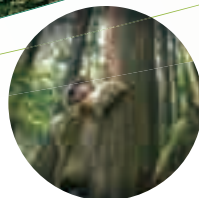




Special Feature:

# 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.

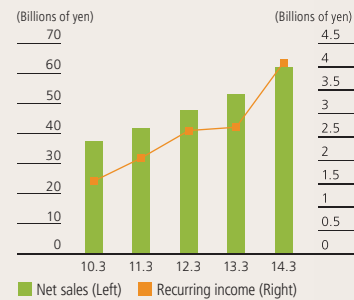
# Renovation Business

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

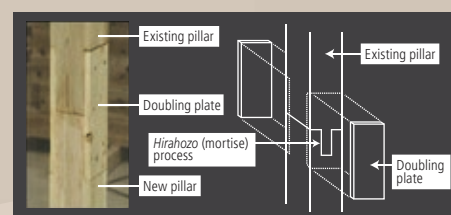
The Sumirin CEM Construction Method’s vibration damper absorbs the shock of the earthquake, reduces the shock, and prevents building deformation and demonstrates its strength against the vibrations of repetitive aftershocks. This construction method was developed by the Group and a patent has been filed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