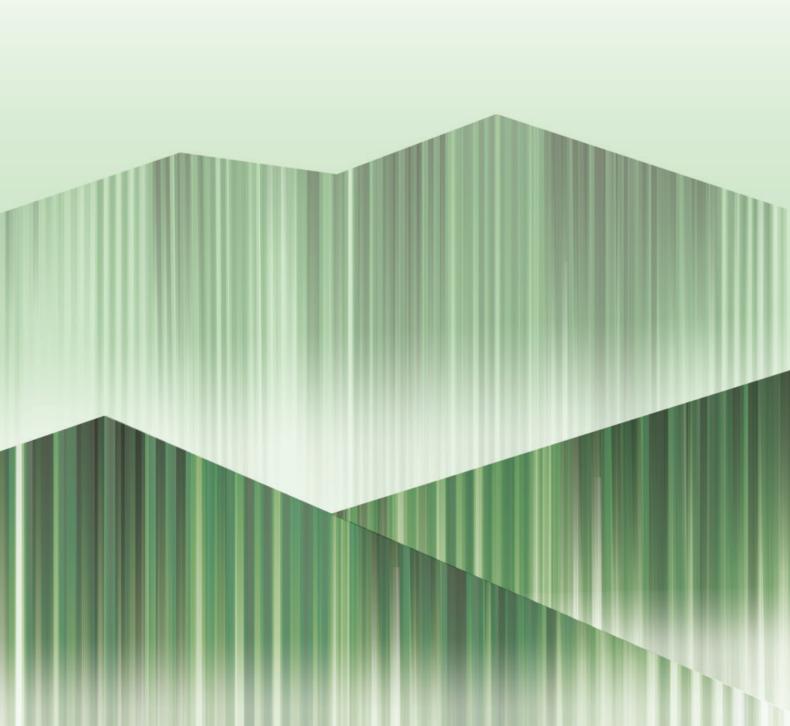


Annual Report 2015 (Year ended March 31, 2015)

# Sustaining Forests, Sustaining Growth



#### Brand Message

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 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



#### **BF GranSQUARE**

This housing product explores the design possibilities of the Group's unique Big-Frame construction method (see page 24). BF GranSQUARE's artistic elegance arises from its simple structure and the spatial continuity with the garden. This modern design achieves harmony with nature.

# Sustaining Forests, Sustaining Growth

The Sumitomo Forestry Group traces its origins back to the management of the forests neighboring the Besshi Copper Mine, which was opened in 1691. Over more than three centuries, the Group has expanded its scope of activities to accommodate the changing needs of the time, eventually assuming its present global business structure.

Today, our pursuit of possibilities continues with trees. Based on our Corporate Philosophy and Action Guidelines, we are determined as a corporate group to be a model for sustainable growth.

#### Large-Scale Reforestation Plan (1894)

Overharvesting and air pollution left the forest ravaged. To restore it to health, Teigo lba (the manager of the Besshi Copper Mine who would later become the second Director General of Sumitomo) drafted a bold reforestation plan. In the spirit of repaying what had been reaped from the land, they planted more than one million cedar and cypress every year. Thus revived, the Besshi Copper Mine is today surrounded by rich forest. Photo in the background: present day Mount Besshi



### Foundation –

1691 Besshi Copper Mine opened (Foundation) Began using timber harvested in neighboring forestlands to run the Besshi Copper Mine, where the Sumitomo family started mining operations



- 1894 Large-Scale Reforestation Plan launched by Teigo Iba (see above)
- 1898 Forestry Department established within the Besshi Mining Plant
- 1909 Sumitomo general headquarters established, inheriting the forestry business
- 1919 Forestry Department established within the Sumitomo Head Office
- 1937 Sumitomo Honsha established, inheriting the forestry business
- 1948 Sumitomo Honsha's Forestry Department split into six companies upon the dissolution of *zaibatsu* (family-run conglomerate operating as an industrial group in Japan) The six companies were consolidated into Shikoku Ringyo and Toho Norin through two mergers

#### 1955 –

- 1955 Shikoku Ringyo and Toho Norin merged to become Sumitomo Forestry Corporation
- 1956 Started importing foreign timber





- 1962 Started trading building materials
- 1970 PT. Kutai Timber Indonesia (KTI) established and began manufacturing plywood in 1973



1975 Started the Custom-Built Housing Business





1980 Established Sumirin Home Sales (now Sumitomo Forestry Home Service Co., Ltd.) Entered real estate brokerage business

#### 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 housingrelated 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.

#### 1984 -

#### 2009 – Present

Properties Group (Henley Group)

2009 Acquired equity stake in the Henley Group and made a full-fledged entry into the housing business in Australia



2010 Vina Eco Board Co., Ltd. (VECO) established in Vietnam and began commercial production of particle boards (PB) in 2012

Henley USA Group established and started housing business in Seattle

- 2011 Started MOCCA (Timber Solutions) Business Started the commercial operation of Kawasaki Biomass Power Plant
- 2013 Acquired equity stake in the Bloomfield Homes Group and started housing business in Texas, U.S.A.

Acquired additional equity stake in the Henley Group, making it a subsidiary

2014 Acquired equity stake in the Gehan Homes Group in Texas

### **Fiscal 2014 Highlights**

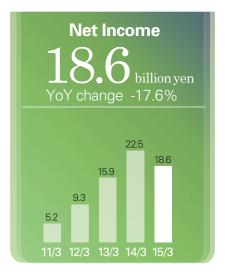
(Year ended March 31, 2015)

# Financial











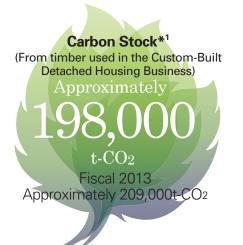


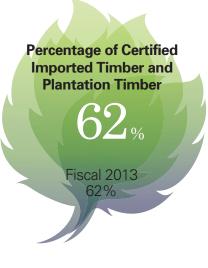






# Sustainability







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

\*2 As of April 1, 2015.

#### Contents

Brand Message	1
History of the Sumitomo Forestry Group	2
Fiscal 2014 Highlights	4
Message from the Chairman	6
Interview with the President	8
Sustaining Forests, Sustaining Growth	15
At a Glance	
Timber and Building Materials Business	
Housing Business	22
Overseas Business	
Other Businesses	
Promoting Sustainable Businesses	34
Governance	
Financial Section	
Sumitomo Forestry Group Overview	
Organization Chart	
Investor Information	

#### **External Commendations**

#### Inclusion in Socially Responsible Investment Indexes (As of July 2015) DJSI

(Dow Jones Sustainability Indexes) We have been included in DJSI since 2005. FTSE4Good Global Index We have been included in this index since 2004. Morningstar SRI Index

We have been included in this index since 2008.

#### "Gold Class" and "Industry Leader" in RobecoSAM's "The Sustainability Yearbook 2015" for three consecutive years

We were awarded for the third straight year the "Gold Class" commendation of "The Sustainability Yearbook 2015," a CSR rating by RobecoSAM, which researches and analyzes companies to be listed in DJSI, in addition to being selected as one of the world's most sustainable companies. We were also named Industry Leader for the third straight year as well as Industry Mover in the Homebuilding Industry Sector.

# Top-scoring Japanese company in the CDLI of CDP 2014 for two consecutive years

We were recognized as a leading company by the Climate Disclosure Leadership Index (CDLI) CDP Japan 500, 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.











# Wessage from the Chairman

Haadt

## Pursuing the Potential of Trees to Achieve Sustainable Growth

Since its founding, the Sumitomo Forestry Group has relentlessly pursued the potential of trees and sought to multiply their value, keeping in step with the times and changing social needs. Today, our fields encompass all types of housing-related businesses. We operate not only in Japan but across the Pacific Rim and the rest of the world.

The roots of our businesses go back to 1691 and the management of the forests surrounding the Besshi Copper Mine. Over the more than three centuries since, the Group has expanded beyond the forestry business, into the Timber and Building Materials Business, the Housing Business and the Overseas Business. Today, the Group continues expanding its business fields. All these businesses are supported by our corporate philosophy backed by Sumitomo Spirit, "We conduct business that is beneficial to society based on the principles of integrity and sound management."

In recent years, global warming and other environmental and energy policy issues are becoming more pronounced around the world. In light of this, our corporate social responsibility centers on giving back to society and improving the global environment through our business operations. Indeed, our continued growth also hinges on this.

I believe it is our mission to reinforce business that makes effective use of forest resources and to promote a sustainable business model while meeting the needs of the modern world.

Trees are an incomparable natural material. They can be renewed with planting. They possess superior strength, durability and heat insulating properties while providing comfort and safety in people's daily lives. They absorb carbon dioxide from the atmosphere and fix it as carbon. They preserve biodiversity, support water resources, prevent landslides, provide alternative energy sources as biomass fuel and fulfill other beneficial roles. Moreover, construction firms are making greater use of wood recently in mid- and high-rise buildings, especially in Europe. People are once again appreciating the value of trees as a material, and their range of applications continues to expand.

Going forward, we predict demand for wood will rise as applications multiply and economic growth continues in emerging countries. We are expanding globally to meet this rising demand, adapting our business model to local markets and cultures. As we continue to expand our businesses, we will remain committed to implementing our corporate philosophy, which states, "The Sumitomo Forestry Group utilizes timber as a renewable, healthy, and environmentally friendly natural resource, and contributes to a prosperous society through all types of housing-related services." We thereby seek to develop businesses supported by stakeholders and communities around the world.

Repu Ofano

Ryu Yano Chairman and Representative Director

In order to achieve sustainable growth, the Sumitomo Forestry Group will accelerate the rebalancing of its business portfolio. We will respond to the changing social needs by creating new businesses that draw on the possibility of trees.



Akira Ichikawa President and Representative Director



#### Estate Design Project

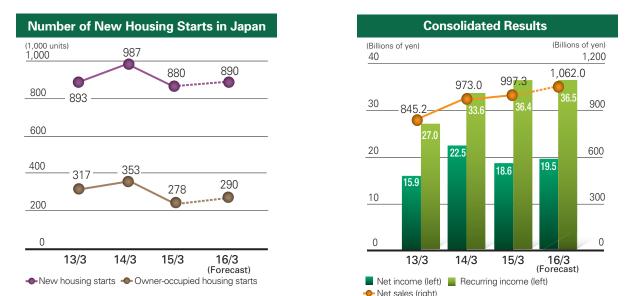
This project aims to better satisfy customers with discerning taste for design by enhancing our ability to make proposals tailored precisely to individual needs.

## Business Environment Fiscal 2014 Results and Fiscal 2015 Forecast

# In fiscal 2014 (the fiscal year ended March 31, 2015), the gains made in the Overseas Business secured the Group's performance despite the stagnant domestic housing market that hampered some of our businesses in Japan.

The domestic housing market in fiscal 2014 was buoyed by continued low interest rates and the effects of government incentives to promote house purchases, including an expansion of tax breaks for housing loans. Despite this supportive environment, the market suffered from prolonged market recoil following the surge in demand prior to the consumption tax hike. Given these factors, new housing starts in Japan decreased 10.8% year on year to approximately 880,000 units, and owner-occupied housing starts fell 21.1% to approximately 278,000 units. The last time owner-occupied housing starts dropped below 300,000 units was in fiscal 2009 after the collapse of Lehman Brothers and before that was in fiscal 1962, which goes to show just how severe the business environment in Japan was during the past year.

It is for that reason that our mainstay domestic businesses, the Timber and Building Materials Business and the Custom-Built Detached Housing Business, struggled to escape the effects of stagnant demand which affected both sales and revenues. On the other hand, the Overseas Business, which we have striven to expand and make more profitable, saw its business performance jump mainly due to the continued firm housing market in the United States and Australia. And this pushed up the overall performance of the Group. As a result, in fiscal 2014, consolidated net sales rose 2.5% year on year to ¥997.3 billion and recurring income climbed 8.5% to ¥36.4 billion. Aside from net income, which slid 17.6% to ¥18.6 billion, we surpassed the previous fiscal year's results. Net income declined due mainly to the absence of extraordinary factors that boosted results in fiscal 2013, such as recording about ¥2.1 billion in extraordinary income from turning an overseas housing company into a consolidated subsidiary. In addition, the amendment of the tax treaty between Japan and New Zealand resulted in a reversal of nearly ¥2.1 billion in deferred tax liabilities in fiscal 2013.



# In fiscal 2015 (the fiscal year ending March 31, 2016), we will achieve our medium-term objective, setting the stage for further growth.

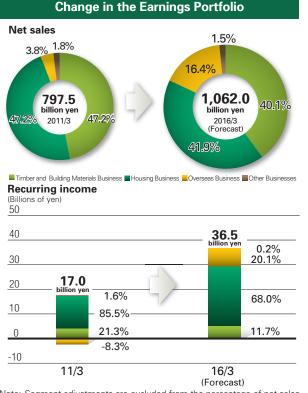
In fiscal 2015, we expect new housing starts to grow 1.1% year on year to approximately 890,000 and owneroccupied housing starts to rise 4.2% to approximately 290,000. We plan to increase consolidated net sales 6.5% year on year to ¥1,062.0 billion and maintain recurring income steady at ¥36.5 billion. This would be the first time the Group's net sales broke the trillion yen threshold and the third year running that recurring income exceeds ¥30.0 billion. To succeed in this plan, we will work to expand orders of custom-built detached homes, which stagnated in the previous fiscal year, while aiming to accelerate growth in the Renovation Business. We will also continue to further expand the Overseas Business.

Fiscal 2015 marks the final year of our medium-term plan, which began in fiscal 2013. We are determined to achieve the objective set out in the plan and move on to the next growth stage.

# Medium-Term Objective

# We will build a business portfolio aimed at sustainable growth and move onto the next stage of further growth.

Since fiscal 2010 (the fiscal year ended March 31, 2011), the Group has set a medium-term objective with three-year targets for such key performance indicators as profit, and has worked to build an optimal earnings structure. For the threeyear period between fiscal 2010 and 2012, we prioritized strengthening our earnings potential and set our objective as creating a business structure capable of stably recording ¥20.0 billion in recurring income. We focused our efforts on



Note: Segment adjustments are excluded from the percentage of net sales and recurring income.

#### Trend in Net Sales, Recurring Income\* and Equity Ratio

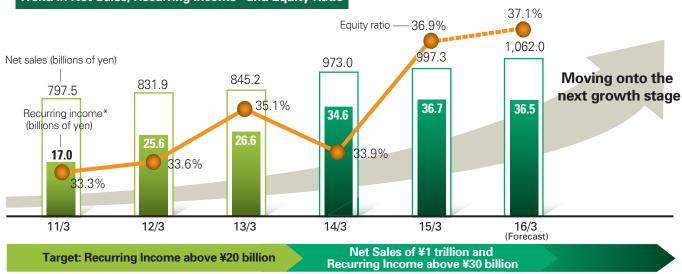
thoroughly reducing costs and improving business efficiency.

For the current three-year period, which started in fiscal 2013 and ends on March 31, 2016, we aim to expand the scale of our business with an eye toward future growth. This entails increasing net sales as well as improving profits. We set our objective as building a business structure that constantly exceeds ¥1.0 trillion in net sales and ¥30.0 billion in recurring income.

We aim to build a business portfolio that can respond to changes in the market. This means optimally balancing our earnings structure so as not to rely too heavily on certain countries, regions and businesses, and building a stable earnings portfolio. Expanding the Overseas Business further is therefore key to changing the overall composition of our business. We also need to focus on expanding our domestic housing businesses in areas where markets are expected to grow, namely the renovation and apartment businesses, in order to reduce our dependence on custom-built detached housing business.

The plan for fiscal 2015 is to raise the share of the Overseas Business to 16% of net sales (up from 4% in fiscal 2010) and to over 20% of recurring income (compared with a recurring loss in fiscal 2010). As the overall composition changes, we aim to accelerate this shift toward more balanced growth.

On the other hand, with the expanding scale of the overseas housing and real estate business, our assets are also expanding in size. To ensure sustainable growth, it is important to maintain a sound financial position. We are therefore implementing growth strategies while working to enhance shareholders' equity.



\* Excluding the effect of actuarial differences in accounting for the Group's retirement benefit obligations and the investment performance of the Group's pension assets

# Future Growth Strategies

#### We will continue to promote growth strategies that maximize our strengths.

To achieve sustainable growth and build a balanced business portfolio, we will continue to simultaneously deal with shortterm issues and implement medium-term growth strategies. We will therefore leverage our strengths as we focus our investments in markets expected to grow going forward.

#### (1) Initiatives in Japan

We aim to expand market share and improve earnings potential by further raising added value and strengthening our response to growth markets.

With our domestic businesses, the keys to growth will be providing the Group's unique high added value and focusing on new fields where markets are expected to grow.

In the timber and building materials distribution business, we are working to reinforce sales of renovation materials and respond to growing demand for fuel resources as the renewable energy market expands. We will continue to provide added value while strengthening the functions of our distribution system, which rationalizes the shipping of building materials. In addition, exports to Asia are increasing for domestic timber, which is growing more competitive due to the weak yen.

In the custom-built detached housing business, we aim to expand market share by continuing to provide high valueadded products and services that meet diverse customer needs. A case in point is the Estate Design Project, which we have been focusing on since the previous fiscal year. We seek to differentiate ourselves in the market by proposing a high-quality residence that boasts a luxurious wood interior to satisfy even the most discerning customers. The special model homes that opened last fiscal year in Tokyo and Nagoya have already welcomed many visitors and orders have done favorably, even amid a stagnant new housing market.

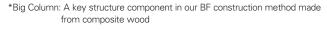


The Shizuoka Model Home with a modern-Japanese style exterior



Big-Frame construction method creates spacious interiors with large windows

In addition, we are continuing to evolve in technological capabilities and product development. Using the Big-Frame (BF) construction method—the Group's proprietary technology—we have enabled products with spacious interiors and large windows, in addition to superior strength and earthquake resistance with future adaptability. In April 2015, we launched the Twin-Bolt Column. This column fortifies our proprietary Big Columns\*, which are more than 5 times wider than ordinary posts, by increasing the number of metal joints from two to four. We have also launched a product with enhanced fire resistance for urban areas as we strive to uncover new demand and expand our market share.





The Yagoto Model Home in the Estate Design Project (Nagoya)





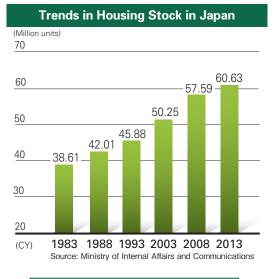
Twin-Bolt Column is 1.5 times stronger than the previous model

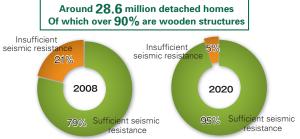
BF-Fireproof can be used for houses up to 4 floors

Turning to the Renovation Business, we forecast ongoing demand for renovations to improve earthquake resistance. The latest survey places Japan's housing stock at over 60.0 million units. That number is still increasing. Of these, 28.6 million are occupied detached homes. Of these, the majority are made of wood, with approximately 10 million of the homes built before the current earthquake resistance standard which was introduced in 1981. The government has set a target of raising the number of houses with sufficient



A renovated traditional Japanese-style house





**Renovation Business: Changes in Net Sales** (Billions of yen) 80 71.0 62.2 59.6 60 53.0 47.9 41.8 40 20 11/312/3 13/3 14/3 15/3 16/3 (Forecast)

earthquake resistance from 79% in 2008 to 95% by 2020. The Group will meet these needs by leveraging its advanced technological capabilities. We will also respond to demand for renovating traditional Japanese-style houses\*, in addition to condominium renovations, as we aim to quickly achieve net sales of ¥100 billion.

As for the Apartment Business, we will continue to enhance our products, expand our sales capabilities and broaden the scope of the business, especially for urban areas, to meet growing needs for better use of assets following revisions in January 2015 to the inheritance tax law and the special taxation measures law. We are also actively working to cultivate demand in other business fields (such as the biomass power generation business and elderly care services business), in addition to the MOCCA (timber solutions) Business, which promotes greater use of wood in non-residential building.

\* Traditional Japanese-style house: A house built before the current Building Standards Law came into effect in 1950

#### (2) The Overseas Business

We are steadily expanding the Overseas Housing and Real Estate Business. We aim to increase its earnings potential, making it one of our main businesses.

Looking at market trends overseas, the U.S. economy is expected to remain stable. In Australia, the economy is gradually recovering, and the housing market remains firm amid a growing population. And in emerging countries, especially those in Southeast Asia, we don't expect any fundamental change in growth markets despite slowing growth and uncertainty in some other regions.

We will further expand the scale of the Overseas Business and elevate earnings as we strive to make it one of the Group's mainstay businesses. The Overseas Housing and Real Estate Business has maintained favorable results, especially in the United States and Australia, and we foresee it further advancing to lead the entire Overseas Business.

In the United States, we are expanding our business base in Texas, which has a rapidly growing population, in addition to our original business base in Seattle, Washington. We are considering further M&A, as well as organic growth, to move into new territories with the aim of expanding annual sales to 5,000 homes and becoming one of the top builders in the country.



A model home in Texas

In Australia, we are currently developing businesses mainly in the states of Victoria, Queensland and New South Wales. By entering other regions, we will fortify our business base in step with market trends. Our aim is to achieve total annual sales of 3,000 homes in Australia and become the country's No. 1 housing company.

In Asia and other regions, we are looking forward to establishing a business model in areas with robust housing demand by participating in condominium and other construction projects.



Model homes in Australia

#### As for the Group's manufacturing business, which is expanding mainly in Southeast Asia and Oceania, earnings vary significantly by region due in part to exchange rates. We are continuing our efforts to reduce costs in each region as the wood board manufacturers in China and emerging countries increase production and competition heats up. We are also working on expanding product sales by raising the added value of our products and strengthening our marketing strategies.



Overview of PT. Kutai Timber Indonesia (KTI)

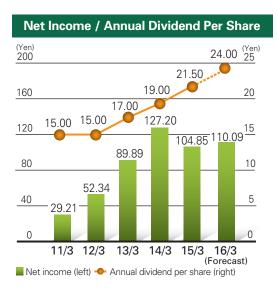
# Shareholder Returns

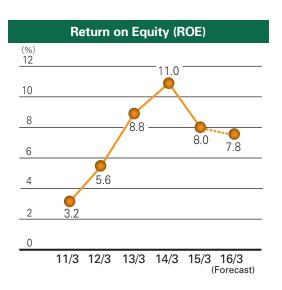
#### We are working to raise returns and provide ongoing stable returns.

At Sumitomo Forestry, we consider providing returns to shareholders to be one of our most important management tasks. Our basic policy is to pay stable, ongoing returns that comprehensively take into account the long-term outlook for the Company's financial condition, retained earnings and plans for future business development.

Regarding the year-end dividend for fiscal 2014, we determined that the Company has come closer to achieving the medium-term objective and increased the dividend by ¥2.5 per share. Looking ahead to the annual dividend for fiscal 2015, we currently plan to pay ¥24 per share, an additional increase of ¥2.5.







## Continuing to Grow with Trees at Our Core

In step with social change, we will engage our sustainable business model across the globe.



The Sumitomo Forestry Group is evolving with the times with the aim of achieving sustainable growth. We will continue our endeavor to unlock the full potential of trees and expand our business areas.

In recent years, people in Japan-as in many other countries-have rediscovered their appreciation for the usefulness of wood. This has created momentum to raise the country's wood self-sufficiency rate and increase the use of domestic timber. Moreover, the national government has crafted a policy to reinvigorate local communities through forestry, which it hopes will stimulate economic activity across Japan. In a country where nearly 70% of the total land area is covered in forest, the revitalization of the forestry industry is expected to play a critical role in creating attractive and self-reliant local communities. The national policy to revitalize local communities is not a zero-sum game where the economic foundations of urban areas are transplanted to rural regions. This is, in fact, a positive-sum game where rural regions create new economic foundations, reinforcing those of urban areas.

The Group has begun leveraging its forestry technologies, honed over many years, to help stimulate rural economies by supporting local municipalities in their efforts to revitalize the surrounding forestry industries. The Group's technologies are also being deployed around the world, including in Indonesia, where we are implementing a large-scale reforestation project. We are expected to play an increasingly important role in the world as we develop a wide range of housing-related services, both upstream and downstream. Trees will always remain as our core, which we will continue to nurture and use as incomparable renewable resources.

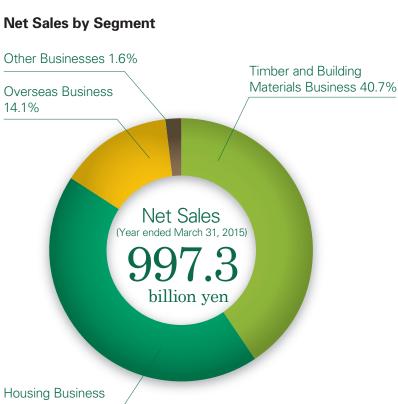
We also have an obligation to fulfill our corporate social responsibility while paying careful attention to stakeholder concerns. We will of course abide by all laws and regulations. We will strengthen our initiatives related to diversity and corporate governance. It is also important, however, to accelerate our efforts to build a business structure to improve our profitability. We will gain the trust, then do our best to earn the ongoing support of all our stakeholders, from shareholders to business partners and customers.

