, processing and sales of trusses
38	Dalian Sumirin Information Technology Service Co., Ltd. (China)	CAD work and other business processing

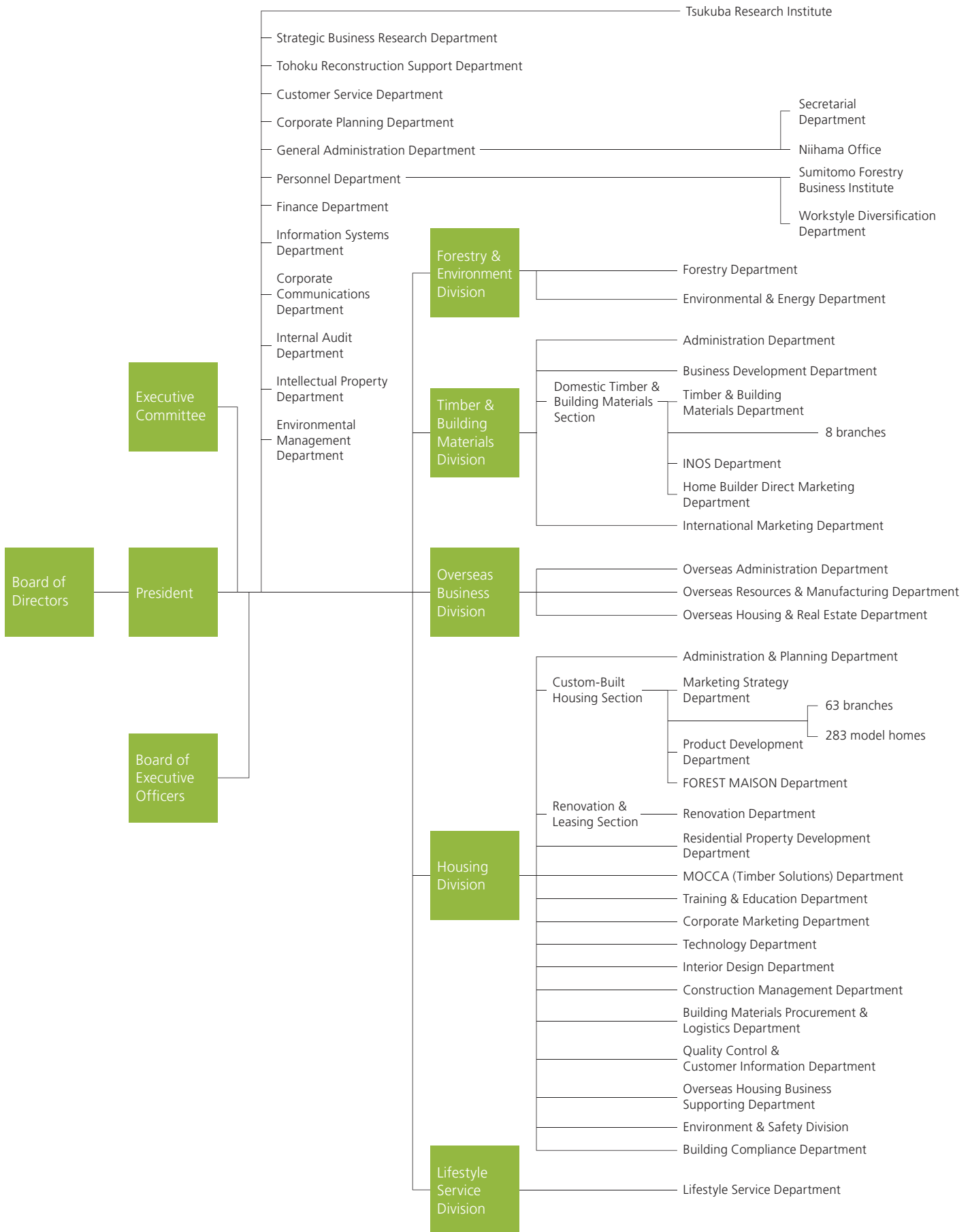
## Housing Business Segment

39	Yantai Golden Bridge Enterprise Co., Ltd. (China)	Brokerage of rental housing
----	---	-----------------------------



# Organization Chart

(As of April 1, 2014)



# Investor Information

## Company Outline (As of March 31, 2014)

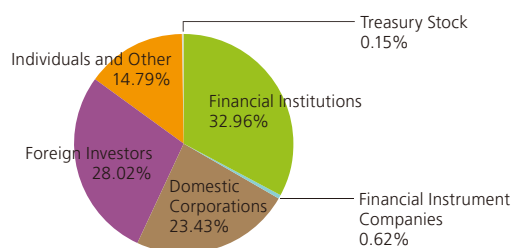
Company Name	Sumitomo Forestry Co., Ltd.
Founded	1691
Incorporated	1948
Paid-in Capital	¥27,672 million
Stock Exchange Listing	Tokyo
Total Number of Authorized Shares	400,000,000
Total Number of Shares Issued	177,410,239
Ordinary Shareholders' Meeting	June
Number of Shareholders	12,596
Head Office	Keidanren Kaikan, 3-2, Otemachi 1-chome, Chiyoda-ku, Tokyo 100-8270, Japan
Consolidated Subsidiaries	58 (Overseas 31)
Associated Companies	17 (Overseas 14)
Number of Employees (Consolidated)	17,413
Homepage	<a href="http://sfc.jp/english/">http://sfc.jp/english/</a>
Independent Auditors	Ernst & Young ShinNihon LLC
Contact Information	Sumitomo Forestry Co., Ltd. Corporate Communications Department IR Team Tel : 81-3-3214-2270 Fax: 81-3-3214-2272