Through our business, our goal is to fulfill the numerous needs for housing-related services while monitoring social changes in and outside Japan. We aim to support individuals and communities, as we help create a flourishing global environment and realize a sustainable society. **Sustaining Forests, Sustaining Growth** 

# Sustaining Forests, Sustaining Growth

### Sustaining Forests, Sustaining Growth

# At a Glance



43.6%

Note: Segment adjustments are excluded from the percentage of net sales.

#### Net Sales and Recurring Income by Segment (Billions of yen)

(Years ended March 31)	2014	2015	2016 (forecast)
Net Sales	973.0	997.3	1,062.0
Timber and Building Materials Business	458.6	423.0	445.0
Housing Business	465.4	453.9	465.0
Overseas Business	76.3	147.0	182.0
Other Businesses	17.3	16.6	17.0
Adjustments	(44.6)	(43.3)	(47.0)
Recurring Income	33.6	36.4	36.5
Timber and Building Materials Business	5.0	4.0	4.8
Housing Business	32.2	28.3	28.0
Overseas Business	(0.1)	6.1	8.3
Other Businesses	0.8	1.2	0.1
Adjustments	(4.3)	(3.2)	(4.7)

Note: Figures are rounded to the nearest decimal.









Recurring Income (Billions of yen)



# Timber and Building Materials Business

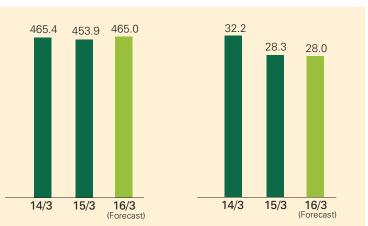
We operate a distribution business that sources high quality timber and building materials from Japan and overseas for marketing to domestic and overseas customers, and a manufacturing business that makes building materials in Japan.



#### Housing Business Centered on the Custom-Built Detached

Housing Business, we operate a wide range of housing-related businesses. These include the Renovation Business, Apartment Business and the Detached Spec Homes Business, as well as renovation and the resale of used houses, real estate brokerage and management.



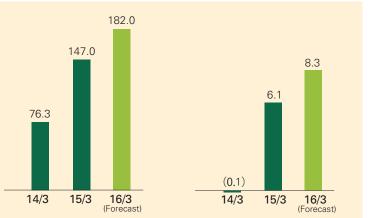




#### **Overseas Business**

We operate the manufacturing business, which is engaged in the building materials manufacturing business, mainly in the Pacific Rim, including Southeast Asia, Oceania and North America, and the housing and real estate business, mainly in the United States and Australia.







#### **Other Businesses**

We operate the biomass power generation business, the private-pay elderly care facilities business, the lease business, as well as various service businesses including the insurance agency business for our housing business customers. We also manufacture and sell farming and gardening materials, and develop information systems for use by each Group company.





Note: Sales and recurring income of each segment shown include inter-segment transactions.

## Sustaining Forests, Sustaining Growth Timber and Building Materials Business





No.1 share in Japan for timber and building materials

#### Basic Policy Creating new markets and expanding market share

#### Fiscal 2014



Recurring Income 4.0

Percentage of Total Sales



Sumitomo Forestry is No. 1 in Japan in market share for timber and building materials. Our leading procurement capabilities cultivated through the global network constitute the greatest strength of the Group.

Due to the volume of trade, this segment's performance is prone to fluctuate with macroeconomic factors, including trends in new housing starts. Trade is also affected by changes in the market environment, including the last-minute surge prior to the consumption tax hike. It is therefore imperative that we diversify our businesses in anticipation of these changes.

The domestic market for new residential construction is expected to contract in the medium to long term. In light of this, our mainstay timber and building materials distribution business needs to approach the market from a fresh perspective. We plan to expand our handling volume and develop new businesses by capturing the growing market for renovation and environmentally sound equipment, in addition to reinforcing our logistics and distribution system. We will also invest in fields outside of the housing market. We plan to handle greater volumes of domestic timber—demand for which is growing, especially in Asia—for export, fuel wood chips for biomass power generation, and other non-housing products.

In the overseas distribution business, we will continue to increase our presence in Asia and other growing markets by leveraging our global network to swiftly respond to market needs.

While flexibly responding to short-term demand changes, we will carry on developing new businesses guided by our medium- and long-term business strategy.



#### **Domestic Distribution Business**

Meeting new demands and maintaining the No. 1 share in Japan



Flooring made of domestic Sakhalin fir

The timber and building materials distribution business has served as a foundation for each of the businesses within the Group, supporting them with the expertise and robust network it has developed over the years. As the business environment changes, our scope of business is expanding beyond distribution to providing added value and efficient logistics. By developing businesses to meet emerging needs, we will strive to maintain and expand our share of the market, even when the overall market shrinks.

In specific terms, we are striving to further expand sales of domestic timber, demand for which is expected to increase. Competitiveness is increasing against foreign timber due in part to the exchange rate changes while needs are growing for exports to China, Taiwan, South Korea and other markets. In addition, the national government promotes the growth of domestic forestry as a measure to revitalize regional economies. Continued renovation market expansion is expected with government incentives to boost the housing resale market and encourage seismic retrofitting of existing homes. We are therefore focusing our efforts on supplying renovation products as well as products that improve a structure's energy efficiency. Moreover, we are handling more products with high environmental added value, including plantation timber and timber from certified forests. We are also cultivating demand for non-housing products such as wood chips and other biomass fuels.

We seek to streamline the entire industry from upstream to downstream by forming networks with and among business partners in every region. Going forward, we will further expand the range of our businesses and maintain our No. 1 position in Japan in timber and building materials. The business will continue to be the foundation of the Group.

#### **Overseas Distribution Business**

## Leveraging our distribution network in the global market

While providing a stable supply of products to our business partners via our overseas locations, we are developing an infrastructure to swiftly respond to the surge in demand for timber and building materials mainly in emerging countries. In fiscal 2015, the management functions for the overseas distribution business were transferred and consolidated to our local subsidiary in Singapore. This will help us formulate strategies from a perspective closer to local markets as we continue to expand business along the Pacific Rim. Looking ahead, we seek to expand trade with Japanese companies expanding overseas, leveraging our extensive distribution network. In addition, we will further promote synergies between our businesses, including expanding global sales of products from the Group's manufacturing bases. We will also actively work to bolster the export and sales of local products as we continue to strengthen our distribution system in each country.



The volume of domestic raw timber for export handled by Sumitomo Forestry is increasing, from 18,000m<sup>3</sup> in FY2013 to 72,000m<sup>3</sup> in FY2014. Cedar and cypress comprise about 70% and 20% of our exports, respectively. About 60% of them go to China, and the rest goes to elsewhere in Asia including Taiwan and South Korea.

#### Volume of Timber for Export from Japan

# FOUNDATION

No. 1 share of the timber and building materials market in Japan

#### Procuring timber from sustainable forests

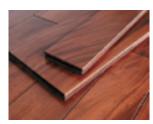
Our strength as the leading timber and building materials company in Japan lies in our procurement capabilities, which derive from our global network of business partners. We promote the use of timber from certified forests, plantation timber, and domestic timber in line with our Timber Procurement Philosophy & Policy.



Unloading logs at a port



Imported timber being stored



Pure mahogany flooring

#### 20 Sumitomo Forestry Annual Report 2015

#### The distribution business—the foundation of the Group's business

In the 1950s, as the Japanese economy boomed and the domestic timber shortage became pronounced, Sumitomo Forestry began importing foreign timber ahead of other companies. We have since established a global timber and building materials procurement network, which constitutes the greatest strength of the Group. With the timber and building materials distribution business as our foundation, we have diversified into a range of business fields centered on wood, including the Housing Business and the Overseas Business.

#### Our global procurement network

Our timber and building material procurement capabilities are rooted in our extensive network, which spans more than 20 countries around the world with bases in North America, Southeast Asia, Europe and Oceania. This global network, which we have cultivated over many years, enables a stable supply of fine timber from managed forests. It also allows us to supply high-quality building materials to our business partners in a timely manner according to their needs. The materials include plywood, medium-density fiberboard (MDF), particle board (PB) and laminated veneer lumber (LVL), which we manufacture at factories overseas.

#### A wealth of experience in handling timber

Drawing on a wealth of experience in handling timber we have cultivated over our long history, we develop and procure interior products made from such globally prized woods as teak, oak, maple, cherry, walnut and mahogany. This knowledge also helps us expand the range of offerings in our Custom-Built Detached Housing Business. When it comes to a natural material like wood, it takes a wealth of knowledge and experience to select and procure materials of the best quality. We leverage the unique characteristics of each type of wood to provide timber perfectly suited to each application and need.

# POSSIBILITY

Promoting greater use of domestic timber

#### Benefitting from the use of domestic timber

Using domestic timber that has reached the appropriate age for harvesting helps prevent forest degradation and maintains the benefits afforded by forests, such as providing sources of timber, supporting water resources, absorbing carbon dioxide, and preserving biodiversity. Using domestic timber in particular helps revitalize the forestry industry in Japan and lowers the environmental impact of transport.



Company-owned forest (Miyazaki)



Harvested domestic cedar



Wood chips

#### Domestic timber: Current state and efforts to promote its use

Although forest covers nearly 70% of total land area in Japan, the country's wood self-sufficiency rate has stagnated at just 28.6% as of 2013. There are a variety of contributing factors, such as the diminished cost competitiveness of domestic timber and the graying of the forest industry work-force. A recent trend has emerged with governments and municipalities encouraging the use of domestic and locally produced timber. We are making greater use of domestic timber in columns, foundations and other main structural elements used in our homes. This effort is underpinned by our procurement and supply system supported by cooperative relationships with suppliers in each region.

#### Expanding exports of domestic timber

Japanese timber had once been exported for use in manufacturing furniture and ships, but export volumes declined due to resource limitation and calls for environmental conservation. Meanwhile, the share of imported timber within Japan also rose. In the 2000s, however, exports of domestic timber, especially logs, to China and South Korea began to grow. Demand for timber is expected to continue growing in emerging countries and elsewhere. We will focus on expanding exports to Asian markets while also responding to growing demand for domestic timber in Japan.

#### Increasing the supply of wood chips and other biofuels

Although nearly 40 million cubic meters of trees are felled in Japan per year, about half of them remain unused due to its mountainous topography, which pushes up lumbering and transportation costs. There is a growing need to convert this unused timber and other waste wood into fuel chips for biomass power plants. Other waste wood includes forest residue produced in the course of managing forests, offcuts generated in manufacturing processes, and waste scrap from demolished buildings. Sumitomo Forestry is using its networks and Company-owned forests to build a supply system for wood chips, imported palm kernel shell (PKS) chips, and other biofuels.

## Sustaining Forests, Sustaining Growth Housing Business





## Custom-built detached houses sold (cumulative total): Approx. 280,000 units

Basic Policy Responding to changes in the business environment and expanding the earnings base

The Group entered the housing business in 1975, amid a domestic housing shortage brought on by population growth and urbanization, to make use of the expertise, technology and knowhow in handling wood it had cultivated over many years. As the domestic housing market matured, the Group expanded from custom-built detached houses to other fields including the renovation and apartment businesses.

In the domestic housing market in fiscal 2015, orders are expected to continue to gradually improve. However, there are several complicating factors, including a possible surge in demand prior to the consumption tax hike in April 2017 and higher interest rates.

Amid this environment, the Group will respond to market changes by expanding the potential of trees and raising its added value and continue to cultivate demand in growth fields.

In the Custom-Built Detached Housing Business, we are working to expand our share of the market and increase value added. In the Renovation Business, we will concentrate our management resources on strategic investments as we aim to meet diverse renovation needs and expand business. We are applying our accumulated knowhow to expand the range of business activities in the Apartment Business and the MOCCA (timber solutions) Business, as well as to expand the earnings base of the entire Housing Business.

In Japan, wooden homes make up 90% of all detached homes, of which nearly 10 million do not meet the latest earthquake resistance standards. Need for retrofitting these homes is expected to rise. The Group is also expanding its business areas in the Existing Home Renovation Business that renovates and resells previously owned homes, and the Real Estate Brokerage and Management Businesses in order to meet various housing-related needs that are forecast to expand.

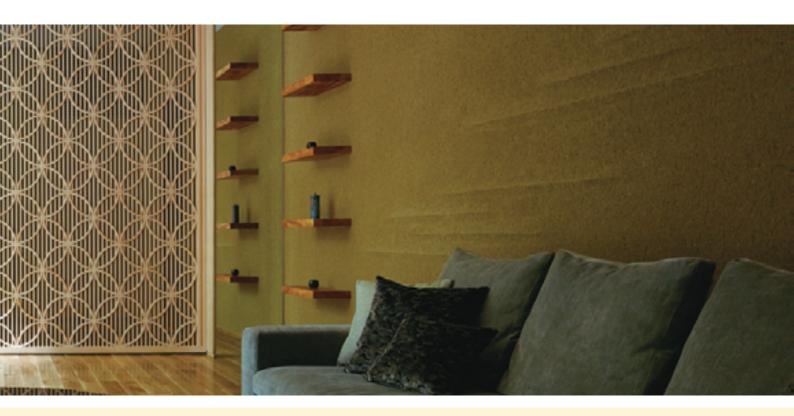
#### Fiscal 2014





Percentage of Total Sales





# Custom-Built Detached Housing Business

Pursuing design and technical excellence that draws out the full potential of trees



Japanese-style model room displaying superior plasterwork (the Komazawa Model Home)

We aim to increase our market share and raise orders in the Tokyo Metropolitan Area, which is a relatively firm market, by increasing marketing staff, creating new model homes, and expanding sales of fireproof products.

We will continue to promote the Estate Design Project, which is managed by our top-notch designers, and strengthen our proposals to discerning customers. We are enhancing our lineup of strategic products for urban areas such as a new product employing the Big-Frame (BF) construction method with reinforced earthquake and fire resistance that can be used for buildings up to four stories tall. With the model homes of the Estate Design Project, we showcase our design and technical excellence, as well as the high-quality ambience we can create using wood. Through these efforts, we aim to expand our share in the market.

#### **Renovation Business**

Responding to diverse needs with advanced technology

We seek to differentiate ourselves from the competitors and meet diverse needs by leveraging our integrated management that includes post-sale support and our technical capabilities cultivated in the Custom-Built Detached Housing Business.

We utilize our expertise in wooden structures to renovate properties, including those not constructed by the Company and traditional Japanese-style houses built before 1950 that are passed down from generation to generation. We have also strengthened our sales team and consolidated the customer service desks for owners of Sumitomo Forestry homes, looking to capture demand arising from diverse renovation needs. We have established a new specialized base for condominium renovations with a reinforced sales team in order to expand orders in this area as well.

#### **Apartment Business**

# Strengthening marketing and expanding the scale of business

Demand is increasing for rental housing and partial sublet housing with the revision of the inheritance tax and needs for asset utilization. In urban areas, demand is growing for three- and four-story rental properties. With the aim of expanding orders, we have reinforced our sales bases with more staff and developed a product that brings together the superior earthquake and fire resistance technologies of our unique BF construction method to build structures up to four stories tall. We seek to obtain greater brand recognition in the rental housing market by rolling out new ad campaigns mainly on TV and radio.



Forest Maison BF-Fireproof (owner-occupied rental units)

Size of the Home **Renovation Market** (Trillion ven 10 8 73 7.0 6 л 2 (CY) 2012 2013 2014 2020 (Forecast) Source: Yano Research Institute, 'Home Renovation Market 2015"

#### Sustaining Forests, Sustaining Growth Housing Business



#### The Company's three construction methods

The Group offers three construction methods: Big-Frame (BF), Multi-Balance, and Two-by-Four. We choose the most appropriate construction method for the design to meet customers' needs. The technology and engineering skills cultivated in the Custom-Built Detached Housing Business are also being applied in the Renovation Business and MOCCA (timber solutions) Business.



Interior of a model BF house



A renovated traditional Japanesestyle house



Architect's rendering of a hybrid building

#### BF construction method: Greater durability and design flexibility

The BF construction method uses Big Columns, which are made from composite wood and have a large surface. This ensures sufficient earthquake resistance with fewer columns and reduced wall surface compared to conventional houses. It allows the construction of homes with spacious rooms and openings with greater design flexibility. In addition, it is easy to change the position of the dividing walls and the floor layout, as well as to make additions. In 2015, we developed the Twin-Bolt Column which reinforces the Big Column by increasing the number of metal joints from two to four. With improved fire resistance, it can now to be used in structures up to four stories tall.

#### Technology to preserve traditional Japanese-style houses

The Group employs a range of proprietary renovation technologies to revive traditional Japanese-style houses. Many of these houses do not have adequate earthquake resistance. We use our original seismic-vibration damper construction method to enable them to withstand a major earthquake and prevent them from collapsing. Refurbishment also dampens shaking of the building, both from the primary quake as well as repeated aftershocks. This minimizes the risk that furniture and other interior decorations will fall and reduces damage to the building. In cases where structural columns have suffered spot decay, we utilize the Successor Construction Method to reinforce the original columns. We thus breathe new life into old houses while preserving their ambience to be passed down from one generation to the next.

#### Expand the joy of living with trees: MOCCA (timber solutions) Business

As the Act for Promotion of Use of Wood in Public Buildings etc. came into effect in October 2010, we are promoting greater use of wood in non-housing structures and interiors, such as business, education and welfare facilities. The MOCCA (timber solutions) Business is making steady achievements in this area. Moreover, we formed a business alliance with Sumitomo Mitsui Construction Co., Ltd. last year in order to develop new businesses targeting medium- and large-scale wooden buildings. By joining our expertise in handling timber with their design and construction capabilities, we will respond to an increasing need for wooden buildings in society.



#### The Estate Design Project

The project offers high-end homes for customers with discerning taste for layout, design and materials. Our architects have a wealth of experience and expertise in designing custom-built detached wooden homes. They leverage this to produce successful outcomes that satisfy even the most demanding customers.



A miniature of the Komazawa Model Home



Making a proposal



A renovated condominium

#### Design excellence that makes a dream home come true

Every customer has a different idea of what the ideal home is. It takes repeated dialogue with a customer to draw out the answers. The sales person and designer meet face to face with the customer. As customers describe their preferences, the designer makes sketches. The process is repeated over and over until a final plan is sketched out. We have around 700 architects stationed in Japan. They employ flexibility, responsiveness and insight in reflecting each customer's unique preferences and creating ideal homes with them.

#### Actively investing human resources in growth businesses

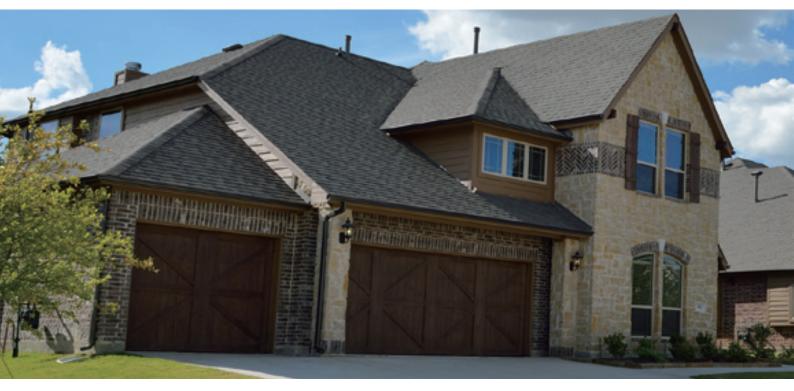
We are responding to market changes by actively investing human resources in growth areas and businesses. In the Custom-Built Detached Housing Business, we are increasing the number of sales people in the Tokyo area, where orders remain firm. In the Renovation Business, we have centralized the customer service center for owners of Sumitomo Forestry homes and, to strengthen our customer service, we have transferred sales people to this center. In the Apartment Business, we are boosting both the number of sales locations and sales people in response to burgeoning demand arising from revisions to the inheritance tax and needs to utilize assets.

#### The Existing Home Renovation Business offers new options for homes

With the growing social need to utilize existing housing stock, we seek to raise the value and performance of detached homes and condominiums for resale through our Existing Home Renovation Business. By supplying high quality renovated homes, we seek to spur an emerging market and help build a low-carbon, recycling-oriented society.

The Existing Home Renovation Business offers new options for home acquisition, an alternative to buying either new or old homes. By employing our existing design and construction expertise, we strive to supply safe and comfortable homes that provide added value.

# Sustaining Forests, Sustaining Growth Overseas Business





Number of homes sold annually overseas: Approx. 4,000 units

# Further raising profitability as one of the Company's main businesses

Fiscal 2014



6.1 billion yen

Percentage of Total Sales



The Overseas Business comprises the Overseas Building Materials Manufacturing Business, which produces wooden building materials in manufacturing sites mainly located in Southeast Asia, Oceania and other Pacific Rim regions, and the Overseas Housing and Real Estate Business, whose main operating areas are the United States and Australia.

**Basic Policy** 

The Group has recently been actively investing management resources in the Overseas Business, where growth is expected for the future. The aim is to nurture it into one of our mainstay businesses that make a major contribution to the Group in terms of earnings. Recently, we have been fine-tuning our manufacturing technology for high-quality products and expanding the production volume and business areas for the Overseas Manufacturing Business. We have managed to significantly increase the number of houses sold in the Overseas Housing and Real Estate Business thanks to a recovery in the U.S. and Australian housing markets and beneficial effects from M&A. As a result, the Overseas Business as a whole turned a profit and has grown to support the Group's profitability.

Even as we continue to pursue improved profitability for existing businesses, we will seek to expand the scale of our business through entry into new business areas, M&A, and other means. We are accelerating growth as we work to expand the profits of this business to account for approximately 30% of the entire Group's earnings.



#### **Overseas Manufacturing Business**

Boosting profit through differentiation with high-quality products and improved productivity



Plywood manufacturing plant in Indonesia

Our overseas manufacturing business started in 1970 with the establishment of a plywood manufacturing base in Indonesia. The business supplies a wide variety of wooden building materials for global distribution at its sites along the Pacific Rim including New Zealand, Australia and Vietnam. With a history stretching back over 40 years, the Group has managed to overcome various challenges by partnering with local suppliers of raw materials and developing high-quality products that can compete in the global market. Although competition has been severe in recent years, we seek to differentiate ourselves from competitors by improving productivity and bringing together the Group's strengths to market high value-added products.

Going forward, we will meet demand for timber and building materials, especially in emerging countries where economic growth is anticipated, with high-quality products and fulfill our responsibility as a global provider of timber and building materials by operating businesses rooted in local communities.

# Overseas Housing and Real Estate Business

Expand our business territory with local partners



Model homes in Australia

In recent years, we have expanded the scale of our business through M&A and other measures, especially in the United States and Australia, where wooden housing dominates. We are greatly expanding our profits and increasing the number of houses sold.

In the United States, the number of houses sold more than tripled thanks to joint management with partners who share our management stance. We expanded the area of operation from Seattle, Washington to the state of Texas, where the population is rising at a high rate. Going forward, we aim to be one of the top builders in the United States and expand our annual home sales to 5,000 as we enter new business areas and pursue additional M&A. The Australian housing market remained firm backed by state support for housing purchases, in addition to persistently low interest rates for housing loans. Forecasts call for sustainable growth due to the growing population.

The Sumitomo Forestry Group has increased the number of houses sold year over year along with the Henley Group, which was made a consolidated subsidiary in fiscal 2013. The Henley Group was selected as the No. 1 builder in Australia in fiscal 2015 for its superior products and contributions to local communities. Going forward, we aim to achieve the top share of the Australian housing market and expand the annual number of houses sold to 3,000 by expanding our business area through the Henley Group, while pursuing further M&A and other possibilities.

In addition, we are participating in projects for condominium complexes in Hong Kong and other regions. As such, we seek to pursue business in areas of robust housing demand.

# Number of Houses Sold in the U.S. and Australia



# QUALITY

Creating high-quality products that make a difference

#### Standing out with high-quality products

The Group manufactures wooden boards, building materials and other products along the Pacific Rim, including in Indonesia, New Zealand, Vietnam and Australia. We are one of the largest producers in Asia and Oceania. We aim to secure a competitive advantage in each sales area by supplying high value-added, eco-friendly products with reduced risk of exposure to chemical substances.



Production line at KTI



Overview of NPIL



Manufacturing plant of VECO

#### PT. Kutai Timber Indonesia (KTI)

KTI was established in 1970 and began manufacturing plywood in 1973, eventually diversifying its product line-up to include wooden building materials and particle board (PB). As export restrictions on logs came into force, the company also began planting forests. Because the company manufactures a wide range of products in an integrated manner, it can respond to a variety of orders. The company actively uses plantation timber, and its plywood also meets Japan's stringent environment-quality standards. KTI will continue to be the leading general timber company that handles everything from planting forests to producing finished products.

#### Nelson Pine Industries Ltd. (NPIL), New Zealand

Established in 1984, NPIL produces medium-density fiberboard (MDF), which is used in interior materials, and laminated veneer lumber (LVL), which is used in structure materials. The company's MDF production capacity is one of the world's highest. In addition, its MDF meets Japan's stringent quality standards and about half of its buyers are in Japan. The company will work to expand sales of its high-quality products to other countries, mainly targeting markets in Southeast Asia and the Middle East.

#### Vina Eco Board Co., Ltd. (VECO), Vietnam

Established in 2010, VECO began commercial production of particle board (PB) in 2012. The company boasts the largest production capacity in Vietnam and is working to expand sales to local furniture and other manufacturers. As competition has recently been intensifying, VECO seeks to differentiate itself through its high-quality products, which contain less formaldehyde\* and other chemical substances. It is also expanding sales to countries outside of Vietnam. Although it has not been long since the launch of production, the company is steadily increasing the output and aims to further improve production efficiency.

\* Formaldehyde is a substance that gives rise to sick building syndrome and is often included in adhesives for wallpaper, furniture and construction materials.



#### Aiming to be in the top ten in the United States and No. 1 in Australia

The Group is expanding its Overseas Housing and Real Estate Business, especially in the United States and Australia, where wooden housing dominates. We have been working with local partners who share our management stance to enter new areas and adapt to different cultures. In the future, we will expand the number of houses sold per year to 5,000 in the United States and 3,000 in Australia.



Model home in Seattle



Interior of a model home

#### The U.S. Housing Business

In 2002, we entered the detached spec home business in Seattle and have gradually expanded the number of homes sold, overcoming the setback of the 2008 global financial crisis. We made a full-scale entry into Texas in 2013 with the equity acquisition of Bloomfield Homes Group, which operates a housing business in the state. Then in May 2014, we acquired an equity stake in Gehan Homes Group, which operates a housing business in Texas and Arizona. The housing market in Texas is forecast to stably grow, backed by robust population growth in Dallas (increasing by around 100,000 persons per year) as well as the availability of new housing lots. We strive for further growth by firmly grasping the local housing needs while deepening our relationships of trust with the two companies based on our shared management stance. At the same time, we will constantly monitor trends in the U.S. economy and housing market to carrying out thorough risk management.

#### The Australian Housing Business

Australia possesses an abundance of natural resources and has developed a service industry that extends to finance and transportation. Although the mining businesses are currently slowing down, the economy as a whole has grown an average of 3% per year since 2000. And with the population continuing to rise due to the government's accommodating immigration policies, housing demand is steadily growing. The Group entered the Australian housing market by forming a joint venture with the Henley Group in 2008 and subsequently made Henley Group a consolidated subsidiary in 2013. The Henley Group's strengths lie in its ability to develop products incorporating new ideas and designs, as well as its management strength in streamlining construction, reinforced by knowhow we have introduced from Japan. It also stands out in terms of social contribution activities, including donations to children's hospitals. In fiscal 2015, the Group won the No. 1 Professional Major Builder award from the country's Housing Industry Association (HIA).

# Sustaining Forests, Sustaining Growth Other Businesses





The area of forest owned in Japan: Approx.  $1/900\,\,\rm of$  Japan's land area

#### Basic Policy Pursuing the possibilities of wood based on sustainable forest management

#### Fiscal 2014



Recurring Income 1.2 billion yen

Percentage of Total Sales



In addition to the Timber and Building Materials Business, the Housing Business and the Overseas Business, the Group operates a variety of other businesses centered on wood, including the Domestic Forestry Business, Biomass Power Generation Business and Lifestyle Service Business such as the management of private-pay elderly care facilities.

In the Domestic Forestry Business, we uphold a sustainable forestry philosophy, whereby we continue the cycle of planting, harvesting and using into the future. Under this philosophy, we promote sustainable forestry management in an efficient and environment-conscious manner to nurture renewable forest resources. We are also using the knowhow cultivated over years of forest management in providing related consultation services to public and private entities.

In the Biomass Power Generation Business, we are promoting the use of construction waste and unused timber found in surrounding woodlands as wood chips to fuel nearby power stations.

Our private-pay elderly care facilities provide high-quality nursing services customized to each resident's care needs and requests. They also feature a comfortable living space with a wood interior, drawing on the unique characteristics of wood.

We will continue to expand the possibilities of businesses leveraging the potential of trees as the Group prepares to expand its business in new fields.

\* In this annual report, the Group's domestic forestry business, which is included in adjustment items in the Financial Section, is described within the Other Businesses section.



#### **Domestic Forestry Business**

Sustainable forest management and revitalization of forestry

The Group owns approximately 46 thousand hectares of forests in Japan. Every five years, we formulate a management plan for these forests based on the types of trees, the ages of the forests, the management record, and other pertinent information. Under the plan, we systematically plant forests and harvest timber while being mindful of local ecosystems. All Company-owned forests have been certified by the Sustainable Green Ecosystem Council (SGEC)\* in 2006. Under this forest certification system unique to Japan, related third-party organizations routinely verify that sustainable forest management is undertaken in our forests.

We are also working to help revitalize Japan's forestry industry through the provision of consultation services to public and private entities. We share knowhow related to forest management and make suggestions for new forestry business creation. In 2014, we launched the Forest and Landscape Research Center as a general help desk for forestry, landscaping and the environment for the greater convenience to our customers.



Measuring the growth of trees

**Biomass Power Generation Business** 

Generating eco-friendly energy and giving back to local communities



Construction under way in Mombetsu, Hokkaido

The biomass power generation business promotes the use of unused wood such as forest residue as fuel, which will raise the value of forest resources and lead to a revitalization of the forest industry in Japan. Wood biomass also shows significant promise as a renewable source of energy. Because stable fuel procurement is indispensible, this is a business field where we can leverage our networks in the timber and building materials distribution business and forestry business, which we have built up in both Japan and overseas over the Company's long history.

Amid growing concerns about global warming and domestic energy (both supply and demand), we are using the accumulated knowhow in this field to expand beyond biomass power generation into related consulting services and other ancillary businesses.

#### Lifestyle Services Business Expanding the scope of housing-related services

In the Lifestyle Services Business, we are targeting changes to the social structure and people's values. We are developing businesses for an aging society and for different types of lifestyles that utilize the Group's customer base, supporting people's daily lives from various perspectives.

Through private-pay elderly care facilities, we provide personalized, high-quality care to ensure lively, fulfilling days while also supporting the independence of our residents. We've also started elderly day care services and other new caregiving businesses, and are working to further raise the quality of our services.

In addition, the Sumitomo Forestry Group engages in a wide range of services primarily for our housing business customers, including a non-life insurance agency. The Group also handles leasing operations, the manufacture and sales of farming and gardening supplies, and a variety of other businesses. We are focused on creating new services that enrich everyday living.



GranForest Mejiro



#### Improving the Quality of Life

Wood has superior performance that cannot be replicated by manufactured products. The sense of comfort is one such example. We are using wood in various aspects related to living to help improve the quality of people's daily lives.



Private-pay elderly care facility (GranForest Hikawadai)



Interior of a day care service facility (Day Forest Mizonokuchi)

#### Operating private-pay elderly care facilities

The Sumitomo Forestry Group operates 10 private-pay elderly care facilities that provide specialized services for senior citizens across Japan. The number of new residents is growing and the facilities' occupancy remains high. Using the management knowhow we have cultivated, we will continue providing high-quality care services and facilities. We will create spaces with the comforting feeling of wood to offer rooms where residents can relax just like they're at home. We will offer numerous programs to provide services with a high degree of freedom. We are striving to differentiate ourselves with our unique services, helping senior citizens to lead fulfilling lives.

#### Starting our Day Care Business for seniors

The Sumitomo Forestry Group launched the Day Care Business for seniors in May 2015, and is expanding the range of its senior citizen care business. Our Day Forest centers have already been opened at two locations in Kanagawa, with another center slated to open in Tokyo during fiscal 2015. Employing the knowhow cultivated in housing construction, we procure wooden floors and furniture and offer barrier-free interior spaces imbued with the comforting feel of wood. We also offer rehabilitation services that incorporate a range of activity programs to provide high-quality day care services. By expanding business in tandem with private-pay elderly care facilities, we seek to increase the range of care options, tailored to the needs of each patient, while building a system to support the daily lives of patients in the local community.

# ENERGY

#### Pursuing the potential of trees

#### A material that's kind to the planet and to people

Wood is not just a building material. It also possesses great potential as a renewable energy source. Envisaging the creation of new businesses, we are working on the research and development of new applications to unlock wood's full potential.



Periodic forest maintenance (thinning)

#### The consulting business for forest management and maintenance

Capitalizing on the knowhow cultivated by managing the Company-owned forests, we have developed a consulting business for forest management and maintenance nationwide. For example, in the Totsukawa Village, Nara Prefecture, we are supporting the creation and implementation of a basic forest plan. In Gifu Prefecture, we have concluded an agreement with the prefectural government to produce 200,000 tree seedlings over the next three years, temporarily using some of its facilities.

Going forward, we anticipate regional municipalities will need additional support as the population in forest areas continues to decline and the forestry industry weakens. The national government has been launching policy packages to counter these trends in recent years. Leveraging our experience managing Company-owned forests, we actively pursue the consulting business for managing and maintaining forests.



Kawasaki biomass power plant

#### The Biomass Power Generation Business

The Sumitomo Forestry Group is participating in the biomass power generation business at four locations in Japan. Wood chips used as fuel are mainly made of construction waste and unused timber found in surrounding forests. Biomass power generation is therefore expected to contribute to the effective use of forest resources, the revitalization of the forestry industry and new job creation. It is also expected to facilitate periodic forest maintenance. The Kawasaki biomass power plant, which we have been operating jointly with three other companies since 2011, mainly uses wood scraps (from the construction and demolition of homes) and wood pellets gathered in the Tokyo Metropolitan Area. It proposes an urban solution to the energy supply issue by effectively using industrial waste as fuel.

# Sustaining Forests, Sustaining Growth Promoting Sustainable Businesses

The corporate philosophy of Sumitomo Forestry Group is to utilize timber as a renewable, healthy, and environmentally friendly natural resource, and contribute to a prosperous society through all types of housing-related services. In line with this philosophy, we are implementing sustainable forest management, promoting the use of timber from sustainable forests and providing homes with low-environmental impact. We will continue to promote sustainable businesses as we contribute to addressing issues confronting the global environment and society.



### Sustainable Forest Management Procuring and Supplying Timber from Sustainable Forests

The Sumitomo Forestry Group promotes eco-friendly, sustainable forest management in Japan and overseas to preserve forests, which serve the public good, while enabling the perpetual use of timber resources. Based on the Timber Procurement Philosophy & Policy and Action Plan established in fiscal 2007, we are promoting the procurement of timber from appropriately managed forests. Increasingly, we are also handling timber from certified forests and plantation forests as well as domestic timber.



#### Managing Company-owned Forests to Maintain and Expand Timber Resources

The Group owns a total of 46,247 hectares of forests within Japan as of April 1, 2015. To step up our sustainable forest management, we are considering further acquisitions of forested land, with an eye on revitalizing Japan's forestry industry and ensuring the availability of renewable timber resources.

Our Company-owned forests in Japan are divided into two categories: "economic forests" with timber production prioritized and "environmental forests" where environmental protection is the main priority. In 2006, we acquired certification from Japan's Sustainable Green Ecosystem Council (SGEC)\*<sup>1</sup> for all Sumitomo Forestry-owned forests\*<sup>2</sup>. In forestry management, we undertake periodic thinning that takes into consideration the local ecosystem and other environmental aspects in each area, in the interest of maintaining and expanding timber resources. Making use of our knowhow developed through management of Company-owned forests, we also 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 a golf course.

#### Consulting in Totsukawa Village, Nara Prefecture

The village of Totsukawa in Nara Prefecture contains about 64,000 hectares of forest. The local government and the forest cooperative are collaborating in their efforts to reinvigorate the forest industry, such as by setting up a timber processing and distribution site.

Since 2011, we have been providing consulting services to the village on how to stimulate economic activity using the village's forest resources. Applying our original technology and knowhow, we introduced vehiclemounted tower yarders to collect timber on forest inclines and helped develop forest roads to better deploy them.

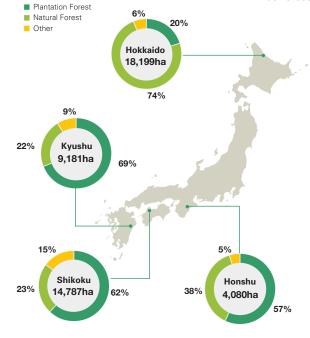


A local study group watching a tower yarder in action



r Developing a forest road along steeply inclined land

#### **Distribution of the Company-owned Forests**





# Ensuring the Traceability and Legality of Timber

To prevent the disappearance and degradation of forests, legal frameworks are being created around the world to eliminate illegal logging. 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 documentation submitted by suppliers confirming the legality of the timber and on-site inspection by the Company's overseas representatives. The Group's Timber Procurement Committee meets three times a year to examine the legality of timber. In fiscal 2014, it confirmed our imported timber was 100% legal for the third consecutive year. We will continue these efforts to ensure the procurement of timber and timber products from sustainable forests.

#### The Sumitomo Forestry Group's Legality Confirmation System

Request the submission of documentation confirming legali

We require that suppliers submit documentation confirming the legality of their timber. The Company determines the content that must be included in the documents according to the laws and regulations of each country and region.

#### Conduct on-site inspection

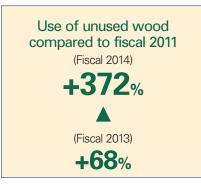
Procurement department managers and local representatives visit logging sites and the offices of suppliers to investigate the timber's legality by conducting interviews and acquiring evidence.

Review the confirmation of legality

The Timber Procurement Committee assesses the legality of timber for each supplier based on the comprehensive documents (including the results of onsite inspections) filed by the procurement department.



Flooring made of domestic timber



# Promoting the Use of Timber from Certified Forests, Plantation Forests and Domestic Forests

The Sumitomo Forestry Group is working to increase the proportion of timber from certified forests and plantation forests among directly imported timber. In fiscal 2014, the figure was 99% for raw material for medium density fiberboard (MDF). As for raw material for plywood, however, soaring prices for falcata plantation timber led to a decrease in volumes handled. As a whole, we maintained the previous-year level of 62% for all types of imported timber. In fiscal 2015, we plan to increase the ratio of timber from certified forests and plantation forests used in plywood by developing and marketing new products using timber from certified forests and plantation forests.

#### Initiatives Undertaken by Sumitomo Forestry Crest Co., Ltd.

Our subsidiary Sumitomo Forestry Crest Co., Ltd., which manufactures building materials in Japan, has set a target to raise the ratio of timber it uses from certified forests, plantation forests and domestic forests to 64% by fiscal 2015.

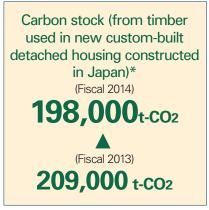
In fiscal 2014, the Company promoted the sale of products made with domestic timber in addition to increasing the ratio of plantation timber used for subfloor boards and the hardwood in fixtures. As a result, the ratio of timber the company uses from certified forests, plantation forests and domestic forests rose to 65%, achieving its target a full year ahead of time.

## Promoting Use of Unused Wood

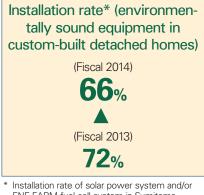
The increased use of forest residue and other unused wood, which had previously been underutilized, is helping to reinvigorate the forestry industry in Japan while also maintaining and improving the benefits that forests provide. The amount of unused wood handled in fiscal 2014 jumped 372% compared to fiscal 2011 due to the Sumitomo Forestry Group's efforts to collect unused wood to fuel the wood biomass power plant being constructed in Mombetsu, Hokkaido. Moreover, our subsidiary Sumitomo Forestry Wood Products Co., Ltd., which specializes in the distribution and sale of domestic timber, has supplied over 111,000 cubic meters of unused wood primarily to electric power operators. We will continue to increase the volume of unused wood we handle in fiscal 2015 as we increase the volume we supply to the wood biomass power plant in Mombetsu and other biomass power plants.

# **Countering Global Warming through Our Business**

We are undertaking various business activities to help stem global warming. These include CO<sub>2</sub> absorption and fixation through our forest management, CO<sub>2</sub> emission reduction during housing construction and habitation, as well as our Biomass Power Generation Business. In addition, we offer energy-saving and eco-friendly renovations and are working to improve the energy efficiency of homes through the sales of our low-impact "Green Smart" houses.



\* Sumitomo Forestry homes fix about 22.6 t-CO2 per unit.



ENE-FARM fuel cell system in Sumitomo Forestry homes (orders received basis).



Green Smart Solar Z

#### Expanding Carbon Stock

Carbon stock is the volume of CO<sub>2</sub> that is absorbed by trees and fixed as carbon. The Group is working to expand the carbon stock through the sustainable management of Company-owned forests in Japan and through overseas plantation forestry. The Group also helps counter global warming by increasing timber-based carbon stocks mainly by building high-quality, long-lasting wooden homes and promoting the wider application of timber resources in non-housing structures. In fiscal 2014, carbon stock derived from timber used to build custom-built detached housing decreased by approximately 11,000 t-CO<sub>2</sub> from the previous fiscal year due to a decrease in unit sales.

#### The Sumitomo Forestry Group's Carbon Stock (Fiscal 2014)

Company-owned forests in Japan: **12.19 million t-CO**<sub>2</sub> (11.96 million t-CO<sub>2</sub> in previous year)

Plantation forests overseas:

**4.54 million t-CO**<sub>2</sub> (3.87 million t-CO<sub>2</sub> in previous year)

# Promoting "Green Smart" Houses

Sumitomo Forestry's "Ryouonbou" natural heating and cooling design optimizes natural ventilation, sunlight, landscaping and greenery to enable comfortable living throughout the year while reducing the need for heating and air-conditioning. To further reduce energy consumption, our "Green Smart" houses combine this design with next-generation insulation technology, environmentally sound equipment to use energy more intelligently, and such smart technology as a Home Energy Management System (HEMS) that enables homeowners to visually track energy usage.

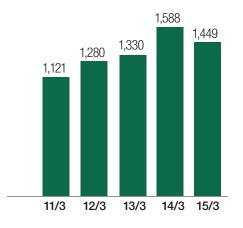
Although the proportion of homes with our environmentally sound equipment decreased in fiscal 2014 year on year, we maintained a level close to 70%.

# Life Cycle Carbon Minus (LCCM) Housing

Sumitomo Forestry has been involved in the development of Life Cycle Carbon Minus (LCCM) housing, which produces a net negative volume of CO<sub>2</sub> emissions over its entire life cycle: from construction to use, renovation, demolition and disposal. This is accomplished with the use of solar power systems and environmentally sound equipment.

In fiscal 2014, we confirmed a reduction in energy consumption for each type of technology introduced at the pilot structure, which was completed in 2013, in both the winter and summer periods. We also installed sensors on the interior and exterior of the pilot structure to monitor changes in humidity, sunlight and other conditions. The sensors were used to develop and test methods, such as automation, to more effectively use air conditioners and lighting equipment. We have already launched a product based on one of these tests and will continue to develop new technologies that realize LCCM housing.

# Number of orders for energy-saving and eco-friendly renovations





Chip yard built next to the biomass power plant

# Offering Energy-Saving, Eco-Friendly Renovations

Our subsidiary Sumitomo Forestry Home Tech Co., Ltd. specializes in renovations. It promotes energy-saving and eco-friendly renovations, receiving over 1,000 orders every year. When planning a renovation, the company creates a performance evaluation chart to visualize the enhanced performance provided by earthquake resistance technology, energy saving equipment, modifications for universal access and other improvements. The company offers renovations that will reduce the environmental footprint over the lifetime of the residence.

### Biomass Power Generation

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

In addition, we began a joint venture in Tomakomai, Hokkaido in October 2014 and another in Hachinohe, Aomori Prefecture in December 2014. Including the Kawasaki plant (already in operation) and the Mombetsu plant (currently under construction), the Group's biomass power business now operates in four locations across Japan. We continue to develop businesses using renewable energy in a way that best serves the interest of each region.

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

Based on its Action Guideline of "Respect for Humanity," the Sumitomo Forestry Group seeks to create an open and inclusive corporate culture that values diversity. The Group will aim for the highest standards of excellence in the field of housing through global initiatives to ensure that Group's employees demonstrate a positive spirit of willingness to take on challenges at all times. We will do this by maintaining fair and effective personnel systems and providing employees with essential development and training. We also actively promote work life balance by creating workplaces that support the professional and private lives of employees.

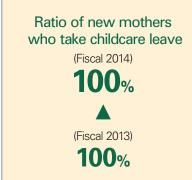
#### Employment breakdown

(Sumitomo Forestry non-consolidated, as of March 31, 2015 and 2014)

	2015	2014
Management level:	2,047	2,053
Non-management level:	2,297	2,292
Contract employees:	125	111
Secondment from other companies:	30	30
Average years of service:	14 years and 6 months	14 years and 3 months
Ratio of female employees (includes contract employees):	19.2%	18.4%
Ratio of newly hired female university graduates:	26.8%	28.7%
Ratio of employees with disabilities:	2.2%	2.2%
Ratio of locally hired employees at overseas Group companies:	99.3%	99.2%

### The Sumitomo Forestry Group Three policies in our declaration on empowering women

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





Practical training at the Sumitomo Forestry School of Professional Building Techniques

# Promoting Employee Diversity

With regard to the hiring and treatment of employees, the Group's non-discrimination policy respects equality of opportunity and diversity, making 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 make full use of their abilities. We are also engaged in various initiatives to create a workplace that provides a wider range of professional opportunities for female employees, offers support for child care, and is geared to the needs of those with disabilities. As of April 1, 2015, the percentage of female employees (including contract employees) was 19.2%, compared with 18.4% in the previous fiscal year, and the percentage of newly hired female university graduates was 26.8%, compared with 28.7%. The average years of service was 14 years and six months, compared with 14 years and three months in the previous fiscal year. Overseas Group companies are actively engaging in local hiring and, at 99.3%, the rate of local employment remained roughly level from the previous fiscal year. The ratio of employees with disabilities in fiscal 2014 remained at 2.2%, higher than the legally mandated level of 2.0% for private enterprises in Japan.

## Establishment of the Declaration on Empowering Women

In Japan, demographic change is expected to lead to a decline in the working population. Promoting greater workforce participation by women at all kinds of enterprises is crucial to creating a sustainable society and economy. The Group has already committed itself to human resource management that respects the diversity of every individual to enhance the competitiveness of the Company. To reinforce this effort, the Group has compiled a declaration on empowering women as it seeks to encourage their broader participation in the workforce.

## Initiatives to Encourage a Better Work-Life Balance

Recognizing the importance of work-style diversity, Sumitomo Forestry has taken the initiative in arranging childcare and nursing leave systems, as well as reducing overtime, with the aim of creating a fulfilling workplace and ensuring a rich family life. We have established the Workstyle Diversification Department within the Personnel Department, where employees can find a comprehensive career support desk dedicated to such matters as childcare, nursing, career development, mental health and reemployment after retirement. In fiscal 2014, we established a working group to look into approaches to balance work and childcare. The group examined issues related to working while caring for young children and ways to improve working conditions for such employees in the Housing Division Branch Offices, where it is difficult to control work schedules due to client needs. The working group will continue its examinations in fiscal 2015 and promote the creation of workplaces that are better suited to employees with young children.

## Preserving Traditional Building Techniques for Wooden Houses

The Sumitomo Forestry School of Professional Building Techniques was established in 1988 as an in-house training center to pass down the traditional Japanese wooden post-and-beam construction method to future generations. To master carpentry skills, new employees at Sumitomo Forestry Home Engineering Co., Ltd. train for a year at the school. The training starts with lectures and continues with practical training on the use and maintenance of tools, ink-marking and other traditional techniques, material handling, and safety. In fiscal 2014, 58 individuals were accepted for enrolment and 56 graduated. At the start of fiscal 2015, the school welcomed 64 new trainees including employees of partner companies.