## Major Shareholders (As of March 31, 2014)

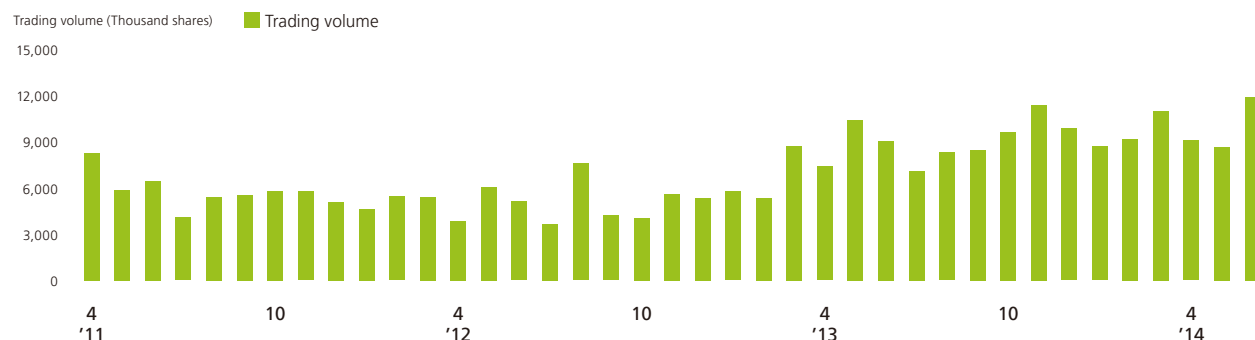
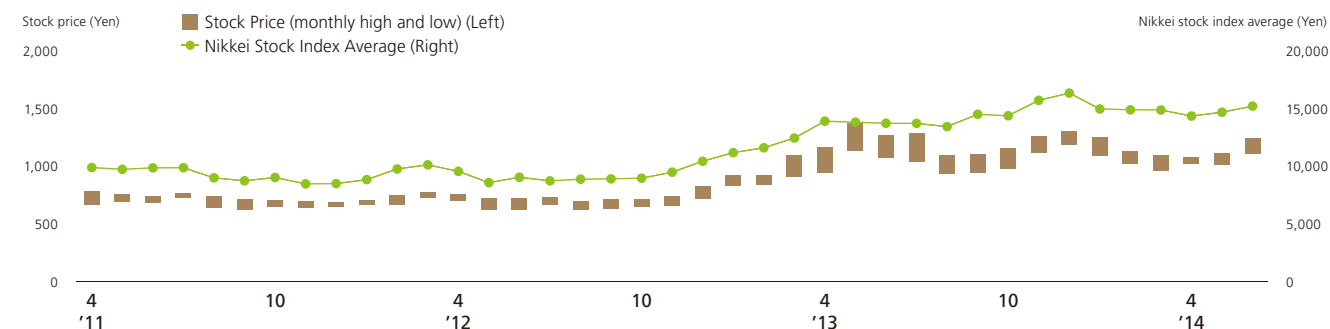
Shareholders	Number of shares held (Thousand shares)	Shareholding ratio (%)
Sumitomo Metal Mining Co., Ltd.	10,110	5.69
The Master Trust Bank of Japan, Ltd. (trust account)	7,906	4.45
The Iyo Bank, Ltd.	5,849	3.29
Sumitomo Corporation	4,383	2.47
NORTHERN TRUST CO.(AVFC)SUB A/C NON TREATY	4,329	2.44
Sumitomo Life Insurance Company	4,227	2.38
Japan Trustee Services Bank, Ltd. (trust account)	4,214	2.37
The Hyakujushi Bank, Ltd.	4,197	2.36
Sumitomo Mitsui Banking Corporation	4,136	2.33
Sumitomo Mitsui Trust Bank, Limited	3,408	1.92

\* Number of shares held less than 1 thousand shares have been omitted.

## Breakdown of Shareholders (As of March 31, 2014)



## Stock Price and Trading Volume



\* Note: Following the integration of the Osaka Securities Exchange into the Tokyo Stock Exchange in July 16, 2013, the above graph uses the stock price of the Osaka Securities Exchange, and the combined trading volumes of the Osaka Securities Exchange and the Tokyo Stock Exchange before the integration.



 **SUMITOMO FORESTRY CO.,LTD.**

Corporate Communications Department IR team  
Keidanren Kaikan, 3-2, Otemachi 1-chome,  
Chiyoda-ku, Tokyo 100-8270, Japan  
Tel: 81-3-3214-2270 Fax: 81-3-3214-2272  
URL: <http://sfc.jp/english/>