# Governance

# Governance

# Governance

#### Board of Directors and Statutory Auditors (as of June 23, 2015)



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

#### Directors

#### Ryu Yano \*Chairman of the Board

Apr. 1963	Joined the Company
Dec.1986	General Manager of 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)

#### Shigeru Sasabe Director

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

\*Representative Director \*\*External Director

#### Akira Ichikawa \*President / Director

pr. 1978	Joined the Company
pr. 1370 pr. 2007	General Manager of Corporate Planning
pi. 2007	Department
un. 2007	Executive Officer

Jun. 2008 Director

A

Managing Executive Officer Representative Director (current position) Apr. 2010 President/Director (current position) President and Executive Officer (current position)

#### Ken Wada Director

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

#### Toshiro Mitsuyoshi Director

- Joined the Company Apr. 1985 Apr. 2010
- General Manager of Overseas Business Department, Overseas Business Division Executive Officer
- Jun. 2010 Managing Executive Officer (current position) Divisional Manager of Overseas Business Apr. 2011
- Division Apr. 2014
- Deputy Divisional Manager of Housing Division (current position) Jun. 2014 Apr. 2015 Director (current position)
- President and Representative Director of Sumitomo Forestry Home Tech Co., Ltd. (current position)

#### Hitoshi Hayano \*Director

- Apr. 1977
- Joined the Company General Manager of Corporate Planning Department Executive Officer Apr. 2003 Jun. 2005
- Apr. 2006 Jun. 2006 Managing Executive Officer
  - Director
- Apr. 2007 Apr. 2010 Apr. 2011
- Divisional Manager of Real Estate Business Division Divisional Manager of Housing Division Representative Director (current position)
- Senior Managing Executive Officer Executive Vice President and Executive Officer Apr. 2014 (current position)
- Divisional Manager of Lifestyle Service Division and Forestry & Environment Division Divisional Manager of Lifestyle Service Division and Apr. 2015
- Environment & Resources Division (current position)

#### Tatsuru Satoh Director

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

#### Junko Hirakawa Director\*\*

- Apr. 1973 Feb. 1979 Licensed as an attorney-at-law admitted in Japan Licensed as an attorney-at-law admitted in Japan Licensed as an attorney-at-law admitted in the State of New York, U.S.A. Partner of Yuasa and Hara Founding Partner of Hirakawa, Sato & Kobayashi (currently City-Yuwa Partners) Partner of City-Yuwa Partners (current position) Appointed as External Director of Tokyo Financial Exchange Inc. (current position) Appointed as External Statutory Auditor of the Company Oct. 1983 July 1997 Feb. 2003 Jun. 2011 Jun. 2012 Company Appointed as External Director of the Company Jun. 2014 Jun. 2015
  - (current position) Appointed as External Director of Hitachi Construction Machinery Co., Ltd. (current position)

#### Statutory Auditors

Hidekazu Tanaka Statutory Auditor

Noriaki Toi Statutory Auditor

Satoshi Teramoto Statutory Auditor\*

Shin Nagata Statutory Auditor\*

Katsuhide Kurasaka Statutory Auditor\*

\*External Statutory Auditors

#### 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 Environment & Resources 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\* In charge of Tohoku Reconstruction Support, Divisional Manager of Housing Division

#### Tatsuru Satoh

Managing Executive Officer\* In charge of General Administration, Personnel, Corporate Communications, CSR, Intellectual Property, and Internal Audit

#### Akihisa Fukuda

Managing Executive Officer\* In charge of Corporate Planning, Finance, Information Systems, and Tsukuba Research Institute

Toshiro Mitsuyoshi

Managing Executive Officer\* President and Representative Director of Sumitomo Forestry Home Tech 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 Residential Co., Ltd.

#### Yoshihiro Yoshioka

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

#### Ryoji Machino

Executive Officer Director and Senior Managing Executive Officer 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 Environment & Resources Division, and General Manager of Overseas Resources 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 Manufacturing Department

# Nobuyuki Katayama

Executive Officer Deputy Divisional Manager of Housing Division (also oversees Administration & Planning and Training & Education)

#### Soichiro Kitamura

Executive Officer President and Representative Director of Vina Eco Board Co., Ltd. (VECO)

#### Junko Saishu

Executive Officer Deputy Divisional Manager of Housing Division (in charge of Technology Management), and General Manager of Building Compliance Department

# Corporate Governance

#### **Fundamental Policy**

The Sumitomo Forestry Group's corporate philosophy states, "The Sumitomo Forestry Group utilizes timber as a renewable, healthy, and environmentally friendly natural resource, and contribute to a prosperous society through all types of housingrelated services." Under our Action Guidelines, one of which is to "conduct business that is beneficial to society based on the principles of integrity and sound management," we strive to ensure transparency in management, appropriate and lawful business operations, and swift decision-making and business execution. Through these efforts, we are further enhancing corporate governance in order to continuously expand corporate value and live up to the expectations of our stakeholders.

#### **Corporate Governance System**

Sumitomo Forestry has a Board of Directors and a Board of Statutory Auditors. While strengthening 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 23, 2015, there were nine directors (including one female director), 19 executive officers (including one female executive officer), and five statutory auditors.

To strengthen the Board of Director's supervisory functions and management system, one external director was appointed at the 74th Ordinary General Meeting of Shareholders held on June 20, 2014. The Company currently has three external auditors. We ensure transparent and sound management based on enhanced management oversight and audit functions with an external director and auditors who are independent from the management. We thereby seek to further strengthen the effectiveness of corporate governance.

#### **Board of Directors and Executive Committee**

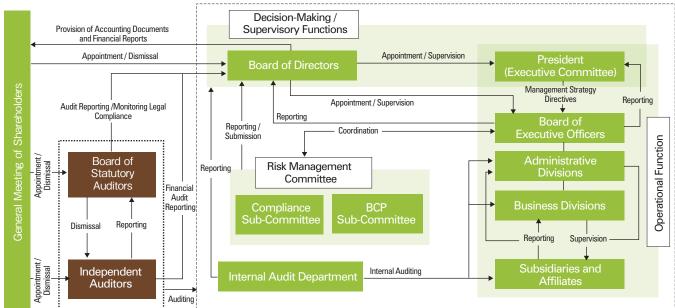
The Board of Directors usually meets once a month, making decisions on important issues and carrying out its supervisory function. The Executive Committee meeting is held twice a month, in advance of the Board of Directors meeting to ensure that there is sufficient prior discussion on important issues. It is attended by those directors who also serve as executive officers, as well as the full-time statutory auditors. In fiscal 2014, the Board of Directors met 15 times and the Executive Committee 29 times.

#### **Statutory Auditor System**

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 attending Board of Directors, Executive Committee and other important meetings, statutory auditors closely coordinate with accounting auditors, departments in charge of internal auditing, compliance and accounting, as well as statutory auditors of major subsidiaries, in order to obtain accurate information in a timely manner regarding management decision-making processes. Based on the information obtained, statutory auditors conduct rigorous audits from the standpoint of shareholders and express their views when necessary about the directors' business conduct.

The Board of Statutory Auditors met 14 times during fiscal 2014. In addition, the Group Board of Statutory Auditors, composed of the Company's full-time statutory auditors and the statutory auditors of major subsidiaries, convenes once every two months with the aim of improving the audit effectiveness in these companies and exchanging information.

Statutory auditors are assisted by nine staff members with the purpose of strengthening audit functions. In addition, the statutory auditors exchange information daily with the Internal



#### Corporate Governance System (As of June 30, 2015)

Audit Department, which augments the supervisory function of the Board of Directors. They also work to strengthen oversight of business execution of the entire Group through the aforementioned meetings of the Group Board of Statutory Auditors. Moreover, at the monthly Board of Statutory Auditors meetings, the executive officers in charge provide explanations of what has been discussed at the Executive Committee meetings, ensuring that every statutory auditor thoroughly understands key issues. Statutory auditors and representative directors regularly exchange opinions.

#### Cooperation between Statutory Auditors, Accounting Auditors and the Internal Audit Department

Statutory auditors monitor the independence of accounting auditors and request and verify opinions from accounting auditors regarding the appropriateness of financial reports, accounting policies, accounting methods and other matters with reference to fair accounting standards. When creating audit reports, statutory and accounting auditors hold meetings and exchange information as necessary to facilitate smooth and effective audits.

The Internal Audit Department is in charge of conducting internal audits and collaborates with statutory auditors. The entire Group is subject to audits to determine the appropriateness and lawfulness of daily business operations. Upon completion of an audit, the Internal Audit Department submits audit reports to the president, executive officers and statutory auditors.

#### Attendance of External Director and Auditors at Board Meetings (fiscal 2014)

Position and Name	Board of Direct (convened)	0	Board of Auditors Meetings (convened 14 times)		
Position and Name	Number of meetings attended	Attendance rate	Number of meetings attended	Attendance rate	
Director: Junko Hirakawa*1	12	100%	_	_	
Statutory Auditor: Satoshi Teramoto	15	100%	14	100%	
Statutory Auditor: Shin Nagata	13	87%	13	93%	
Statutory Auditor: Katsuhide Kurasaka* <sup>2</sup>	12	100%	11	100%	

\*1 Junko Hirakawa was appointed to the position of director at the 74th Ordinary General Meeting of Shareholders held on June 20, 2014. Since the appointment, the Board of Directors Meeting has been convened 12 times.

\*2 Katsuhide Kurasaka was appointed to the position of statutory auditor at the 74th Ordinary General Meeting of Shareholders held on June 20, 2014. Since the appointment, the Board of Directors Meeting has been convened 12 times and the Board of Auditors Meeting has been convened 11 times.

#### **Reasons for Appointment as External Director**

Name	Reason for appointment
Junko Hirakawa Assumed office in 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 Assumed office in June 2010	As a certified public accountant, he has a high degree of specialized knowledge of and exten- sive practical experience in finance and accounting, and has been judged capable of conducting appropriate audits of the Company's execution of business.
Shin Nagata Assumed office in June 2012	He has an extremely deep insight 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 Assumed office in June 2014	He has deep insight as a business manager including his extensive experience in frontline man- ufacturing management, and has been judged capable of conducting objective and appropriate audits of the Company's manufacturing business.

# Appointment of External Director and External Auditors

The Company has appointed one external director, Junko Hirakawa. When previously serving as the Company's external auditor, she provided appropriate opinions and comments on various proposals at the Board of Director's meetings from the standpoint of a legal expert, and demonstrated commitment to strengthening our governance system through her audit work. The Company has 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.

#### **Executive Remuneration**

Remuneration for directors comprises three types: basic remuneration, which is fixed; bonuses, which are tied to business performance; and stock options.

#### **Basic Remuneration**

To ensure a fair level of remuneration according to roles and responsibilities, a set amount, within the scope approved at the General Meeting of Shareholders, is paid out every month for each position.

#### Bonuses

At the annual Ordinary General Meeting of Shareholders, a set amount is approved for each position. The total amount is calculated with consideration to the level of consolidated recurring income.

Moreover, other than the aforementioned remuneration, directors do not receive remuneration as employees or other compensation for the performance of their duties. At the 65th Ordinary General Meeting of Shareholders held on June 29, 2005, the Company abolished the executive retirement bonus.

In addition, to ensure the objectivity and fairness of executive remuneration and set an appropriate level of remuneration, we reference the results of a third-party assessment of executive remuneration at Japanese companies.

#### Introduction of Stock Options

With the primary aim of boosting motivation towards improving the Company's medium- to long-term corporate value, a motion to allocate subscription rights to directors (excluding external director) as a form of stock-based remuneration was submitted and approved at the 75th Ordinary General Meeting of Shareholders held on June 23, 2015.

#### Remuneration (Fiscal 2014)

			(Mi	llions of yen)
		Total remuneration	Basic remu- neration	Bonus
Directors	(9)	478	348	130
Corporate Auditors	(3)	48	48	
External Officers	(5)	37	37	

Notes:1. Included in total remunerations for directors are director bonuses amounting to ¥130 million, which were decided upon at the 75th Ordinary General Meeting of Shareholders held on June 23, 2015.

2. Figures for Directors and Corporate Auditors exclude remuneration to external director/auditors.

#### System to Ensure Management Transparency

#### **Basic Policy on Disclosure**

To increase transparency in management, we actively disclose not only the information required by various laws and regulations but also other items deemed useful to shareholders and investors. Disclosure is done in a swift and fair manner.

#### Initiatives to Encourage Execution of Voting Rights

The Company sends out notices three weeks prior to the annual General Meeting of Shareholders and avoids dates when many companies hold their annual meetings so that a greater number of shareholders can participate. In addition, shareholders can use the Internet, cell phones and other electronic means to exercise voting rights. We also make use of the electronic proxy voting platform for institutional investors operated by ICJ Co., Ltd.

#### **Disclosure of a Wide Range of Information**

On the Company's website, we release a wide range of information related to our IR activities, including securities reports (Japanese only), notices of shareholder meetings and subsequent resolutions, financial results, earnings presentation materials, and monthly order information.

#### **IR Activities**

The Company is enhancing its investor relations (IR) activities to communicate management vision, the state of operations, financial position and other information as needed with shareholders and investors. As a means to directly communicate with shareholders and investors, the Company holds earnings presentations twice a year and telephone conferences twice a year for securities analysts and institutional investors in Japan. For overseas investors, the Company visits locations in Europe, the United States and Asia and holds individual meetings. For individual investors, the Company regularly participates in joint company presentations and IR forums geared toward individual investors.

# External Director's Interview



Junko Hirakawa Director

How I See the Sumitomo Forestry Group Just as is conveyed by its brand strategy, "Happiness Grows from Trees," the Sumitomo Forestry Group is developing businesses in a wide range of areas related to wood. I think this shows the Company has a unique business structure unlike any other in the world. The Company is continuing to develop its reforestation business, which it has cultivated for over 300 years, and is now operating reforestation businesses overseas, nursery businesses for seedlings and saplings, and urban landscaping businesses, just to name a few. I get the impression that all of this is possible only because of the Company's accumulated knowhow and long history of dealing in wood. The Company not only undertakes logistics operations, including the distribution of timber and building materials in Japan and overseas, it also manufactures plywood, medium-density fiberboard, particle board and other building materials. It has expanded the scope of its business to include wooden housing, medium- to large-size wooden structures and the renovation of existing homes, and is now actively expanding the housing business overseas. In recent years, the Group has moved on to diversify its businesses centered on wood to include biomass power generation (using wood chips and wood waste) and elderly care services.

# My Role as an External Director

The Sumitomo Forestry Group's businesses span a wide range. Therefore, numerous laws and regulations

need to be observed, along with inherent risks. Because it is impossible to provide useful advice without properly understanding the operations of each business, I work hard to grasp the unique characteristics of each business. To deepen my understanding of the Company's diverse businesses, I've visited many sites and interacted with the onsite managers. The sites I visited include factories and plantation forests overseas, Company-owned forests and factories across Japan, construction sites in areas recovering from the Great East Japan Earthquake, elderly care facilities, the Sumitomo Forestry School of Professional Building Techniques (in-house educational institution), and the Tsukuba Research Institute-the Group's knowledge center. Supported by what I saw and felt on site, I draw on my legal expertise to provide opinions about the unique circumstances surrounding each business.

# Sumitomo Forestry's Approach to Corporate Governance

The Company's corporate governance structure does not simply end with a slogan or target; I feel that corporate governance is imbued throughout the Company and implemented by everyone as a unified team. For example, the Company constantly seeks how to best employ the external officer system and, when needed, makes various proposals to outside officers. At present, there is one external director and three external auditors. We do more than simply attending the Board of Directors' Meetings. We receive detailed updates on items discussed at executive officer meetings and other matters on various occasions. This allows us to grasp the background and the process that went on for each agenda item prior to the board meeting. By allowing external officers to thoroughly understand the state of the Group through such opportunities as office visits and audits, the Company displays a proactive stance on ensuring the effectiveness of the external officer system and the proper functioning of corporate governance.

# Internal Controls System (Risk Management and Compliance)

#### **Establishment of Internal Controls System**

The Group has adopted a basic policy on the establishment of an internal controls system at the Board of Directors' meeting and approved Action Guidelines to embody our corporate philosophy, as well as a document summarizing the ethical behavior guidelines and values that all officers and employees should follow. We also established a framework to entitled, "Our Values and Ideals," secure the soundness in our business in accordance with the Company Act.

#### **Risk Management System**

To strengthen the risk management system for the entire Group, the Company has formulated the Risk Management Basic Regulations. Accordingly, the President and Executive Officer of Sumitomo Forestry has been appointed to the highest authority on risk management for the Sumitomo Forestry Group.

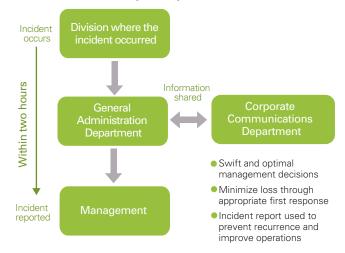
The Company has established the Risk Management Committee, which is chaired by the President and Executive Officer and comprised of all other executive officers. Each executive officer uncovers and analyzes manageable risks in their respective field, including those for each Group company, and formulates action plans. The committee meets regularly once every three months to share and discuss findings and results.

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 risk management officers of each Group company. These sub-committees work to enhance the effectiveness of risk management pertaining to Group-wide risks, namely, compliance risks related to core business, including the Construction Business Act, and business interruption risks, including large-scale disasters.

The results of aforementioned activities are reported to the Board of Directors and undergo management reviews in order to be reflected in business execution. In fiscal 2014, the Board of Directors received reports of risk management activities four times, and the Risk Management Committee, the Compliance Sub-Committee and the BCP Sub-Committee convened four times each.

#### **Rapidly Identifying and Responding to Risk**

In addition to the normal reporting hotline, we operate a twohour rule system designed to rapidly and accurately relay information to the management via the headquarters' Risk Management Department in the event of an emergency situation that may have a serious impact on Company management. This allows us to make swift and optimal management decisions and take immediate action so as to avoid or contain losses. The information thus reported is also used to compile case studies, which are shared to prevent recurrences of the same disaster and improve business operation.



#### **Two-hour Rule and Rapid Response to Risk**

When a major issue arises, the information is shared with the Corporate Communications Department and disclosed to stakeholders in a timely and appropriate manner.

#### **Compliance Promotion System**

The Compliance Sub-Committee under the Risk Management Committee responds to compliance risk across the Group. The committee has set Group standards, including management systems and tools for legal compliance with construction industry law and other laws and regulations, and efficiently responds to compliance risk.

These activities are reported to the Statutory Auditors and the Internal Audit Department every month to share compliance risk information. Critical Group-wide matters are shared with the auditors of each Group company through the Group Board of Statutory Auditors. The execution line for business integrates both internal and external approaches to establish a robust compliance system.

#### **Internal Audits**

Of the Group's approximately 200 business sites, the Internal Audit Department selects about 60 business sites each year to undergo an internal audit based on prior risk assessment. These audits are conducted to verify the status of each business site's business execution, including compliance, and management of administrative actions. The results of these assessments are reported to the president, executive officers in charge of internal audits and corporate 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 by requesting written reports and implementing quarterly followup audits. The results of these actions are reported to the president and executive officers in charge of internal audits.

# **Financial Section**

# CONTENTS

- 48 Eleven-Year Summary
- 50 Management's Discussion and Analysis
- 55 Business Risk
- 58 Consolidated Balance Sheets
- 60 Consolidated Statements of Income / Consolidated Statements of Comprehensive Income
- 61 Consolidated Statements of Changes in Net Assets
- 63 Consolidated Statements of Cash Flows
- 64 Notes to Consolidated Financial Statements
- 84 Independent Auditor's Report

# **Eleven-Year Summary**

Sumitomo Forestry Co., Ltd. and Consolidated Subsidiaries

Years ended March 31	2015		2012	2012
Deerating Results:	2015	2014	2013	2012
Vet sales	¥997,256	¥972,968	¥845,184	¥831,870
Gross profit	<u> </u>	160,162	141,436	136,873
Selling, general and administrative expenses	135,498	126,747	116,105	117,682
	33,994	33,415	25,330	19,191
Operating income Recurring income*1		33,567	25,330	20,714
Net income	36,424			
Net income	18,572	22,531	15,923	9,271
Financial Position:				
Fotal assets	¥665,538	¥645,197	¥547,973	¥503,496
Working capital <sup>*2</sup>	158,110	120,725	91,335	94,509
nterest-bearing debt	103,369	92,975	69,229	67,923
Total net assets	260,782	226,078	193,250	169,335
Cash Flows:				
Cash flows from operating activities	¥ 14,709	¥ 54,057	¥ 45,910	¥ 26,873
Cash flows from investment activities	(23,575)	(10,476)	(28,662)	(32,903)
Cash flows from financing activities	(17,286)	8,511	(5,305)	(5,622)
Cash and cash equivalents at the end of the year	103,296	128,343	75,658	63,839
Capital Investment:				
Tangible fixed assets*3	¥ 12,617	¥ 14,735	¥ 7,058	¥ 10,970
ntangible fixed assets	2,488	2,417	2,890	2,786
Dthers		252	343	194
Total	15,388	17,404	10,291	13,950
Depreciation and amortization	11,453	9,810	8,978	8,469
Per Share Data:				
Net income	¥ 104.85	¥ 127.20	¥ 89.89	¥ 52.34
Net assets	1,387.39	1,234.53	1,086.68	954.81
Cash dividends	21.50	19.0	17.0	15.0
		ç	%	
Financial Ratios:				
Gross profit margin	17.0	16.5	16.7	16.5
Operating income margin	3.4	3.4	3.0	2.3
Recurring income margin	3.7	3.4	3.2	2.5
Return on assets (ROA)*4	5.6	5.6	5.1	4.2
Return on equity (ROE)*4	8.0	11.0	8.8	5.6
Equity ratio	36.9	33.9	35.1	33.6
nterest-bearing debt ratio*5	29.6	29.8	26.5	28.7
Current ratio	154.1	137.0	133.1	137.1
Interest coverage ratio [times]	19.3	18.8	14.2	10.8

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
\*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)

0011		0000	Millions of yen	0007	0000	
2011	2010	2009	2008	2007	2006	2005
¥797,493	¥723,923	¥823,810	¥861,357	¥911,674	¥791,128	¥723,193
132,568	124,269	133,493	135,277	141,117	127,853	125,582
118,330	114,522	126,656	128,041	120,711	112,407	107,116
14,238	9,747	6,837	7,235	20,405	15,446	18,466
14,206	9,465	6,160	7,659	21,259	16,800	18,692
5,175	2,377	1,028	1,115	11,954	10,842	8,014
¥489,417	¥469,738	¥427,738	¥450,730	¥500,136	¥464,193	¥370,684
89,665	88,338	81,700	64,156	76,453	68,037	67,579
69,229	66,786	49,127	25,816	25,739	22,067	15,580
163,110	162,930	156,192	173,089	188,855	175,206	152,500
¥ 17,515	¥ 37,239	¥ (8,161)	¥ 26,106	¥ 7,084	¥ 16,626	¥ 6,685
(13,247)	(19,117)	(29,062)	(17,587)	(7,102)	(8,998)	(12,895)
372	11,546	24,196	(4,262)	665	(14,039)	(7,087)
75,582	71,662	40,730	54,475	50,311	49,628	55,928
¥ 11,923	¥ 10,636	¥ 24,075	¥ 9,578	¥ 7,020	¥ 8,132	¥ 7,016
2,434	1,561	2,013	1,694	1,586	1,857	1,673
215	395	150	222	420	454	549
14,572	12,592	26,238	11,494	9,026	10,443	9,237
8,437	8,502	8,477	7,258	6,476	6,403	6,452
			Yen			
¥ 29.21	¥ 13.42	¥ 5.80	¥ 6.29	¥ 67.43	¥ 61.28	¥ 45.28
919.54	917.82	880.94	975.99	1,059.20	996.03	866.47
15.0	15.0	15.0	15.0	15.0	13.0	13.0
			%			
16.6	17.2	16.2	15.7	15.5	16.2	17.4
1.8	1.3	0.8	0.8	2.2	2.0	2.6
1.8	1.3	0.7	0.9	2.3	2.1	2.6
3.0	2.1	1.4	1.6	4.4	4.0	5.0
3.2	1.5	0.6	0.6	6.6	6.6	5.4
33.3	34.6	36.5	38.4	37.5	37.7	41.1
29.8	29.1	23.9	13.0	12.1	11.2	9.3
136.8	140.3	141.6	127.6	129.3	129.3	137.4
8.2	6.8	4.5	4.5	11.2	10.8	18.6

# Management's Discussion and Analysis

# Market Overview

In fiscal 2014, ended March 31, 2015, the Japanese economy displayed signs of moderate recovery, including rising stock prices, improved corporate profits, and continued improvement in employment and incomes. These positive results were underpinned mainly by a gradual recovery in the global economy, particularly in the United States and Europe, as well as a weakening yen and rising domestic stock prices. Although consumer confidence still shows signs of softening following the hike in the consumption tax, consumer spending overall remained at a stable level.

In the domestic housing market, housing loan interest rates remained low, and the government introduced incentives to promote house purchases, including expanded tax breaks for housing loans. However, the effects of the market recoil that followed the last-minute surge in demand prior to the hike in the consumption tax lingered. As a result, new housing starts fell 10.8% from the previous fiscal year to 880,000.\* Of this number, owner-occupied dwellings were 278,000\*, down 21.1% year on year.

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

# Consolidated Operating Results I Net Sales and Orders Received

Net sales increased 2.5% year on year to ¥997,256 million. The prolonged effects of the market recoil following the consumption tax hike impacted both the Timber and Building Materials Business and the Custom-Built Detached Housing Business. Nevertheless, operating results overall surpassed those of the previous fiscal year thanks to the strong growth of the Overseas Business. We have undertaken various efforts to expand the Overseas Business, including active investment of management resources.

The volume of orders received for custom-built detached wooden homes fell 14.6% to ¥290,203 million due to the prolonged effects of the market recoil following the consumption tax hike. Although order volume declined, the average unit price increased, mainly as a result of efforts to expand orders for our original Big-Frame construction method.

#### 2 Selling, General and Administrative Expenses

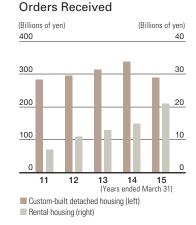
Selling, general and administrative expenses rose 6.9% year on year to ¥135,498 million. Personnel expenses increased, owing to actuarial differences in accounting for retirement benefit of ¥257 million, which arose mainly due to a fall in long-term interest rates. Excluding this factor, selling, general and administrative expenses increased 7.6% year on year to ¥135,241 million. Aside from the impact of actuarial differences, the increase in selling, general and administrative expenses was due mainly to the full-year accounting of the selling, general and administrative expenses of the Henley Properties Group, which became a consolidated subsidiary in September 2013. Another contributing factor was making the Gehan Homes Group, which is engaged in the housing business in the United States, a consolidated subsidiary in May 2014. In addition, costs associated with expansion of the Renovation Business increased.

#### **3** Operating Income, Recurring Income

Operating income grew to ¥33,994 million, up 1.7% from the previous fiscal year. Recurring income rose 8.5% year on year to ¥36,424 million. This performance was achieved despite decreased net sales of both the Timber and Building Materials Business and the Housing Business following the consumption tax hike, as well as increased selling, general and administrative expenses. Overall net sales and gross profit increased as the Overseas Business grew steadily amid persistently favorable housing markets in the United States and Australia. Excluding the aforementioned actuarial differences, operating income fell 0.5% to ¥34,251 million, and recurring income rose 6.1% to ¥36,681 million.

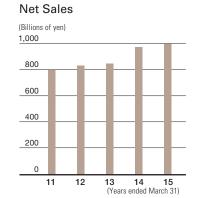
#### **4** Net Income

Net income declined 17.6% year on year to ¥18,572 million due mainly to the absence of extraordinary factors that boosted results in fiscal 2013, such as recording about ¥2.1 billion of gain on step acquisition of the Henley Properties Group, which was converted from an equitymethod affiliate to a consolidated subsidiary. In addition, the amendment of the tax treaty between Japan and New Zealand resulted in a reversal of nearly ¥2.1 billion in deferred tax liabilities in fiscal 2013. Net income per share fell ¥22.35 to ¥104.85.



# Number of New Housing Starts in Japan





# Segment Results

Note: Net sales for each segment include intersegment sales and transfers. Segment income represents figures for recurring income.

#### **1** Timber and Building Materials Business

Net sales in the Timber and Building Materials Business fell 7.8% year on year to ¥423,020 million, and recurring income declined 18.4% to ¥4,039 million.

Both net sales and recurring income declined for our domestic timber and building materials distribution business against the backdrop of weak demand due to the prolonged effects of the market recoil following the consumption tax hike, as well as rising wholesale prices.

Our efforts during fiscal 2014 were focused on cultivating new markets, in addition to promoting localized sales strategies to expand our share of the existing market. Specifically, we strengthened sales of materials in the renovation market and built a stable supply system for wood chips for biomass power generation. We also focused on expanding sales of domestic timber to other Asian countries. Deriving momentum from a weakening yen, exports of domestic timber to other Asian countries increased.

In the domestic building materials manufacturing business, we improved profitability, in part by ongoing efforts to reduce operating costs. Furthermore, we have decided to consolidate our manufacturing plants from six to four in order to concentrate and optimize management resources as we raise productivity.

#### **2** Housing Business

Net sales in the Housing Business decreased 2.5% year-on-year to ¥453,940 million, and recurring income fell 12.1% to ¥28,302 million. Although the average unit price increased for our custom-built detached houses, the number of houses sold declined. Operating results of the Renovation Business also stagnated. As a result, both net sales and recurring income declined overall.

#### **Custom-Built Detached Housing Business**

In the Custom-Built Detached Housing Business, we worked to expand orders received for our original Big-Frame construction method, which has superior earthquake resistance and offers greater design flexibility.

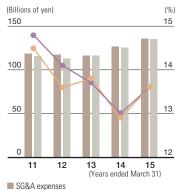
Meanwhile, we promoted marketing activities that highlighted the Company's unique characteristics. We held housing fairs in Osaka and Nagoya where visitors can get a comprehensive, hands-on look at Sumitomo Forestry houses. We also expanded the Technology Housing Display Center, which showcases our Big-Frame construction method, and the Proto-housing Display Center, which brings together various concepts related to housing design, from exteriors to floor plans. Furthermore, to differentiate ourselves from the competitors, we developed the Estate Design Project with the aim of providing residences that satisfy customers with discerning tastes for architectural design and building specifications. In Tokyo and Nagoya, we opened model houses in fiscal 2014 run by an architectural team with a wealth of experience and the ability to make sophisticated proposals. Furthermore, we continued to promote the "Fresh Perspective: Women-led Development Project" with the goal of making proposals for more comfortable and cozy living by leveraging the perspectives and ideas of women in product development and services.

On the product strategy front, we launched BF GranSQUARE as a product to embody the Estate Design Project. We also launched GRAND LIFE Stage, a single story home designed to easily expand as the owner proceeds through the different stages of life.

#### **Apartment Business**

In the Apartment Business, we worked to strengthen our marketing team to respond to the growing needs of property owners to optimize their assets in light of the revision of inheritance tax regulations in January 2015. We also launched the ForestMaison Plus BF rental housing design, which uses the Big-Frame construction method.

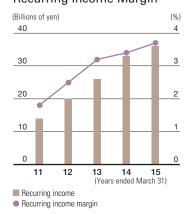
# SG&A Expenses and SG&A Expenses Ratio



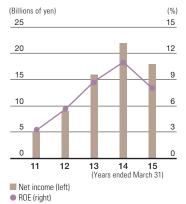
Excluding the effect of actuarial gains and losses) (left)
 SG&A expenses ratio\*

(
 Excluding the effect of actuarial gains and losses) (right)
 \*SG&A expenses ratio = SG&A expenses / Net sales

#### Recurring Income and Recurring Income Margin



#### Net Income and ROE



#### **Renovation Business**

In the Renovation Business, we held open houses across the country and worked to raise the profile of our renovation products and services through increased advertising. We worked to win more orders of earthquake resistant renovations, making use of such advanced technology as our original seismic-resistance, seismic-vibration damper construction. We also reinforced our marketing teams to build up orders of condominium renovations mainly in the Tokyo, Nagoya and Osaka areas.

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

In the Detached Spec Home Business, we focused efforts on bolstering sales capabilities. In the MOCCA (timber solutions) Business, we received orders for childcare facilities and restaurants by leveraging the skills, knowhow and logistics network cultivated in the Custom-Built Detached Housing Business. We also allocated resources for creating and expanding a market for medium- to large-scale wooden architecture.

#### **3** Overseas Business

Net sales in the Overseas Business jumped 92.6% year on year to ¥147,024 million, and recurring income totaled ¥6,126 million, a reversal from a recurring loss of ¥149 million in the previous year.

In the Overseas Manufacturing Business, our efforts in New Zealand centered on exports to Japan, but profitability declined due to the impact of exchange rate fluctuations. In Indonesia, sales of plywood and particle board remained firm, underpinning solid operating results. In Australia, efforts to expand sales channels within the country have stalled, leading to flat profits. In Vietnam, we endeavored to build a stable production system for particle board and were able to expand production output.

In the Overseas Housing and Real Estate Business, operating results improved steadily thanks in part to the full-year contribution of profits from the Henley Group, which became a consolidated subsidiary in September 2013 with the acquisition of an additional equity stake. Moreover, in the United States, we acquired an equity stake in the Gehan Homes Group, which operates in the states of Texas and Arizona, in May 2014, expanding our area of operations beyond Seattle, Washington. In Australia, the housing market grew steadily amid low interest rates, leading to an increase in the number of houses sold.

#### **4** Other Businesses

In addition to the aforementioned businesses, the Sumitomo Forestry Group engages in the biomass power generation business, the management of private-pay elderly care facilities, the lease business, and the manufacture and sale of farming and gardening supplies. We also provide a wide range of service businesses primarily for residential customers, including non-life insurance agency service, and develop IT systems for each Group company.

As for our insurance agency business, we saw an increase in income from various insurance fees despite a year-on-year decrease in the number of new fire insurance policies.

Net sales for the segment as a whole dipped 4.2% year on year to ¥16,565 million, but recurring income grew 43.1% to ¥1,175 million.

#### **Housing Business**

¥295,194 8,962 ¥ 11,169	¥314,240 9,105	¥339,909 9,364	¥290,203
8,962 ¥ 11,169	9,105		¥290,203
¥ 11,169		9,364	
	V 120/2	1	7,804
	¥ 13,043	¥ 15,502	¥ 21,790
986	1,138	1,140	1,486
¥ 47,792	¥ 53,818	¥ 61,004	¥ 55,887
¥294,081	¥300,936	¥320,260	¥313,396
9,007	8,999	9,243	8,743
¥ 7,899	¥ 9,371	¥ 13,130	¥ 13,569
772	858	1,124	1,014
¥ 9,862	¥ 11,376	¥ 9,723	¥ 10,174
225	254	242	272
	¥ 50,312	¥ 59,336	¥ 56,656
	¥294,081 9,007 ¥ 7,899 772 ¥ 9,862	¥294,081       ¥300,936         9,007       8,999         ¥ 7,899       ¥ 9,371         772       858         ¥ 9,862       ¥ 11,376         225       254	¥294,081       ¥300,936       ¥320,260         9,007       8,999       9,243         ¥ 7,899       ¥ 9,371       ¥ 13,130         772       858       1,124         ¥ 9,862       ¥ 11,376       ¥ 9,723         225       254       242

#### **Segment Performance Highlights**

		Millions of yen		
(Years ended March 31)	2014	2015	Change	Percent of change
Net Sales	¥972,968	¥997,256	+24,288	+2.5%
Timber and Building Materials Business	458,611	423,020	-35,591	-7.8%
Housing Business	465,368	453,940	-11,428	-2.5%
Overseas Business	76,320	147,024	+70,704	+92.6%
Other Businesses	17,286	16,565	-721	-4.2%
Adjustments	(44,617)	(43,293)	+1,324	
Recurring Income	¥ 33,567	¥ 36,424	+2,857	+8.5%
Timber and Building Materials Business	4,950	4,039	-912	-18.4%
Housing Business	32,211	28,302	-3,909	-12.1%
Overseas Business	(149)	6,126	+6,275	
Other Businesses	821	1,175	+354	+43.1%
Adjustments	(4,268)	(3,219)	+1,049	

Note: Net sales include intersegment sales and transfers. Adjustments include net sales and selling, general and administrative expenses that cannot be allocated to specific businesses.

	Net	Sales	Recurrin	g Income
Years ended March 31)	2014	2015	2014	2015
Sumitomo Forestry Crest Co., Ltd.	¥39,932	¥37,469	¥ (856)	¥ 73
Housing Business				
	Net	Sales	Recurrin	g Income
Years ended March 31)	2014	2015	2014	2015
Sumitomo Forestry Residential Co., Ltd.	¥20,402	¥20,377	¥ 465	¥ 642
Sumitomo Forestry Home Engineering Co., Ltd.	88,316	82,861	907	800
Sumitomo Forestry Home Service Co., Ltd.	5,873	6,089	253	267
Sumitomo Forestry Landscaping Co., Ltd.	24,315	27,946	394	1,141
Sumitomo Forestry Home Tech Co., Ltd.	62,189	59,646	4,088	2,651
Overseas Business				
	Net	Sales	Recurrin	g Income
Years ended December 31)	2013	2014	2013	2014
Overseas Subsidiaries*1				
PT. Kutai Timber Indonesia (Indonesia)	¥11,872	¥13,122	¥ 582	¥ 782
Alpine MDF Industries Pty Ltd. (Australia)	4,490	4,544	6	(329)
Henley Properties Group (Australia, U.S.A.)*2	52,633	67,671	2,634	5,762
Nelson Pine Industries Ltd. (New Zealand)	14,873	15,637	1,199	468
Gehan Homes Group (U.S.A.)*3		29,241		3,141

	US\$	AU\$	NZ\$
2013/12:	97.59	94.32	80.02
2014/12:	105.88	95.38	87.78

\*2 Henley Properties Group consists of Henley Arch Unit Trust, Henley Arch Pty Ltd., and seven other companies.

\*3 Gehan Homes Group consists of Gehan Homes, Ltd., and eight other companies. Its fiscal 2014 results are for the eight months from May 2014, the month in which it became a consolidated subsidiary.

# **Financial Position and Cash Flow**

#### **1** Financial Position

At the end of March 2015, total assets were ¥665,538 million, an increase of ¥20,341 million year on year. The increase was attributable, among other things, to an increase in inventories after the acquisition of an equity stake converted the Gehan Homes Group into a consolidated subsidiary, despite a decline in cash on hand due mainly to the redemption of convertible bonds.

Liabilities fell by ¥14,363 million year on year to ¥404,756 million. This mainly resulted from the aforementioned redemption of convertible bonds and a decrease in accounts payable accompanying completed construction contracts.

Interest-bearing debt increased by ¥10,394 million year on year to ¥103,369 million despite the above-mentioned redemption of convertible bonds, due to an increase in long-term debt. Nevertheless, the interest-bearing debt ratio decreased from 29.8% at the end of the previous fiscal year to 29.6% due to rising shareholders' equity as retained earnings increased by ¥14,632 million.

Net assets totaled ¥260,782 million, and the equity ratio was 36.9%.

#### **2** Cash Flow

#### Cash flows from operating activities

Net cash provided by operating activities amounted to ¥14,709 million. This arose from factors such as income before income taxes and minority interests of ¥34,738 million, depreciation and amortization of ¥11,453 million, and a decrease in trade receivables, which together surpassed outflows from such factors as income taxes paid and a decrease in notes and accounts payable.

#### Cash flows from investment activities

Net cash used in investment activities totaled ¥23,575 million. This was due to the acquisition of equity interest in a North American housing business and capital expenditures.

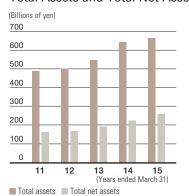
#### Cash flows from financing activities

Net cash used in financing activities amounted to ¥17,286 million. This was chiefly due to the redemption of convertible bonds, payment of dividends and repayment of loans.

As a result of the above, cash and cash equivalents at March 31, 2015, stood at ¥103,296 million, a decrease of ¥25,047 million from the end of the previous fiscal year.

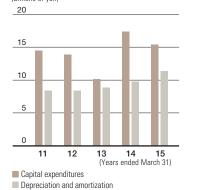
#### **3** Capital Expenditures

Capital expenditures decreased by 11.6% from ¥17,404 million in the previous fiscal year to ¥15,388 million in the fiscal year under review. Investment in tangible fixed assets decreased 14.4% year on year to ¥12,617 million, while investment in intangible fixed assets increased 2.9% year on year to ¥2,488 million. Major investments included ¥3,788 million for housing showrooms inside and outside Japan, ¥2,829 million for construction-related expenditures at biomass power plants, ¥2,695 million for plant equipment in manufacturing businesses inside and outside Japan, and ¥3,063 million for IT investment.

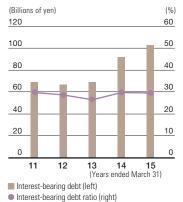


#### Total Assets and Total Net Assets

Capital Expenditures, Depreciation and Amortization (Billions of yen)



#### 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, which 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 demand for housing purchases.

#### 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 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 increase housing demand. However, this could later invite a sharp reactive decline. Moreover, changes to housingrelated 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 cleanup). 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** Competition

The Sumitomo Forestry Group is engaged in various businesses, including timber and building materials and housing. In each of these businesses, we must compete with other companies. For that reason, failure to gain an advantage over our competitors in terms of the quality, price, sales, etc. of our products and services could negatively impact the Group's operating results and financial position.

#### 4 Capitalization and Investment Strategy

We invest in various businesses, so if profits and return on investment do not go as planned due to factors such as changes in the business environment or a downturn/stagnation in the performance of our investments or business partners, it could result in partial or total loss of our investment or the necessity of additional contribution of funds. Moreover, we may not be able to proceed with withdrawal from operations or restructuring according to our desired timing or methods due to factors such as the management policies of our partners or the low liquidity of the investment. In such cases there could be a negative impact on the Group's operating results and financial position.

### **5** 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.

#### 6 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, greater than expected exchange rate fluctuations 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.

#### 7 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 may impact the Group's operating results and financial position.

#### 8 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.

#### 9 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.

#### **10 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.

#### **11 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.

#### **12 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.

#### **13 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 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.

#### 14 Decline in the Value of Assets under Management

In the event that a marked deterioration in market conditions leads 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.

#### 15 Provision of Credit to Business Partners

The Group extends credit to business partners in the form of trade receivables, etc., and meticulously manages the credit it extends, including by setting appropriate limits for credit losses to avoid credit risk exposure. Nevertheless, it is still possible the Group will be exposed to credit risk. The Group also sets reserves for credit losses based on rational estimates, but it is possible that the actual losses incurred will surpass the allocated reserves. 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.

#### 16 Litigation Risk

As the Group is engaged in a range of business activities in Japan and overseas, it is possible that 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.

#### **17** 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. In this event, the Group's operating results and financial position could be impacted.

Note: Statements in this report with respect to matters in the future are forwardlooking statements deemed logical by the Group as of the date of the production of this report.

#### **Consolidated Balance Sheets**

Sumitomo Forestry Co., Ltd. and Consolidated Subsidiaries As of March 31, 2015 and 2014

	Million	Millions of yen		
ASSETS	2015	2014	2015	
Current assets:				
Cash and time deposits (Notes 7, 12, 16)	¥ 81,756	¥ 75,694	\$ 681,296	
Marketable securities (Notes 5, 12, 16)	26,000	43,000	216,667	
Receivables—				
Notes and accounts, trade (Notes 7, 16, 17)	124,215	132,921	1,035,126	
Loans and other (Notes 7, 16)	77,325	87,774	644,378	
Inventories				
Finished goods, logs and lumber (Note 7)	26,559	26,922	221,323	
Construction projects in progress (Notes 3, 7)	22,863	24,433	190,524	
Real estate for sale (Note 7)	39,232	31,514	326,931	
Real estate for sale in process (Notes 3, 7)	37,063	11,132	308,856	
Deferred tax assets (Note 9)	7,590	8,754	63,250	
Other current assets	8,616	5,435	71,803	
Allowance for doubtful accounts	(998)	(724)	(8,320)	
Total current assets	450,220	446,855	3,751,834	

#### Property, plant and equipment, at cost less accumulated depreciation:

Land (Notes 6, 7, 8)	27,007	26.665	225.059
Buildings and structures (Notes 7, 8)	62,856	59,845	523,796
Machinery, equipment and vehicles (Notes 7, 8)	88,588	79,803	738,230
Timberland (Note 6)	12,838	12,442	106,984
Construction in progress (Note 7)	8,628	6,917	71,902
Leased assets	10,299	9,214	85,821
	210,215	194,886	1,751,792
Less accumulated depreciation	(101,169)	(91,153)	(843,078)
Net property, plant and equipment	109,046	103,733	908,714

#### Intangible assets, net of amortization:

Goodwill	5,981	3,122	49,838
Other intangible assets (Note 8)	10,306	8,570	85,880
Total intangible assets	16,286	11,692	135,718

#### Investments and other assets:

Investment securities (Notes 5, 7, 16)	75,322	65,499	627,683
Long-term loans and receivables	5,491	2,663	45,761
Deferred tax assets (Note 9)	2,196	1,797	18,299
Asset for retirement benefits (Note 18)	303	68	2,521
Other assets	9,127	14,983	76,057
Allowance for doubtful accounts	(2,452)	(2,093)	(20,436)
Total investments and other assets	89,986	82,917	749,885

¥665,538

¥645,197

\$5,546,151

#### **Total assets**

		Millions of yen		
LIABILITIES AND NET ASSETS	2015	2014	2015	
Current liabilities:			·	
Payables— Notes and accounts, trade (Notes 16, 17)	¥167,563	¥191,430	\$1,396,358	
Other	12,623	8,824	105,194	
Short-term debt (Note 7)	22,990	19,749	191,587	
Current portion of long-term debt (Note 7)	8,350	16,685	69,582	
Current portion of lease obligation (Note 7)	2,146	1,468	17,884	
Advances received from customers	49,644	56,880	413,703	
Accrued income taxes	4,617	8,102	38,471	
Accrued employees' bonuses	9,866	10,360	82,215	
Accrued directors and corporate auditors' bonuses	135	120	1,125	
Other current liabilities (Notes 3, 23)	14,176	12,512	118,132	
Total current liabilities	292,110	326,130	2,434,251	
		020,100		
Long-term liabilities:				
Bonds issued (Note 7)	5,000	5,000	41,667	
Bonds with subscription rights to shares (Note 7)	20,000	20,000	166,667	
Long-term debt (Notes 7, 16, 17)	41,214	26,616	343,447	
Long-term lease obligation (Note 7)	3,669	3,458	30,576	
Deferred tax liabilities (Note 9)	12,244	10,807	102,031	
Liability for retirement benefits (Note 18)	13,066	11,038	108,884	
Other long-term liabilities (Notes 3, 23)	17,454	16,071	145,446	
Total long-term liabilities	112,646	92,989	938,718	
Contingent liabilities (Note 15)				
Net assets:				
Shareholders' equity (Note 13)				
Common stock—				
Authorized: 400,000,000 shares				
Issued and outstanding: 177,410,239 shares in 2015 and 177,410,239 shares in 2014	27,672	27,672	230,600	
Capital surplus	26,872	26,872	223,930	
Retained earnings	161,286	146,654	1,344,051	
Treasury stock: 278,529 shares in 2015 and 276,468 shares in 2014	(275)	(272)	(2,290)	
Total shareholders' equity	215,555	200,925	1,796,291	
Accumulated other comprehensive income				
Unrealized gain on available-for-sale securities	22,342	14,559	186,180	
Unicalized gain on available-tor-sale securities	(124)	21	(1,029)	
	8,101	3,284	67,507	
Deferred gain (loss) on hedges	0,101		(1,030)	
Deferred gain (loss) on hedges Translation adjustments	(124)	(112)	(1)000	
Deferred gain (loss) on hedges Translation adjustments		(112)	251,628	
Deferred gain (loss) on hedges Translation adjustments Retirement benefits liability adjustments Total accumulated other comprehensive income	(124)			
Deferred gain (loss) on hedges Translation adjustments Retirement benefits liability adjustments	(124) 30,195	17,751	251,628	

Y	Yen		
2015	2014	2015	
¥1,387.39	¥1,234.53	\$11.56	
	2015	<b>2015</b> 2014	

## **Consolidated Statements of Income**

Sumitomo Forestry Co., Ltd. and Consolidated Subsidiaries For the years ended March 31, 2015 and 2014

	Million	s of yen	Thousands of U.S. dollars (Note 4)	
	2015	2014	2015	
Net sales	¥997,256	¥972,968	\$8,310,470	
Cost of sales (Note 3):	827,764	812,806	6,898,035	
Gross profit	169,492	160,162	1,412,435	
Selling, general and administrative expenses (Note 11)	135,498	126,747	1,129,151	
Operating income	33,994	33,415	283,284	
Other income (expenses):				
Interest and dividends income	1,624	1,520	13,535	
Interest expense	(1,136)	(1,127)	(9,470)	
Equity in earnings (losses) of affiliates	1,021	(522)	8,510	
Loss on devaluation of investment securities	(0)	(193)	(1)	
Gain (Loss) on step acquisitions	(338)	2,124	(2,815)	
Impairment loss (Note 8)	(1,112)	(436)	(9,269)	
Gain on sales of investment securities	128	31	1,064	
Special retirement payment	(536)	_	(4,467)	
Other gains (losses), net (Note 10)	1,094	(183)	9,114	
Total	744	1,214	6,201	
Income before income taxes and minority interests	34,738	34,629	289,485	
Income taxes (Note 9):				
Current	11,914	13,101	99,287	
Deferred	841	(1,613)	7,012	
Total	12,756	11,488	106,299	
Income before minority interests	21,982	23,141	183,186	
Minority interests	3,410	610	28,421	
Net income	¥ 18,572	¥ 22,531	\$ 154,765	
	Y	en	U.S. dollars (Note 4)	
	2015	2014	2015	
Per share of common stock:				
Net income (Note 21)	¥104.85	¥127.20	\$0.87	
Cash dividends	21.50	19.00	0.18	
See accompanying nates to concelledeted financial statements				

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, 2015 and 2014

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2015	2014	2015
Income before minority interests	¥21,982	¥23,141	\$183,186
Other comprehensive income			
Unrealized gain on available-for-sale securities	7,771	2,425	64,760
Deferred gain (loss) on hedges	(144)	(228)	(1,203)
Translation adjustments	4,936	4,940	41,131
Retirement benefits liability adjustments	(63)		(524)
Share of other comprehensive income of affiliates accounted for by the equity method	1,293	106	10,775
Total other comprehensive income (Note 22)	13,793	7,244	114,939
Comprehensive income	35,775	30,385	298,125
Total comprehensive income attributable to:			
Shareholders of the parent company	31,016	29,667	258,469
Minority interests	4,759	718	39,656

# **Consolidated Statements of Changes in Net Assets** Sumitomo Forestry Co., Ltd. and Consolidated Subsidiaries For the years ended March 31, 2015 and 2014

			Millions of yen		
			Shareholders' equity		
	Common stock	Capital surplus	Retained earnings	Treasury stock at cost	Total shareholders' equity
Balance at April 1, 2014	¥27,672	¥26,872	¥146,654	¥(272)	¥200,925
Cumulative effect of change in accounting principle (Note 3)			(574)		(574)
Restated balance at April 1, 2014	27,672	26,872	146,080	(272)	200,351
Changes during the period					
Cash dividends (¥19.00 per share)			(3,366)		(3,366)
Net income			18,572		18,572
Purchases of treasury stock				(3)	(3)
Disposal of treasury stock		0		0	0
Change of scope of equity method			(0)		(0)
Net changes in items other than shareholders' equity					
Total changes during the period	_	0	15,206	(2)	15,204
Balance at the end of current period	¥27,672	¥26,872	¥161,286	¥(275)	¥215,555

				Millions of yen			
		Accumul	ated other comprehens	ive income			
	Unrealized gain on available-for-sale securities	Deferred gain (loss) on hedges	Translation adjustments	Retirement benefits liability adjustments	Total accumulated other comprehensive income	Minority interests	Total net assets
Balance at April 1, 2014	¥14,559	¥ 21	¥3,284	¥(112)	¥17,751	¥ 7,401	¥226,078
Cumulative effect of change in accounting principle (Note 3)							(574)
Restated balance at April 1, 2014	14,559	21	3,284	(112)	17,751	7,401	225,503
Changes during the period							
Cash dividends (¥19.00 per share)							(3,366)
Net income							18,572
Purchases of treasury stock							(3)
Disposal of treasury stock							0
Change of scope of equity method							(0)
Net changes in items other than shareholders' equity	7,783	(144)	4,817	(11)	12,444	7,630	20,075
Total changes during the period	7,783	(144)	4,817	(11)	12,444	7,630	35,279
Balance at the end of current period	¥22,342	¥(124)	¥8,101	¥(124)	<b>¥30,195</b>	¥15,032	¥260,782

	Thousands of U.S. dollars						
		Shareholders' equity					
	Common stock	Capital surplus	Retained earnings	Treasury stock at cost	Total shareholders' equity		
Balance at April 1, 2014	\$230,600	\$223,929	\$1,222,119	\$(2,269)	\$1,674,379		
Cumulative effect of change in accounting principle (Note 3)			(4,786)		(4,786)		
Restated balance at April 1, 2014	230,600	223,929	1,217,333	(2,269)	1,669,593		
Changes during the period							
Cash dividends (¥19.00 per share)			(28,046)		(28,046)		
Net income	_		154,765		154,765		
Purchases of treasury stock	_			(22)	(22)		
Disposal of treasury stock	_	1		1	2		
Change of scope of equity method	_		(1)		(1)		
Net changes in items other than shareholders' equity							
Total changes during the period		1	126,718	(21)	126,698		
Balance at the end of current period	\$230,600	\$223,930	\$1,344,051	\$(2,290)	\$1,796,291		

				Thousands of U.S. dolla	ars		
		Accumula	ated other comprehens	ive income			
	Unrealized gain on available-for-sale securities	Deferred gain (loss) on hedges	Translation adjustments	Retirement benefits liability adjustments	Total accumulated other comprehensive income	Minority interests	Total net assets
Balance at April 1, 2014	\$121,321	\$ 174	\$27,365	\$ (935)	\$147,924	\$ 61,677	\$1,883,980
Cumulative effect of change in accounting principle (Note 3)							(4,786)
Restated balance at April 1, 2014	121,321	174	27,365	(935)	147,924	61,677	1,879,194
Changes during the period							
Cash dividends (¥19.00 per share)							(28,046)
Net income							154,765
Purchases of treasury stock							(22)
Disposal of treasury stock							2
Change of scope of equity method							(1)
Net changes in items other than shareholders' equity	64,859	(1,203)	40,142	(95)	103,704	63,586	167,290
Total changes during the period	64,859	(1,203)	40,142	(95)	103,704	63,586	293,988
Balance at the end of current period	\$186,180	\$(1,029)	\$67,507	\$(1,030)	\$251,628	\$125,263	\$2,173,182

See accompanying notes to consolidated financial statements.

	Millions of yen					
			Shareholders' equity			
	Common stock	Capital surplus	Retained earnings	Treasury stock at cost	Total shareholders' equity	
Balance at April 1, 2013	¥27,672	¥26,872	¥127,489	¥(269)	¥181,763	
Cumulative effect of change in accounting principle (Note 3)	_					
Restated 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	
Change of scope of equity method						
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		

				Millions of yen			
		Accumulated other comprehensive income					
	Unrealized gain on available-for-sale securities	Deferred gain on hedges	Translation adjustments	Retirement benefits liability adjustments	Total accumulated other comprehensive income	Minority interests	Total net assets
Balance at April 1, 2013	¥12,132	¥249	¥(1,654)	¥ —	¥10,727	¥ 760	¥193,250
Cumulative effect of change in accounting principle (Note 3)							
Restated balance at April 1, 2013	12,132	249	(1,654)	—	10,727	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
Change of scope of equity method							_
Net changes in items other than shareholders' equity	2,426	(228)	4,937	(112)	7,023	6,642	13,665
Total changes during the period	2,426	(228)	4,937	(112)	7,023	6,642	32,827
Balance at the end of current period	¥14,559	¥ 21	¥ 3,284	¥(112)	¥17,751	¥7,401	¥226,078

See accompanying notes to consolidated financial statements. 62 Sumitomo Forestry Annual Report 2015

# **Consolidated Statements of Cash Flows** Sumitomo Forestry Co., Ltd. and Consolidated Subsidiaries For the years ended March 31, 2015 and 2014

		s of yen	U.S. dollars (Note 4)
	2015	2014	2015
Cash flows from operating activities:			. 000 ADE
ncome before income taxes and minority interests	¥ 34,738	¥ 34,629	\$ 289,485
Adjustments —	11 450	0.010	05 440
Depreciation and amortization		9,810	95,446
Impairment loss	1,112	436	9,269
Amortization of goodwill	1,957	847	16,311
Provision for (reversal of) doubtful accounts	499	(831)	4,161
Provision for loss on business liquidation		(1,435)	2.005
Net changes in defined benefit liability	469	1,082	3,905
Interest and dividends income	(1,624)	(1,520)	(13,535)
	1,136	1,127	9,470
Equity in losses (earnings) of affiliates	(1,021)	522	(8,510)
Losses on devaluation of marketable securities and investment securities	0	193	1
Losses (gains) on sales of marketable securities and investment securities, net	(124)	(29)	(1,035)
Loss (gain) on step acquisitions	338	(2,124)	2,815
Losses (gains) on disposal of fixed assets, net	(101)	188	(841)
Loss on natural disaster		(60)	
Change in assets and liabilities:		(4.100)	
Notes and accounts receivable, trade	9,153	(4,130)	76,278
Inventories	(7,257)	(551)	(60,477)
Other current assets	9,391	(4,948)	78,261
Notes and accounts payable, trade	(23,159)	16,631	(192,988)
Advances received from customers	(7,617)	12,478	(63,475)
Other current liabilities	(984)	763	(8,199)
Other	670	1,141	5,584
Total	29,031	64,218	241,926
Interest and dividends income received	2,205	1,945	18,375
Interest paid	(1,172)	(1,224)	(9,764)
Income taxes paid, net	(15,355)	(10,882)	(127,961)
Net cash provided by operating activities	14,709	54,057	122,576
Cash flows from investment activities:		(22,177)	(00000000
Payments into time deposits	(45,110)	(30,457)	(375,918)
Proceeds from withdrawal of time deposits	35,411	40,099	295,089
Decrease (increase) in short-term loans receivable	3,126	164	26,053
Payments for purchases of fixed assets	(12,075)	(14,403)	(100,626)
Proceeds from sales of fixed assets	4,783	5,379	39,860
Payments for purchases of intangible assets	(2,480)	(2,912)	(20,669)
Payments for purchases of investment securities	(997)	(9,071)	(8,305)
Proceeds from sales of investment securities	3,295	155	27,462
Purchase of shares of subsidiaries resulting in change in scope of consolidation	(7,353)	(4)	(61,275)
Payments for sales of shares of subsidiaries resulting in change in scope of consolidation		(3)	
Payments for long-term loans receivable	(2,728)	(11)	(22,738)
Repayments of long-term loans receivable	596	770	4,970
Other	(43)	(182)	(362)
Net cash used in investment activities	(23,575)	(10,476)	(196,459)
Cash flows from financing activities:			
ncrease (decrease) in short-term debt	(2,352)	(3,074)	(19,603)
Payments of lease obligation	(2,198)	(1,917)	(18,316
Proceeds from long-term debt	8,244	7,872	68,697
Repayments of long-term debt	(6,854)	(11,001)	(57,115
Redemption of bonds	(10,000)		(83,333
Proceeds from issuance of bonds with subscription rights to shares		20,000	
Dividends paid	(3,366)	(3,366)	(28,046
Dividends paid to minority shareholders	(1,035)	(241)	(8,626
Dther	275	237	2,290
Net cash provided by financing activities	(17,286)	8,511	(144,052)
ffect of exchange rate changes on cash and cash equivalents	1,105	593	9,211
Net increase (decrease) in cash and cash equivalents	(25,047)	52,685	(208,724)
Cash and cash equivalents at the beginning of the year	128,343	75,658	1,069,523
Cash and cash equivalents at the end of the year (Note 12)	¥103,296	¥128,343	\$ 860,799

#### **Notes to Consolidated Financial Statements**

Sumitomo Forestry Co., Ltd. and Consolidated Subsidiaries As of March 31, 2015 and 2014

#### 1. Nature of Operations

Sumitomo Forestry Co., Ltd. (the "Company") and its affiliated companies (together, the "Group") are involved in various business activities related to wood and houses, with timberland operations serving as the foundation of its business. Specifically, the Group's operations encompass forest management as well as timber and building materialsrelated operations, including procurement, manufacture and sale of timber and building materials; housing-related operations, including construction, maintenance, renovation and landscaping of custombuilt and other homes and sale and brokerage of real estate; operations in overseas countries, including manufacture and sale of timber and building materials, construction and sale of detached houses, afforestation and sale of plantation timber; and other businesses, including biomass power generation, private-pay elderly care facilities, leasing, and insurance agent business.

# 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 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, 2015, the numbers of consolidated subsidiaries and affiliates accounted for by the equity method were 72 and 21 (58 and 16 in 2014), respectively.

PAN ASIA PACKING LTD. and the Gehan Homes Group, in which shares were acquired, and the newly established Hachinohe Biomass Electric Power Co., Ltd., Michinoku Bio Energy Co., Ltd., SFA Land Developments Unit Trust, SFA Land Developments Pty Ltd. and SF Holdings (Thailand) Co., Ltd. are included in the consolidated results from the fiscal year ended March 31, 2015.

Additionally, Cascadia Resort Communities LLC was an equity method affiliate in the fiscal year ended March 31, 2014, but additional share has been acquired, so it is included in the consolidated results from the fiscal year ended March 31, 2015.

Likewise, Tomakomai Biomass Power Co., Ltd., Brookhollow Mortgage Services, Ltd., Advisa Mortgage Services, Ltd. and Rainbow Alpha Holdings Limited, in which shares were acquired, and the newly established MOS Lumber Products Co., Ltd. are included as equitymethod affiliates from the fiscal year ended March 31, 2015.

In addition, Partner Ally Limited was a non-equity-method affiliate in the fiscal year ended March 31, 2015, but it has grown in importance, so it is included as an equity-method affiliate from the fiscal year ended March 31, 2015.

At the same time, Cascadia Resort Communities LLC was an equitymethod affiliate in the fiscal year ended March 31, 2014, but an additional share has been acquired, so it is no longer included as an equity-method affiliate from the fiscal year ended March 31, 2015.

#### 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, 2015, which was included in other current liabilities in the accompanying consolidated balance sheet, was ¥2,275 million (\$18,962 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 the balance sheet date.

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

Unrecognized actuarial gains (losses) and unrecognized prior service cost are amortized, with minor exceptions, 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 certain subsidiaries are provided based on the amount required for at year-end in accordance with established internal policies.

The balance of these reserves at March 31, 2015, which was included in other long-term liabilities in the accompanying consolidated balance sheet, was ¥75 million (\$629 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.

#### (I) Inventories

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

Real estate for sale, construction projects in progress and real estate for sale in process are stated at cost, which is determined by the specific identification method.

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

The Company recognized ¥382 million (\$3,187 thousand) in valuation loss on inventories in cost of sales for the year ended March 31, 2015.

#### (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

Amortization of intangible assets is computed by the straight-line method. Internal use software costs are amortized 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 the consolidated statements of income. 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 hedge accounting method is applied.

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

## 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 the special accounting treatment 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 by 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, 2014 have been reclassified to conform to presentation in 2015.

#### (y) Accounting Change

The Company and its domestic subsidiaries adopted Section 35 of "Accounting Standard for Retirement Benefits" (Accounting Standards Board of Japan (ASBJ) Statement No. 26 of May 17, 2012) and the main clause of Section 67 of "Guidance on Accounting Standard for Retirement Benefits" (ASBJ Guidance No. 25 of March 26, 2015) effective from April 1, 2014. As a result, the methods for calculating the retirement benefit obligation and service cost have been revised in the following respects: the method for attributing projected benefits to each period has been changed from the straight-line method to the benefit formula method, and the method for determining the discount rate has been changed from using a single discount rate reflecting the yields on bonds with a maturity corresponding to the average estimated years of service of the employees to using different discount rates reflecting the yields on bonds with maturities corresponding to the expected timing of the benefit payments.

The cumulative effect of changing the method for calculating the retirement benefit obligation and service cost was recognized by adjusting retained earnings at April 1, 2014, in accordance with the transitional treatment provided in Section 37 of Accounting Standard for Retirement Benefits.

As a result, the liability for retirement benefits and asset for retirement benefits increased by ¥1,393 million (\$11,604 thousand) and ¥203 million (\$1,694 thousand) respectively, retained earnings decreased by ¥574 million (\$4,786 thousand) at April 1, 2014, and consolidated operating income, ordinary income and income before income taxes and minority interests for the year ended March 31, 2015 decreased by ¥789 million (\$6,576 thousand), respectively. Also, net assets per share at March 31, 2015 decreased by  $\pm$ 7.04 ( $\pm$ 0.059), while basic net income per share and diluted net income per share for the year ended March 31, 2015 decreased by  $\pm$ 4.45 ( $\pm$ 0.037) and  $\pm$ 4.20 ( $\pm$ 0.035), respectively.

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

(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 and guidance, the major accounting changes are as follows:

(1) Any differences arising from changes in a parent's ownership interests in a subsidiary shall be accounted for as changes in capital surplus when the parent company retains control over the subsidiary. In addition, "Minority interests" in the current year's consolidat-

ed 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 provisional 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 the 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 statements of income will be changed to "net income" and "net income" in the current year's consolidated statements 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 Company is currently evaluating the effect of adopting these revised standards and guidance on its consolidated financial statements.

#### (aa) Changes in presentation

"Real estate for sale in process," which was included in "Construction projects in progress" under current assets as of March 31, 2014, has increased in materiality. Accordingly, as of March 31, 2015, it is presented separately on the consolidated balance sheet. To reflect this change in presentation, the consolidated balance sheet amounts as of March 31, 2014 have been reclassified.

As a result of the reclassification, the consolidated balance sheet amount, as of March 31, 2014, of ¥35,564 million for "Construction projects in progress" under current assets has been restated as ¥24,433 million for "Construction projects in progress" under current assets and ¥11,132 million for "Real estate for sale in process" under current assets.

#### 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 ¥120 =US \$1, the approximate exchange rate prevailing in the Japanese foreign exchange market at the end of March 2015. This translation should not be construed as a representation that the yen amounts actually represent, 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, 2015 and 2014 were as follows:

		Million	s of yen			
		20	15			
	Acquisition cost	Unrealized gains	Unrealized losses	Carrying amounts (Estimated Fair Value)		
Securities classified as:						
Available-for-sale:						
Equity securities	¥27,195	¥31,915	¥(25)	¥59,085		
Debt securities						
Other	¥26,000	¥ —	¥—	¥26,000		
			s of yen			
			15			
	Carrying amounts	Unrealized gains	Unrealized losses	Estimated fair value		
Securities classified as:						
Held-to-maturity:						
Debt securities	¥1,808	¥74	¥(0)	¥1,883		
		Million	s of yen			
		20	14			
	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					
	Corriga		14 Unrealized	Estimated		
	Carrying amounts	Unrealized gains	losses	fair value		
Securities classified as:						
Held-to-maturity:						
Debt securities	¥1,646	¥64	¥(0)	¥1,709		

	Thousands of U.S. dollars					
		20	15			
	Acquisition cost	Unrealized gains	Unrealized losses	Carrying amounts (Estimated Fair Value)		
Securities classified as:						
Available-for-sale:						
Equity securities	\$226,623	\$265,959	\$(210)	\$492,372		
Debt securities	_	_	_	_		
Other	\$216,667	\$	\$ —	\$216,667		
		Thousands of	U.S. dollars			
		20	15			
	Carrying amounts	Unrealized gains	Unrealized losses	Estimated fair value		
Securities classified as:						
Held-to-maturity:						
Debt securities	\$15,070	\$621	\$(1)	\$15,690		

(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 statements of income for the years ended March 31, 2015 and 2014 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
Proceeds	¥294	¥106	\$2,448
Gross gains	128	31	1,064
Gross losses	3		29

(c) Impairment of securities

Impairment losses on other securities were ¥0 million (\$0 thousand) and ¥193 million for the years ended March 31, 2015 and 2014, respectively.

(d) Investments in affiliates included in "Investment securities" as of March 31, 2015 and 2014 were ¥12,825 million (\$106,878 thousand) and ¥10,857 million, respectively.

#### 6. Timberland

The investment in timberland at March 31, 2015 and 2014 comprised the following:

	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
Standing timber:			
Mature timber	¥12,510	¥12,110	\$104,251
Growing timber	328	332	2,733
	12,838	12,442	106,984
Land	1,177	1,146	9,809
	¥14,015	¥13,588	\$116,793

The timberland accounts at March 31, 2015 and 2014 were reduced by ¥242 million (\$2,018 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, 2015 and 2014 generally represented short-term borrowings which bore interest of 1.47% and 1.23% per annum, respectively. Long-term debt at March 31, 2015 and 2014 was summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
Loans, principally from banks and insurance companies, due 2015 to 2035 with interest of 1.65%:			
Secured			
Loans from banks or other	¥15,985	¥ 2,662	\$133,205
Unsecured			
Bonds issued	5,000	15,000	41,667
Bonds with subscription rights to shares	20,000	20,000	166,667
Loans from banks or other	33,579	30,639	279,824
Lease obligation	5,815	4,926	48,460
	80,379	73,226	669,823
Portion due within one year			
Bonds issued	_	10,000	_
Loans from banks or other	8,350	6,685	69,583
Lease obligation	2,146	1,468	17,884
	10,496	18,153	87,467
	¥69,883	¥55,073	\$582,356

The following assets were pledged to secure bank loans and long-term debt at March 31, 2015 and 2014:

	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
Cash and time deposits	¥ 4,330	¥ 2,607	\$ 36,083
Receivables—			
Notes and accounts, trade	1,534	1,762	12,787
Finished goods, logs and lumber		1,556	
Construction projects in progress	587	637	4,893
Real estate for sale	15,342	8,691	127,847
Real estate for sale in process	22,821	7,506	190,172
Accounts receivable—other	34	555	285
Land	3,258	3,190	27,154
Buildings and structures	3,936	4,527	32,801
Machinery, equipment and vehicles	467	1,440	3,894
Construction in progress	62	943	518
Investment securities	362	1,401	3,018
Other	1,321	950	11,008
	¥54,055	¥35,765	\$450,460

	Millions	Millions of yen	
	2015	2014	2015
Short-term debt	¥ 7,047	¥1,574	\$ 58,726
Long-term debt	15,851	2,397	132,089
	¥22,898	¥3,971	\$190,815

In addition to the above, certificates of deposit as security on entering into tree-planting business agreements at March 31, 2015 and 2014 were ¥12 million (\$103 thousand) and ¥11 million, investment securities as security for deferred payment of customs duties at March 31, 2015 and 2014 were ¥13,556 million (\$112,964 thousand) and ¥12,215 million, and investment securities as deposit for housing warranty were ¥1,803 million (\$15,029 thousand) and ¥1,646 million, respectively.

	Bonds issued		Long	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	
2015	¥ —	\$ —	¥ 8,350	\$ 69,582	¥2,146	\$17,884	
2016	5,000	41,667	6,301	52,512	253	2,106	
2017	_	_	14,376	119,803	992	8,265	
2018	20,000	166,667	3,349	27,912	1,985	16,541	
2019	_	_	7,559	62,990	424	3,529	
Thereafter		_	9,628	80,230	16	135	
	¥25,000	\$208,334	¥49,564	\$413,029	¥5,815	\$48,460	

The aggregate annual maturities of bonds issued, long-term debt and lease obligation at March 31, 2015 were as follows:

#### 8. Loss on Impairment of Fixed Assets

Loss on impairment of fixed assets for the years ended March 31, 2015 and 2014 consisted of the following:

			Millions of yen	Thousands of U.S. dollars
Location	Major use	Asset category	2015	2015
	Wooden building materials	Buildings and structures	¥ 852	\$7,099
	manufacturing plant	Machinery, equipment and vehicles	126	1,049
		Land	114	950
		Other	3	29
		Total	1,095	9,127
Ashigara-shimogun,	Idle assets	Land	17	142
Kanagawa Prefecture		Total	17	142
			¥1,112	\$9,269

The Group classifies assets based on the categories used for management accounting. Rental and idle assets are assessed individually.

The book values of the wooden building materials manufacturing plant were written down to their recoverable amounts following the decision to close the plant in line with the integration of production sites and a corresponding impairment loss was recognized for the year ended March 31, 2015. The recoverable amounts were measured at estimated net selling value. The recoverable amount of land was estimated based on real estate property appraisals, and the recoverable amounts of other assets were estimated at nil, because no future use or sale of the assets was expected.

The book values of idle assets were reduced to their recoverable amounts due to the conclusion of sales contracts, and the corresponding write-down was recognized as an impairment loss for the year ended March 31, 2015. The recoverable amounts were measured at net selling value based on the sales contracts.

			Millions of yen
Location	Major use	Asset category	2014
Sakura City, Chiba Prefecture	Culture soil producing plant	Buildings and structures	¥134
		Machinery, equipment and vehicles	12
		Other	0
		Total	147
Nagoya City, Aichi Prefecture	Backbone system	Intangible assets (software in progress)	158
		Total	158
Ashigara-shimogun,	Idle assets	Land	35
Kanagawa Prefecture		Total	35
Shiraoka City, Saitama Prefecture	Idle assets	Land	90
		Total	90
Other			6
			¥436

#### 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 rates for the years ended March 31, 2015 and 2014 were 35.6% and 38.0%, respectively.

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

	2015	2014
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 reconciliation between the statutory tax rate and the effective tax rate for the year ended March 31, 2015 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, 2015 and 2014 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	<b>2015</b> 2014	
Deferred tax assets:			
Allowance for doubtful accounts	¥ 722	¥ 335	\$ 6,020
Accrued employees' bonuses	3,155	3,684	26,288
Accrued legal welfare expense on employees' bonuses	435	496	3,623
Enterprise taxes	383	600	3,188
Devaluation of real estate for sale	617	1,069	5,143
Liability for retirement benefits	4,067	3,746	33,891
Devaluation of property	855	1,284	7,122
Devaluation of financial			
instruments	1,910	2,100	15,917
Tax loss carryforwards	2,391	2,977	19,927
Impairment loss	1,151	1,261	9,594
Warranty reserve for completed construction	549	599	4,577
Unrealized profit on fixed assets	423	499	3,527
Other	4,438	4,350	36,985
Gross deferred tax assets	21,096	23,001	175,802
Valuation allowance	(8,105)	(9,435)	(67,540)
Total deferred tax assets	¥12,991	¥13,566	\$108,262

	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
Deferred tax liabilities:			
Deferred gains on sales of property	¥ (799)	¥ (799)	\$ (6,662)
Gain on securities contributed to employee retirement bene- fit trusts	(1,286)	(1,417)	(10,715)
Unrealized gain on available- for-sale securities	(9,359)	(6,980)	(77,989)
Land revaluation differences	(1,017)	(1,156)	(8,474)
Taxes on undistributed earnings of subsidiaries	(245)	(518)	(2,045)
Other	(2,743)	(2,950)	(22,859)
Gross deferred tax liabilities	(15,449)	(13,821)	(128,744)
Net deferred tax assets (liabilities)	¥ (2,458)	¥ (255)	\$ (20,482)

Net deferred tax assets were included in the consolidated balance sheets at March 31, 2015 and 2014 as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
Current assets— Deferred tax assets	¥ 7,590	¥ 8,754	\$ 63,250
Investment and other assets— Deferred tax assets	2,196	1,797	18,299
Current liabilities—Other			_
Long-term liabilities— Deferred tax liabilities	(12,244)	(10,807)	(102,031)
Net deferred tax assets (liabilities)	¥ (2,458)	¥ (255)	\$ (20,482)

The "Act for Partial Amendment of the Income Tax Act, etc." (Act No. 9 of 2015) and the "Act for Partial Amendment of the Local Tax Act, etc." (Act No. 2 of 2015) were promulgated on March 31, 2015. As a result, the effective statutory tax rate used to measure the Company's deferred tax assets and liabilities was changed from 35.6% to 33.1% for the temporary differences expected to be realized or settled in the year beginning April 1, 2015 and 32.3% for the temporary differences expected to be realized or settled from April 1, 2016. The effect of the announced reduction of the effective statutory tax rate was to increase deferred tax assets after offsetting deferred tax liabilities by ¥497 million (\$4,142 thousand), deferred income taxes by ¥442 million (\$3,680 thousand) and unrealized gain on available-for-sale securities by ¥945 million (\$7,873 thousand) and decrease deferred gain (loss) on hedges by ¥6 million (\$51 thousand) as of and for the year ended March 31, 2015.

#### 10. Other Gains (Losses), Net

Other gains (losses), net, for the years ended March 31, 2015 and 2014 consisted of the following:

J			
	Millions	of yen	Thousands of U.S. dollars
	2015	2014	2015
Gain on foreign exchange	¥ 301	¥ —	\$2,506
Loss on foreign exchange		(240)	
Gain on sales of property, plant and equipment	293	99	2,442
Loss on sales of property, plant and equipment	(15)	(26)	(123)
Loss on disposal of property, plant and equipment	(177)	(261)	(1,478)
Loss on liquidation of subsidiaries and affiliates	_	(275)	_
Gain on bargain purchase	70	_	587
Other, net	621	520	5,180
	¥1,094	¥(183)	\$9,114

#### 11. Selling, General and Administrative Expenses

The components of "Selling, General and Administrative Expenses" for the years ended March 31, 2015 and 2014 were as follows:

	Million	s of yen	Thousands of U.S. dollars
	2015	2014	2015
Salaries and allowances	¥44,015	¥40,714	\$366,795
Provision for employees' bonuses	8,273	9,092	68,939
Provision for directors' and corporate auditors' bonuses	135	120	1,125
Retirement benefit expenses	2,453	3,067	20,443
Provision for directors' and corporate auditors' retirement benefits	16	8	137
Allowance for doubtful accounts	818	(115)	6,815
Provision for warranty reserve for completed construction	1,324	1,247	11,035
Reversal of provision for loss on business liquidation		(210)	

Research and development expenses charged to selling, general and administrative expenses for the years ended March 31, 2015 and 2014 were ¥1,561 million (\$13,010 thousand) and ¥1,551 million, respectively.

#### 12. Cash and Cash Equivalents

Cash and cash equivalents at March 31, 2015 and 2014 consisted of the following:

Millions	of yen	U.S. dollars
2015	2014	2015
¥ 81,756	¥ 75,694	\$681,296
26,000	43,000	216,667
29,993	28,997	249,945
(34,453)	(19,348)	(287,109)
¥103,296	¥128,343	\$860,799
	2015 ¥ 81,756 26,000 29,993 (34,453)	¥ 81,756       ¥ 75,694         26,000       43,000         29,993       28,997         (34,453)       (19,348)

Assets acquired and liabilities assumed of newly consolidated subsidiaries due to the acquisition of shares as of the acquisition date, related acquisition cost and net expenditure for acquisition of shares for the year ended March 31, 2015 were mainly as follows:

Gehan Homes, Ltd. and six other companies

	Millions of yen	Thousands of U.S. dollars
	2015	2015
Current assets	¥19,640	\$163,669
Non-current assets	2,108	17,566
Goodwill	4,080	34,004
Current liabilities	(9,609)	(80,077)
Long-term liabilities	(4,732)	(39,432)
Minority interests	(3,629)	(30,246)
Acquisition cost	7,858	65,484
Cash and cash equivalents	(712)	(5,932)
Net expenditure for acquisition of shares	¥ 7,146	\$ 59,552

Cascadia Resort Communities LLC

	Millions of yen	Thousands of U.S. dollars
	2015	2015
Current assets	¥558	\$4,650
Non-current assets		_
Goodwill	4	34
Current liabilities	(341)	(2,843)
Long-term liabilities	_	_
Translation adjustments	69	573
Loss on step acquisitions	338	2,815
Previously held equity interest before		
obtaining control	(483)	(4,022)
Acquisition cost	145	1,207
Cash and cash equivalents	_	_
Net expenditure for acquisition of shares	¥145	\$1,207

Assets acquired and liabilities assumed of newly consolidated subsidiaries due to the acquisition of shares as of the acquisition date, related acquisition cost and net expenditure for acquisition of shares for the fiscal year ended March 31, 2014 were as follows:

Henley Arch Unit Trust and eight subsidiary companies

	Millio	ns of yen
	2	014
Current assets	¥18	,138
Non-current assets	8	,866
Goodwill	2	,986
Current liabilities	(15	,292)
Long-term liabilities		(5)
Minority interests	(5	,838)
Translation adjustments		261
Gain on step acquisitions	(2	,124)
Previously held equity interest before obtaining control	(6	,825)
Acquisition cost		166
Cash and cash equivalents		(162)
Net expenditure for acquisition of shares	¥	4

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 were as follows:

Fuxin Sumirin Wood Products Co., Ltd.

	Millions of yen
	2014
Current assets	¥205
Non-current assets	0
Current liabilities	(0)
Long-term liabilities	
Translation adjustments	414
Net losses on sale of shares	(619)
Sales price of shares	
Cash and cash equivalents	(3)
Net expenditure for sale of shares	¥ (3)

#### 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, 2015 and 2014, which were included in retained earnings in the accompanying consolidated balance sheets, were ¥2,857 million (\$23,809 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 consolidated financial statements.

#### **15. Contingent Liabilities**

Contingent liabilities as at March 31, 2015 and 2014, for loans guaranteed amounted to ¥31,526 million (\$262,713 thousand) and ¥34,960 million.

	Millions of yen		Thousands of U.S. dollars	
	2015	2014	2015	
Guarantee on loans from financial institutions				
Kawasaki Biomass Electric Power Co., Ltd.	¥ 1,227	¥ 1,582	\$ 10,222	
Cascadia Resort Communities LLC		53		
Guarantees of housing loans to customers	30,172	33,186	251,433	
Guarantee on rent payment				
Sumikyo Co. Ltd.	127	139	1,058	
Total	¥31,526	¥34,960	\$262,713	

#### **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. Loans and bonds are mainly used 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 payments 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 customers 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 the issuer's financial status. Except for held-to-maturity bonds, the Companies constantly review investment strategy by taking the 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 reports 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 instruments

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

0		Millions of yen	
		2015	
	Carrying amount	Fair value	Unrealized gain (loss)
Cash and time deposits	¥ 81,756	¥ 81,756	¥ —
Receivables—notes and			
accounts, trade	118,156	118,156	
Marketable securities and			
investment securities			
Held-to-maturity	1,808	1,883	74
Available-for-sale	85,085	85,085	
Receivables—loans and other	44,619	44,619	
Total	¥331,423	¥331,497	¥ 74
Payables—notes and			
accounts, trade	¥167,563	¥167,563	¥ —
Long-term debt**	¥ 49,564	¥ 49,663	¥(100)
Total	¥217,126	¥217,226	¥(100)
Derivatives*			
Hedge accounting not applied	¥ 171	¥ 171	¥ —
Hedge accounting applied	(252)	(252)	—
Total	¥ (81)	¥ (81)	¥ —
	-	Millions of yen	
		2014	
	Carrying amount	Fair value	Unrealized gain (loss)
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)

	Thousands of U.S. dollars			
	Carrying amount	Fair value	Unrealized gain (loss)	
Cash and time deposits	\$ 681,296	\$ 681,296	\$ —	
Receivables—notes and accounts, trade	984,632	984,632		
Marketable securities and investment securities				
Held-to-maturity	15,070	15,690	620	
Available-for-sale	709,039	709,039	_	
Receivables—loans and other	371,822	371,822	_	
Total	\$2,761,859	\$2,762,479	\$ 620	
Payables—notes and accounts, trade	\$1,396,358	\$1,396,358	\$ —	
Long-term debt**	\$ 413,029	\$ 413,862	\$(833)	
Total	\$1,809,387	\$1,810,220	\$(833)	
Derivatives*				
Hedge accounting not applied	\$ 1,425	\$ 1,425	\$ —	
Hedge accounting applied	(2,103)	(2,103)	_	
Total	\$ (678)	\$ (678)	\$ —	

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

\*\* Long-term debt includes the current portion.

#### Notes:

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

(Cash and time deposits, Receivables—notes and accounts, trade, Receivables—loans and other)

Because these are settled in the short term, 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 financial institutions. 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 the short term, fair values and book values are nearly equivalent. Therefore, relevant book values are used.

#### (Long-term debt)

The fair values of long-term debt with floating interest rates approximate book values because the interest rate of long-term debt reflects market interest rate quickly and the Company's credit standing has not changed significantly since implementing loan. Therefore, relevant book values are used. The fair values of long-term debt with fixed interest rates are principally estimated by discounting based on estimated interest rates if similar new loans were implemented.

(3) Derivative transactions See Note 17.

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

	Carrying amount		
	Millions	Millions of yen	
	2015	2014	2015
Unlisted equity securities	¥ 1,603	¥ 1,508	\$ 13,362
Preferred stock		3,000	
Investment in affiliates	12,825	10,857	106,878

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

	Million	s of ven	
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
¥ 81,446	¥ —	¥ —	¥—
118,156	_	_	
114	299	1,396	
26,000			_
44,619		_	
¥270,334	¥299	¥1,396	¥—
	Million	s of ven	
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
¥ 75,394	¥ —	¥ —	¥—
128,580			_
_	121	1,525	_
43,000			_
87,651			
	¥121	¥1,525	¥—
	Thousanda a		
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
\$ 678,720	\$ —	\$ _	\$—
984,632			
946	2,494	11,630	
216,667			_
371,822	_	_	_
	or less ¥ 81,446 118,156 118,156 44,619 ¥270,334 ¥270,334 128,580 128,580 43,000 87,651 ¥334,625 1 year or less \$ 678,720 984,632 984,632	20           1 year or less         5 years or less but more than 1 year           ¥ 81,446         ¥ —           118,156         —           118,156         —           44,619         —           ¥270,334         ¥299           Million         200           1 year         5 years or less but more than 1 year           1 year or less         5 years or less but more than 1 year           128,580         —           128,580         —           128,580         —           87,651         —           ¥334,625         ¥121           Thousands or or less         5 years or less but more than 1 year           984,632         —           984,632         —           946         2,494	1 year or less       but more than 1 year       but more than 5 years         ¥ 81,446       ¥ —       ¥ —         118,156       —       —         118,156       —       —         114       299       1,396         26,000       —       —         44,619       —       —         ¥270,334       ¥299       ¥1,396         Millions of yen       2014         1 year       5 years or less but more than 1 year       10 years or less but more than 5 years         1 year       5 years or less 1 year       10 years or less but more than 1 year       10 years or less but more than 5 years         43,000       —       —       —         87,651       —       —         1 year or less       5 years or less but more than 1 year       10 years or less but more than 1 year       10 years or less but more than 5 years         1 year or less       5 years or less but more than 1 year       10 years or less but more than 5 years         984,632       —       —         946       2,494       11,630

#### **17. Derivatives and Hedging Activities**

Derivative transactions to which hedge accounting is not applied at March 31, 2015

	Millions of yen				
	2015				
	Contract notional amount	Contract amount due after one year	due after		
Forward foreign currency exchange contracts:					
Sell (Yen)	¥ 1,368	¥ —	¥108	¥108	
Sell (U.S. dollar)	17,855	_	(75)	(75)	
Sell (Australian dollar)	3,693	_	189	189	
Sell (Chinese yuan)	239	_	(50)	(50)	
Buy (NZ dollar)	4,258	_	150	150	
Buy (U.S. dollar)	42	_	1	1	
Currency swap contracts:					
Yen receipt, U.S. dollar payment	1,020	637	(165)	(165)	
Total	¥28,476	¥ 637	¥159	¥159	
Interest rate swaps:					
Receive floating					
pay fixed	1,736	1,230	12	12	
Total	¥ 1,736	¥1,230	¥ 12	¥ 12	

	Thousands of U.S. dollars				
		20	015		
	Contract notional amount	Contract amount due after one year	Fair value	Unrealized gain (loss)	
Forward foreign currency exchange contracts:					
Sell (Yen)	\$ 11,404	\$ —	\$ 898	\$ 898	
Sell (U.S. dollar)	148,793		(624)	(624)	
Sell (Australian dollar)	30,775	_	1,578	1,578	
Sell (Chinese yuan)	1,995	_	(420)	(420)	
Buy (NZ dollar)	35,485	_	1,250	1,250	
Buy (U.S. dollar)	353		12	12	
Currency swap contracts:					
Yen receipt,					
U.S. dollar payment	8,498	5,311	(1,373)	(1,373)	
Total	\$237,303	\$ 5,311	\$1,321	\$1,321	
Interest rate swaps:					
Receive floating					
pay fixed	14,466	10,247	103	103	
Total	\$ 14,466	\$10,247	\$ 103	\$ 103	

Derivative transactions to which hedge accounting is applied at March 31, 2015

March 31, 2015				
			Millions of yen	
			2015	
			Contract amount due	
	Hedged item	Contract amount	after one year	Fair value
Forward foreign currency				
exchange contracts:				
Accounting in principle				
Sell (U.S. dollar)	Accounts	¥ 4,099	¥ —	¥ (4)
Sell (Euro)	amount payable	2,099		14
Sell (NZ dollar)		2,718	_	(70)
Buy (U.S. dollar)	Accounts	10,630		122
Buy (Euro)	amount payable	6,010		(315)
Appropriated				
accounting for				
foreign currency				
Sell (U.S. dollar)	Accounts amount			
	receivable	146	_	*
Buy (U.S. dollar)	Accounts	965		*
Buy (Euro)	amount payable	178		*
Total		¥26,848	¥ —	¥(252)
Interest rate swaps:		120/010	-	
Accounted for by				
exceptional method				
Receive floating pay	Long-term			
fixed	bank loans	15,814	3,324	*
Total		¥15,814	¥ —	¥ —
		Thou	sands of U.S. do	
			2015	
			Contract	
		Contract	amount due after	
	Hedged item	amount	one year	Fair value
Forward foreign currency				
exchange contracts:				
Accounting in principle		+	+	+ (24)
Sell (U.S. dollar)	Accounts	\$ 34,161	<u>\$                                    </u>	\$ (31)
Sell (Euro)	amount payable	17,491		116
Sell (NZ dollar)	- <u></u>	22,654		(583)
Buy (U.S. dollar)	Accounts	88,587		1,016
Buy (Euro)	amount payable	50,087		(2,621)
Appropriated accounting for				
foreign currency				
Sell (U.S. dollar)	Accounts			
	amount			
	receivable	1,220		*
Buy (U.S. dollar)	Accounts	8,044		*
Buy (Euro)	amount payable	1,487		*
Total		\$223,731	<u>\$                                    </u>	\$(2,103)
Interest rate swaps:				
Accounted for by				
exceptional method				
Receive floating pay fixed	Long-term bank loans	131,785	27,704	*
Total		\$131,785		\$ -
ισται	·	φ131,/03	φ <b>21,/</b> 04	φ

\* 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 receivable, accounts payable or long-term bank loans, the fair values of these derivatives are included in those of the hedged items.

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

	Millions of yen				
	2014 Contract Contract amount notional due after Unrealized amount one year Fair value (loss)				
Forward foreign currency exchange contracts:				(.300)	
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	

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

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

The fair value of derivative transactions is measured at the quoted price obtained from the financial institutions, etc.

#### 18. Employees' Retirement Benefits and Pension Plans

The Company and most of its consolidated subsidiaries have either funded or unfunded defined benefit plans and/or defined contribution plans. Certain domestic consolidated subsidiaries have a Smaller Enterprise Retirement Allowance Mutual Aid Plan.

The Company and its consolidated subsidiaries have defined benefit plans, i.e., lump-sum payment plans, annuity payment plans, the amounts

of which are determined by reference to their basic rates of pay, length of service, and the conditions under which termination occurs.

Certain consolidated subsidiaries use a simplified method for calculating retirement benefit expenses and liabilities.

In certain cases, special retirement benefits may be paid to employees.

The changes in the retirement benefit obligation for the years ended March 31, 2015 and 2014 were as follows (except the plans under the simplified method):

	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
Balance at the beginning of the year	¥58,213	¥54,676	\$485,105
Cumulative effect of change in accounting principle	1,189		9,910
Restated balance at the beginning of the year	59,402	54,676	495,015
Service cost	2,822	2,771	23,518
Interest cost	960	893	7,998
Actuarial gain and loss	2,365	1,494	19,710
Retirement benefits paid	(1,744)	(1,630)	(14,535)
Prior service cost	(0)	8	(4)
Other	75	0	625
Balance at the end of the year	¥63,879	¥58,213	\$532,327

The changes in plan assets for the years ended March 31, 2015 and 2014 were as follows (except the plans under the simplified method):

	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
Balance at the beginning of the year	¥48,024	¥45,695	\$400,201
Expected return on plan assets	1,153	1,188	9,605
Actuarial gain and loss	2,036	323	16,968
Contributions	2,204	2,199	18,369
Retirement benefits paid	(1,500)	(1,381)	(12,497)
Balance at the end of the year	¥51,918	¥48,024	\$432,646

The changes in the liability for retirement benefits, which were calculated by the simplified method for the years ended March 31, 2015 and 2014 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
Balance at the beginning of the year	¥782	¥698	\$6,515
Retirement benefit expense	169	162	1,410
Retirement benefits paid	(109)	(47)	(907)
Contributions	(54)	(56)	(454)
Other	14	24	118
Balance at the end of the year	¥802	¥782	\$6,682

The following table sets forth the funded status of the plans and the amounts recognized in the consolidated balance sheets as of March 31, 2015 and 2014 for the Company's and the consolidated subsidiaries' defined benefit plans:

	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
Funded retirement benefit obligation	¥60,974	¥55,801	\$508,117
Plan assets at fair value	(52,443)	(48,475)	(437,025)
	8,531	7,326	71,092
Unfunded retirement benefit obligation Net liability for retirement benefits	4,233	3,644	35,271
in the balance sheet	12,764	10,970	106,363
Liability for retirement benefits	13,066	11,038	108,884
Asset for retirement benefits	(303)	(68)	(2,521)
Net liability for retirement benefits in the balance sheet	¥12,764	¥10,970	\$106,363

The components of retirement benefit expense for the years ended March 31, 2015 and 2014 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
Service cost	¥2,822	¥2,771	\$23,518
Interest cost	960	893	7,998
Expected return on plan assets	(1,153)	(1,188)	(9,605)
Amortization of actuarial gain and loss	264	1,029	2,198
Amortization of prior service cost	2	2	19
Retirement benefit expense under the simplified method	169	162	1,410
Other	(1)	9	(6)
Retirement benefit expense	¥3,064	¥3,678	\$25,532

The components of retirement benefits liability adjustments included in other comprehensive income (before tax effect) for the years ended March 31, 2015 and 2014 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
Actuarial gain and loss	¥86	¥—	\$714
Prior service cost	(2)		(15)
Total	<b>¥8</b> 4	¥—	\$699

The components of retirement benefits liability adjustments included in accumulated other comprehensive income (before tax effect) as of March 31, 2015 and 2014 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
Unrecognized actuarial gain and loss	¥226	¥141	\$1,884
Unrecognized prior service cost	4	6	37
Total	¥231	¥147	\$1,921

The fair value of plan assets, by major category, as a percentage of total plan assets as of March 31, 2015 and 2014 were as follows:

	2015	2014
Bonds	56%	62%
Stocks	25%	23%
General account	12%	13%
Other	7%	2%
Total	100%	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:

	2015	2014
Discount rates	0.034%-1.587%	1.5%
Expected rates of return plan assets	2.4%	2.6%
Expected rate of salary increase		
(point based plan)	5.5%	5.5%

Contributions to defined contribution retirement benefit plans were ¥735 million (\$6,127 thousand) and ¥691 million for the years ended March 31, 2015 and 2014, respectively.

#### **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, 2015 and 2014 were ¥595 million (\$4,962 thousand) and ¥469 million, respectively. The income is recognized in net sales and the expense is principally charged to cost of sales. The amounts recognized in the consolidated balance sheets and fair values related to investment properties were as follows:

	Millions	Thousands of U.S. dollars			
	Carrying amount		Fair value	Carrying amount	Fair value
2014	Increase/ (Decrease)	2015	2015	2015	2015
¥8,683	¥(43)	¥8,639	¥8,392	\$71,993	\$69,932

The main components of net change in carrying amount above included an increase of ¥27 million (\$225 thousand) due to acquisitions of real estate and a decrease of ¥23 million (\$192 thousand) due to sales of real estate and a decrease of ¥17 million (\$142 thousand) due to impairment loss for the year ended March 31, 2015.

#### 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 three segments (Timber and Building Materials, Housing, and Overseas) 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, 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 plantation timber, 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

	Millions of yen												
As of / Year Ended March 31, 2015		ber and g Materials	Но	ousing	C	lverseas		Subtotal	Other		Total	Adjustments	Consolidated
Sales and contract revenues:													
Unaffiliated customers	¥40	1,631	¥45	3,352	¥1	33,919	¥	988,903	¥ 7,298	¥	996,201	¥ 1,056	¥997,256
Inter-segment transfers	2	21,389		588		13,105		35,082	9,267		44,349	(44,349)	_
Total	42	23,020	45	3,940	1	47,024	1,	,023,985	16,565	1	,040,549	(43,293)	997,256
Segment income (loss)		4,039	2	8,302		6,126		38,467	1,175		39,643	(3,219)	36,424
Segment assets	14	7,990	14	1,197	1	49,854		439,042	27,494		466,536	199,002	665,538
Other items													
Depreciation and amortization	¥	730	¥	4,530	¥	4,203	¥	9,463	¥ 1,158	¥	10,622	¥ 832	¥ 11,453
Amortization of goodwill		_		8		1,950		1,957	_		1,957	_	1,957
Interest income		33		51		168		252	1		252	163	415
Interest expense		526		551		1,188		2,265	123		2,388	(1,252)	1,136
Equity in earnings (losses) of affiliates		(179)		0		1,112		933	88		1,021	0	1,021
Investments in affiliates		1,240		6		8,834		10,079	565		10,644	(10)	10,634
Increase in tangible and intangible fixed assets	¥	974	¥	4,855	¥	3,912	¥	9,741	¥ 4,125	¥	13,866	¥ 1,522	¥ 15,388

Notes: 1. Adjustments for sales and contract revenues on unaffiliated customers include ¥1,056 million (\$8,799 thousand) of administration department profit. 2. Adjustments for segment income and loss include ¥162 million (\$1,347 thousand) of elimination of inter-segment income and loss, ¥257 million (\$2,143 thousand) of retirement benefits liability adjustments, and ¥2,800 million (\$23,333 thousand) of corporate general administration expense, which are not allocable to the reportable segments.

3. Adjustments for segment assets include ¥10,073 million (\$83,941 thousand) of inter-segment eliminations, ¥209,075 million (\$1,742,292 thousand) of corporate asset, which are not allocable to the reportable assets.

	Millions of yen										
As of / Year Ended March 31, 2014	Timber and Building Materials		Housing	Overseas		Subtotal	Other		Total	Adjustments	Consolidated
Sales and contract revenues:											
Unaffiliated customers	¥437,727	7	¥464,777	¥ 61,926	¥	964,430	¥ 7,676	¥	972,106	¥ 862	¥972,968
Inter-segment transfers	20,884	1	591	14,395		35,869	9,610		45,479	(45,479)	
Total	458,61	1	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	1	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	((	)) )	8	836		844	3		847		847
Interest income	50	)	55	201		305	1		306	141	448
Interest expense	574	1	612	952		2,138	100		2,237	(1,110)	1,127
Equity in earnings (losses) of affiliates	(188	3)	0	(409)		(597)	75		(522)	0	(522)
Investments in affiliates	1,328	3	5	7,138		8,472	393		8,865	(10)	8,855
Increase in tangible and intangible fixed assets	¥ 924	1	¥ 4,991	¥ 5,012	¥	10,927	¥ 5,238	¥	16,165	¥ 1,239	¥ 17,404

Notes: 1. Adjustments for sales and contract revenues on unaffiliated customers include ¥862 million of administration department profit.

Adjustments for segment income and loss include ¥211 million of elimination of inter-segment income and loss, ¥1,020 million of retirement benefits liability adjustments, and ¥3,459 million of corporate general administration expense, which are not allocable to the reportable segments.
 Adjustments for segment assets include ¥10,351 million of inter-segment eliminations, ¥219,246 million of corporate assets, which are not allocable to

the reportable assets.

	Thousands of U.S. dollars															
As of / Year Ended March 31, 2015		mber and ing Materials		Housing		Overseas		Subtotal		Other		Total	A	djustments	(	Consolidated
Sales and contract revenues:																
Unaffiliated customers	\$3,	346,929	\$3	,777,935	\$1	,115,992	\$8	,240,856	\$	60,815	\$8	,301,671	\$	8,799	\$8	8,310,470
Inter-segment transfers		178,239		4,900		109,209		292,348		77,224		369,572	(	369,572)		_
Total	3,	525,168	3	,782,835	1	,225,201	8	,533,204	1	38,039	8	,671,243	(	360,773)	8	8,310,470
Segment income (loss)		33,657		235,853		51,051		320,561		9,795		330,356		(26,823)		303,533
Segment assets	1,	233,249	1	,176,646	1	,248,787	3	,658,682	2	29,118	3	,887,800	1,	658,351	5	5,546,151
Other items																
Depreciation and amortization	\$	6,086	\$	37,750	\$	35,024	\$	78,860	\$	9,654	\$	88,514	\$	6,932	\$	95,446
Amortization of goodwill		_		65		16,246		16,311				16,311				16,311
Interest income		275		424		1,399		2,098		6		2,104		1,356		3,460
Interest expense		4,382		4,595		9,898		18,875		1,029		19,904		(10,434)		9,470
Equity in earnings (losses) of affiliates		(1,495)		0		9,270		7,775		732		8,507		3		8,510
Investments in affiliates		10,333		47		73,614		83,994		4,709		88,703		(85)		88,618
Increase in tangible and intangible fixed assets	\$	8,117	\$	40,459	\$	32,599	\$	81,175	\$	34,374	\$	115,549	\$	12,685	\$	128,234

#### (Related information)

(1) Products and services information

	Millions of yen							
Year Ended March 31, 2015	Timber and Building Materials	Housing	Other	Total				
Sales and contract revenues to unaffiliated customers	¥438,722	¥552,991	¥5,544	¥997,256				
	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				
	Thousands of U.S. dollars							
Year Ended March 31, 2015	Timber and Building Materials	Housing	Other	Total				
Sales and contract revenues to unaffiliated customers	\$3,656,017	\$4,608,256	\$46,197	\$8,310,470				

#### (2) Geographic area information

Sales information by geographic area was as follows:

		Millions of yen						
Year Ended March 31, 2015	Japan	Other Area	Total					
	¥861,552	¥135,705	¥997,256					
		Thousands of U.S. dollars						
Year Ended March 31, 2015	Japan	Other Area	Total					
	\$7,179,598	\$1,130,872	\$8,310,470					

Sales information by geographic area for the year ended March 31, 2014 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 was as follows:

		Millions of yen						
Japan	Oceania	Asia	Other	Total				
¥64,382	¥26,963	¥14,438	¥3,262	¥109,046				
Millions of yen								
Japan	Oceania	Asia	Other	Total				
¥61,864	¥26,471	¥13,208	¥2,190	¥103,733				
		Thousands of U.S. dollars						
Japan	Oceania	Asia	Other	Total				
\$536,519	\$224,693	\$120,319	\$27,183	\$908,714				
	¥64,382 Japan ¥61,864 Japan	¥64,382         ¥26,963           Japan         Oceania           ¥61,864         ¥26,471           Japan         Oceania	Japan         Oceania         Asia           ¥64,382         ¥26,963         ¥14,438           Millions of yen         Japan         Oceania           Japan         Oceania         Asia           ¥61,864         ¥26,471         ¥13,208           Thousands of U.S. dollars         Japan         Oceania	Japan         Oceania         Asia         Other           ¥64,382         ¥26,963         ¥14,438         ¥3,262           Millions of yen				

#### (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)

Millions of yen									
Timber and Building Materials	Housing	Overseas	Other	Elimination and/or Corporate	Total				
¥1,095	¥17	¥—	¥—	¥—	¥1,112				
Millions of yen									
Timber and Building Materials	Housing	Overseas	Other	Elimination and/or Corporate	Total				
¥158	¥131	¥—	¥147	¥—	¥436				
		Thousands o	f U.S. dollars						
Timber and Building Materials	Housing	Overseas	Other	Elimination and/or Corporate	Total				
\$9,127	\$142	\$	\$—	\$	\$9,269				
	Materials       ¥1,095       Timber and Building Materials       ¥158       Timber and Building Materials	Materials     Housing       ¥1,095     ¥17       Timber and Building Materials     Housing       ¥158     ¥131       Timber and Building Materials     Housing	Timber and Building Materials     Housing     Overseas       ¥1,095     ¥17     ¥—       Million     Million       Timber and Building Materials     Housing     Overseas       ¥158     ¥131     ¥—       Thousands o     Thousands o       Timber and Building Materials     Housing     Overseas	Timber and Building Materials     Housing     Overseas     Other       ¥1,095     ¥17     ¥—     ¥—       Millions of yen     Millions of yen       Timber and Building Materials     Housing     Overseas     Other       ¥158     ¥131     ¥—     ¥147       Thousands of U.S. dollars       Timber and Building Materials     Housing     Overseas     Other	Timber and Building Materials     Housing     Overseas     Other     Elimination and/or Corporate       ¥1,095     ¥17     ¥—     ¥—       Millions of yen       Timber and Building Materials     Housing     Overseas     Other     Elimination and/or Corporate       ¥158     ¥131     ¥—     ¥147     ¥—       Thousands of U.S. dollars     Timber and Building Materials     Housing     Overseas     Other     Elimination and/or Corporate				

#### (Amortization and balance of goodwill)

	Millions of yen									
As of / Year Ended March 31, 2015	Timber and Building Materials	Housing	Overseas	Other	Elimination and/or Corporate	Total				
Amortization of goodwill	¥—	¥8	¥1,950	¥—	¥—	¥1,957				
Balance of goodwill		6	5,975			5,981				
	Millions of yen									
As of / Year Ended March 31, 2014	Timber and Building Materials	Housing	Overseas	Other	Elimination and/or Corporate	Total				
Amortization of goodwill	¥ (0)	¥ 8	¥ 836	¥ 3	¥—	¥ 847				
Balance of goodwill		13	3,108			3,122				
			Thousands of	U.S. dollars						
As of / Year Ended March 31, 2015	Timber and Building Materials	Housing	Overseas	Other	Elimination and/or Corporate	Total				
Amortization of goodwill	\$—	\$65	\$16,246	\$—	\$	\$16,311				
Balance of goodwill	_	47	49,791		_	49,838				

#### (Gain on bargain purchase)

In Timber and Building Materials segment, the Company has newly consolidated PAN ASIA PACKING LTD. for the year ended March 31, 2015. As a result, the Company recognized ¥70 million (\$587 thousand) as gain on bargain purchase.

#### 21. Amounts per Share

#### (a) Basic and diluted net income per share

Details on the computation of net income per share and net income per share fully diluted as of March 31, 2015 and 2014 were as follows:

	Millions of yen			
	2015	2014	2015	
Net income per share:				
Net income	¥ 18,572	¥ 22,531	\$154,765	
Income not available to common stockholders				
Income available to common stockholders	18,572	22,531	154,765	
Weighted average number of shares issued	177,132,685	177,134,880		
Net income per share fully diluted				
Adjusted net income				
Common shares increase	10,706,638	7,303,981		
(Convertible bonds with stock acquisition rights)	(10,706,638)	(7,303,981)		

#### (b) Net assets per share

Details on the computation of net assets per share as of March 31, 2015 and 2014 were as follows:

	Millions of yen		Thousands of U.S. dollars		
		2015		2014	2015
Net assets per share:					
Total net assets	¥	260,782	¥	226,078	\$2,173,182
Amounts deducted from total net assets		15,032		7,401	125,263
Minority interests		15,032		7,401	125,263
Net assets attributable to shares of common stock		245,750		218,676	2,047,919
The number of shares of common stock used for the calculation of net assets per share	17	7,131,710	17	7,133,771	

#### 22. Other Comprehensive Income

Reclassifications and income tax effects attributable to other comprehensive income for the years ended March 31, 2015 and 2014 were as follows:

	Millions of yen		Thousands of U.S. dollars	
	2015	2014	2015	
Unrealized gain on available-for-sale securities	_			
Amount incurred during the year	¥10,278	¥3,751	\$ 85,649	
Reclassification adjustments for gains and losses included in net income	(128)	185	(1,064)	
Amount before tax effect	10,150	3,937	84,585	
Tax effect	(2,379)	(1,511)	(19,825)	
Unrealized gain on available-for-sale securities	7,771	2,425	64,760	
Deferred gain (loss) on hedges				
Amount incurred during the year	(250)	(373)	(2,081)	
Reclassification adjustments for gains and losses included in net income	11	2	93	
Amount before tax effect	(239)	(371)	(1,988)	
Tax effect	94	143	785	
Deferred gain (loss) on hedges	(144)	(228)	(1,203)	
Translation adjustments				
Amount incurred during the year	4,936	4,526	41,131	
Reclassification adjustments for gains and losses included in net income		414	—	
Amount before tax effect	4,936	4,940	41,131	
Tax effect		_	_	
Translation adjustments	4,936	4,940	41,131	
Retirement benefits liability adjustments				
Amount incurred during the year	(93)	_	(773)	
Reclassification adjustments for gains and losses included in net income	9	_	74	
Amount before tax effect	(84)	_	(699)	
Tax effect	21	_	175	
Retirement benefits liability adjustments	(63)	_	(524)	
Share of other comprehensive income of affiliates accounted for by the equity method				
Amount incurred during the year	1,046	767	8,715	
Reclassification adjustments for gains and losses included in net income	247	(660)	2,060	
Share of other comprehensive income of affiliated companies accounted for by the equity method	1,293	106	10,775	
Total other comprehensive income	¥13,793	¥7,244	\$114,939	

#### 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 0.03% to 2.15% and the anticipated future useful lives ranging from 5 years to 29 years.

The changes in the asset retirement obligations for the years ended March 31, 2015 and 2014 were summarized as follows:

	Millions	Thousands of U.S. dollars	
	2015	2014	2015
Balance at beginning of the year	¥1,433	¥1,382	\$11,943
Liability incurred for assets acquired	122	130	1,018
Accretion expense	10	11	87
Liabilities settled	(165)	(137)	(1,374)
Other increases (decreases)	42	47	346
Balance at end of the year	¥1,443	¥1,433	\$12,020

#### 24. Related Party Transactions

Principal transactions between the Company, the Company's consolidated subsidiaries and their related parties for the years ended March 31, 2015 and 2014 were summarized as follows:

2015			Millions of yen	Thousands of U.S. dollars	Millions of yen	Thousands of U.S. dollars
Name	Title	Transactions	Amounts	Amounts	Balance at the end of the year	Balance at the end of the year
Akira Ichikawa	Director of the Company	Sales of housing	¥23	\$190	¥25	\$205
2014			Millions of yen	_		
Name	Title	Transactions	Amounts			
Hideyuki Kamiyama	Director of the Company	Renovation of residence	¥11			

Notes: 1. Prices for sales of housing and renovation of residence were determined based on the same terms as third party transactions.

2. The transaction amounts do not include consumption tax while balance at the end of the year includes consumption tax.

#### 25. Business Combination

Acquisition of shares of Gehan Homes, Ltd. and six subsidiary companies

The Company acquired shares of Gehan Homes, Ltd. and six companies through Sumitomo Forestry America, Inc., its U.S. subsidiary, making them its subsidiaries.

#### 1. Summary of the business combination

Name of the acquiree and business description
 Name of the acquiree: Gehan Homes, Ltd. and six subsidiary 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 United States for the U.S. housing business under a policy that places the overseas business as one of its core growth businesses. In the course of this expansion, the shares of Gehan Homes, Ltd. and six subsidiary companies were acquired to make them subsidiaries.

(3) Date of the business combination: April 30, 2014 (U.S. date)

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

(5) Name of the merged entity

There was no change in the name of the acquiree after the share acquisition.

(6) Ratio of voting rights acquired: 51%

(7) Main reasons for determining the acquirer

Sumitomo Forestry America, Inc., the Company's consolidated subsidiary, acquired the shares for a cash consideration.

#### Period for which the business results of the acquiree are included in the consolidated financial statements of the Company From May 1, 2014 to December 31, 2014

3. Breakdown of the acquisition cost of the acquireeConsideration for acquisition:¥7,858 million (\$65,484 thousand)Acquisition cost:¥7,858 million (\$65,484 thousand)

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

(1) Amount of goodwill: ¥4,080 million (\$34,003 thousand)

#### (2) Reason for recognition

The acquisition cost exceeded the fair value of net asset acquired at the date of business combination.

(3) Amortization method and period Straight-line amortization over 5 years

5. Assets acquired and liabilities assumed at the date of business combination

See Note 12.

6. Estimated impact on the consolidated statement of income in the year ended March 31, 2015, assuming that the business combination was concluded on April 1, 2014, and the method of calculation

	Millions of yen	U.S. dollars
Sales	¥10,778	\$89,818
Recurring income	907	7,554
Net income	319	2,655

(Method by which estimated amounts were calculated) The estimated amounts were calculated based on the difference between financial information on sales and income calculated on the assumption that the business combination was concluded at the beginning of the year ended March 31, 2015 and financial information on sales and income contained in the consolidated statement of income of the acquiring company.

These estimated amounts of impact have not been audited.

#### 26. Subsequent Events

At the 75th Ordinary General Meeting of Shareholders held on June 23, 2015, the Company resolved to introduce stock options as compensation to directors (excluding outside directors).



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#### 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, 2015, 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, 2015, 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.

Emit & young Shinvilon LLC

June 23, 2015 Tokyo, Japan

# Sumitomo Forestry Group Overview

(As of March 31, 2015)

## **Domestic Group Companies**

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.	Secondary processing and sales of aluminum sashes; exterior finishing; sales of door and window sashes for housing and low- and mid-rise buildings
5	Sumikyo Co., Ltd.	Secondary processing and sales of aluminum sashes; exterior finishing
6	lgeto Co., Ltd.	Sales of housing materials and equipment
7	Daiichisansho Co., Ltd.	Sales of housing materials and equipment; interior and exterior finishing
8	Nihei Co., Ltd.	Sales of housing materials and equipment; ancillary work
9	Home Eco Logistics Co., Ltd.	Distribution services for housing materials
10	Nichiha Fuji Tech Co., Ltd.	Manufacture and sales of ceramics and construction materials
11	TOCLAS CORPORATION	Manufacture and sales of housing equipment
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
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 Co., Ltd.	Supervision and management of 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 of 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 of electric power
30	Hachinohe Biomass Electric Power Co., Ltd.	Electric power generation using wood-chip biomass; wholesale of electric power
31	Michinoku Bio Energy Co., Ltd.	Supply and sales of wood chips
32	Tomakomai Biomass Power Co., Ltd.	Electric power generation using wood-chip biomass; wholesale of electric power

## **Overseas Group Companies**

1 PT. Sumitomo Forestry Indonesia (Indonesia)	Import/export and wholesale of timber and building materials, etc.
2 Sumitomo Forestry (Dalian) Ltd. (China)	Import/export and wholesale of timber and building materials, etc.
3 Sumitomo Forestry (Singapore) Ltd. (Singapore)	Import/export and wholesale of timber and building materials, etc.; supervision of the overseas distribution business
4 SF Holdings (Thailand) Co., Ltd. (Thailand)	Supervision and management of affiliated companies in Thailand
5 PAN ASIA PACKING LTD. (Thailand)	Manufacture and sales of packing materials and wood pellets; distribution and sales of timber building materials
6 Sumitomo Forestry (Vietnam) Co., Ltd. (Vietnam)	Import/export and wholesale of timber and building materials, etc.
7 Yantai Golden Bridge Enterprise Co., Ltd. (China)	Brokerage of rental housing
8 Sumitomo Forestry America, Inc. (U.S.A.)	Supervision and management of affiliated companies in U.S.A.
9 SFC Homes LLC (U.S.A.)	Construction and sales of spec 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 and sales of housing lots
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 spec homes
14 Bloomfield Homes, L.P. (U.S.A.)	Construction and sales of spec homes
15 Gehan Homes, Ltd. (U.S.A.)	Construction and sales of spec homes
16 Sumitomo Forestry Australia Pty Ltd. (Australia)	Supervision and management of affiliated companies 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 and sales of housing lots
19 SPJR Land Developments Pty Ltd. (Australia)	Land development and sales of housing lots
20 Henley Arch Unit Trust (Australia)	Construction and sales of custom-built homes and spec homes
21 Henley Arch Pty Ltd. (Australia)	Construction and sales of custom-built homes and spec homes

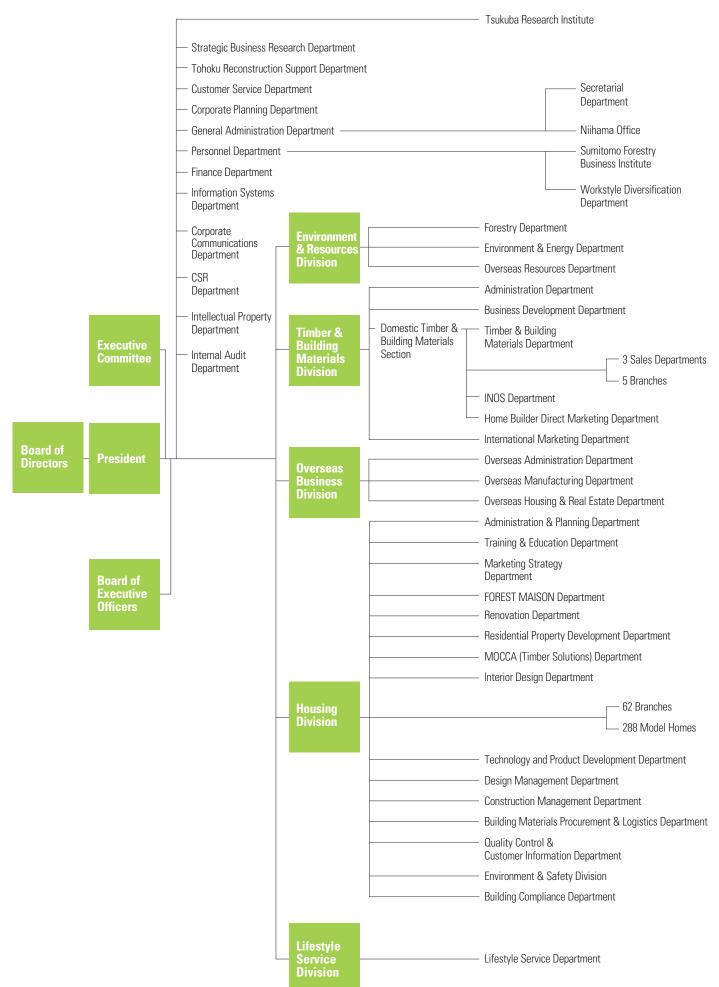


22 Edgewater Homes Pty Ltd. (Australia)	Construction and sales of spec homes
23 Sumitomo Forestry NZ Ltd. (New Zealand)	Supervision and management of affiliated companies in New Zealand
24 Nelson Pine Industries Ltd. (New Zealand)	Manufacture and sales of medium density fiberboard (MDF), veneer and laminated veneer lumber (LVL)
25 PT. Kutai Timber Indonesia (Indonesia)	Manufacture and sales of plywood, secondary processed plywood, processed timber building materials and particle board
26 PT. Rimba Partikel Indonesia (Indonesia)	Manufacture and sales of particle board
27 PT. Sinar Rimba Pasifik (Indonesia)	Manufacture and sales of wooden interior products
28 PT. AST Indonesia (Indonesia)	Manufacture and sales of materials for musical instruments and wooden building materials
29 Vina Eco Board Co., Ltd. (Vietnam)	Manufacture and sales of particle board
30 SUMIRIN HONG KONG LIMITED (Hong Kong)	Supervision and management of affiliated companies in Hong Kong
31 Partner Ally Limited (Hong Kong)	Development condominium complexes
32 Rainbow Alpha Holdings Limited (Hong Kong)	Development condominium complexes
33 Sumitomo Forestry (Shanghai) Ltd. (China)	Supervision and management of housing business in China
34 Paragon Wood Product (Dalian) Co., Ltd. (China)	Design and construction of wooden housing; interior design and construction of housing and offices
35 Paragon Wood Product (Shanghai) Co., Ltd. (China)	Interior design and construction of housing and office
36 Dalian Sumirin Information Technology Service Co., Ltd. (China)	CAD work and other business processing
37 MOS Lumber Products Co., Ltd. (Myanmar)	Manufacture and sales of processed products
38 Open Bay Timber Ltd. (Papua New Guinea)	Afforestation; log harvesting and sales
39 PT. Mayangkara Tanaman Industri (Indonesia)	Afforestation; log harvesting and sales
40 PT. Wana Subur Lestari (Indonesia)	Afforestation; log harvesting and sales



**Organization Chart** 

(As of April 1, 2015)



# **Investor Information**

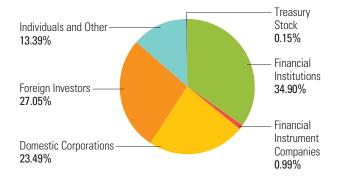
	As of March 31, 2015)
Company Name	Sumitomo Forestry Co., Ltd.
Founded	1691
Incorporated	1948
Paid-in Capital	¥27,672 million
Stock Exchange Listing	Tokyo
Total Number of Authorized Shares	400,000,000
Total Number of Shares Issued	177,410,239
Ordinary Shareholders' Meeting	June
Number of Shareholders	10,685
Head Office	Keidanren Kaikan, 3-2, Otemachi 1-chome, Chiyoda-ku, Tokyo 100-8270, Japan
Consolidated Subsidiaries	72 (Overseas 43)
Affiliated Companies	21 (Overseas 17)
Number of Employees (Consolidated)	18,137
Homepage	http://sfc.jp/english/
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, 2015)

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)	8,483	4.78
The Iyo Bank, Ltd.	5,849	3.29
Japan Trustee Services Bank, Ltd. (trust account)	5,187	2.92
Sumitomo Corporation	4,383	2.47
Sumitomo Life Insurance Company	4,227	2.38
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
JUNIPER	3,354	1.89

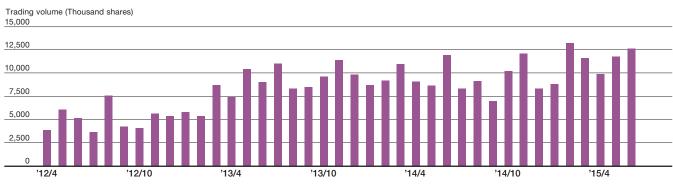
\* Rounded down to the nearest thousand.

#### Breakdown of Shareholders (As of March 31, 2015)



#### Stock Price and Trading Volume





Trading volume

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





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/