

# Keep Moving Forward



## About Us

The Sumitomo Forestry Group dates back to the opening of the Sumitomo family's Besshi Copper Mine in 1691. Our corporate philosophy—"utilize timber as a renewable, healthy, and environmentally friendly natural resource, and contribute to a prosperous society through all types of housing-related services"—is the foundation of our businesses. We are engaged in comprehensive housing and wood products businesses at home and abroad.



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# Financial Highlights

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

	Millions of yen			Thousands of U.S. dollars*1
	2011	2010	2009	2011
<b>Operating Results:</b>				
Net sales	¥797,493	¥723,923	¥823,810	\$9,608,350
Operating income	14,238	9,747	6,837	171,548
Recurring income*2	14,206	9,465	6,160	171,157
Net income	5,175	2,377	1,028	62,352
<b>Financial Position:</b>				
Total assets	489,417	469,738	427,738	5,896,590
Interest-bearing debt	69,229	66,786	49,127	834,086
Total net assets	163,110	162,930	156,192	1,950,132
<b>Per Share Data:</b>				
	Yen			U.S. dollars*1
Net income	¥ 29.2	¥ 13.4	¥ 5.8	\$ 0.35
Net assets	919.5	917.8	880.9	11.08
Cash dividends	15.0	15.0	15.0	0.18
<b>Financial Ratios:</b>				
	%			
Return on equity (ROE)*3	3.2	1.5	0.6	
Return on assets (ROA)*3	3.0	2.1	1.4	
Return on Capital Employed (ROCE)*4	4.1	2.9	2.3	
Equity ratio	33.3	34.6	36.5	

\*1. Japanese yen amounts have been translated into U.S. dollar amounts, at the rate of ¥83 = US\$1, the approximate exchange rate prevailing in the Japanese foreign exchange market at March 31, 2011.

\*2. 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.

\*3. 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 / Shareholders' equity

\*4. ROCE = Operating profit / (Interest-bearing debt + Shareholders' equity)

[Operating profit = (Recurring income + Interest expenses) x (1 - Effective tax rate)]





# Keep Mo Forward





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The Great East Japan Earthquake caused unprecedented damage. In addition to restoring operations at our business sites and supporting customers in the disaster-affected region, we have done our best since the earthquake to support recovery efforts by constructing temporary housing and ensuring reliable supplies of timber and building materials. Meanwhile, in our core businesses, we continue to actively work to meet public needs for safe and energy-efficient housing.





## Facing the Future

Our home market is maturing as Japan's society ages. In contrast, emerging markets offer the potential for further growth. In order to create a balanced portfolio for the future, we have invested management resources to develop our overseas, renovation, and real estate businesses as new sources of earnings that complement our core businesses. Guided by this management vision, we will pursue sustainable business by utilizing the healthy and environmentally friendly characteristics of timber and target further growth while developing new businesses.



**Keep Moving Forward**

# Committed to Reconstruction and Growth

On behalf of the Group, I would first like to express my condolences to all those affected by the Great East Japan Earthquake on March 11, 2011. With the release of our Annual Report 2011, I would like to talk about the impact of the earthquake on our operations, and business prospects for the Sumitomo Forestry Group.

Immediately after the earthquake, we established a task force headed by the President to coordinate our response to the disaster. It initially focused on verifying the safety of our employees and their families, confirming the safety of our customers and responding to their inquiries, distributing supplies to the disaster-affected region, and resuming normal operations. Fortunately, all of our Group employees and their families were safe and none of the homes we built in the disaster-affected region were destroyed by the earthquake tremor. We worked to rapidly resume operations at affected business sites, including restarting operations at a partially damaged building materials plant run by a subsidiary at the end of March. We also took part in the relief and recovery effort. Sumitomo Forestry Group employees and executives in Japan and abroad made donations, and on the request of the government, we dispatched a specialist team to the region to build temporary housing. We are determined to fulfill our social responsibility as a housing builder by providing ongoing support to the region in all types of housing-related services.

The earthquake made one thing clear to me: more than ever, the public is looking to us to live up to our corporate philosophy, which is “to utilize timber as a renewable, healthy, and environmentally friendly natural resource, and to contribute to a prosperous society through all types of housing-related services.” The Sumitomo Forestry Group has more than 300 years of heritage in nurturing forests and preserving the environment. Our inherent commitment to the environment, seen in how we effectively utilize timber and promote technical innovations in housing products and timber and building materials, is not just about generating profits—it is our enduring goal based on the sincere belief that our activities will contribute directly to society and the environment on a global scale. This is the essence of the pride we take in our work, as well as our strength.

While staying focused on the basics of our everyday business, we will strive to realize our corporate philosophy, contribute to Japan’s recovery, and work to realize further growth for the Sumitomo Forestry Group.



**Ryu Yano**  
Chairman / Representative Director



## Message from the President



# Moving Forward with a Clear Vision

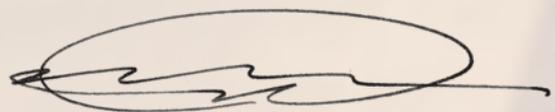
The Japanese economy saw a moderate recovery in fiscal year 2010 and government incentives to promote house purchases provided support to the Sumitomo Forestry Group's business environment. There was a pickup in new housing starts to 819,000 units following an almost unprecedented slump in fiscal year 2009. We rolled out aggressive marketing activities to tap into the upturn in demand and rigorously reduced costs. As a result, we made some progress toward achieving our number-one priority of strengthening profitability.

However, the Great East Japan Earthquake means the outlook for our business environment is uncertain amid lingering risk of an economic downturn due to weakness in the job market and persistent deflationary conditions. Also the global economy, which appeared to be regaining stability and recovering from the crisis triggered by the collapse of Lehman Brothers, now faces growing uncertainties due to geopolitical risk and other factors. Despite this backdrop, we have no intention of halting our activities to support the Group's future growth.

Due to the earthquake, there has been a clear change in the public's perception about the earthquake resistance and energy saving capabilities of housing. I strongly believe this has significantly boosted the added value of our research in these fields and the housing and building materials that have benefited from this research. In the short term, we will need to closely monitor the impact of the earthquake on the housing order environment and other aspects of our business, but we will also work hard to strengthen profits by launching products and services that we believe in, based on an accurate understanding of market needs for safe housing and the future of the energy market.

Over the medium- to long-term, the domestic market for new housing, currently our main source of earnings, is expected to contract owing to Japan's shrinking population, but expansion in emerging economies offers new business opportunities. One of our long-term management priorities has been to build a balanced business portfolio in order to deliver sustained growth in this business environment. This basic policy remains unchanged. In our core timber, building materials business and housing business, we are working to ensure profits remain stable while pushing ahead with business restructuring. In our overseas, renovation, and real estate businesses, which we are developing as new sources of earnings, we will continually focus our resources to realize profit contribution as soon as possible.

Experiencing crisis and difficulty helps to make people and organizations stronger. I believe the experience and confidence the Company and Japan as a whole can gain from overcoming our current difficulties will be an invaluable asset that spurs our future development. Guided by the Sumitomo Spirit and its basic tenet of contributing to society, which we have adhered to for over 300 years, we remain committed to playing our part in creating a prosperous society through our business operations.



**Akira Ichikawa**  
President / Representative Director

## Interview with the President

“ Our goal is to rapidly build a balanced portfolio anchored by core businesses to support medium- to long-term growth ”



[ On fiscal 2010 (fiscal year ended March 31, 2011) consolidated results ]

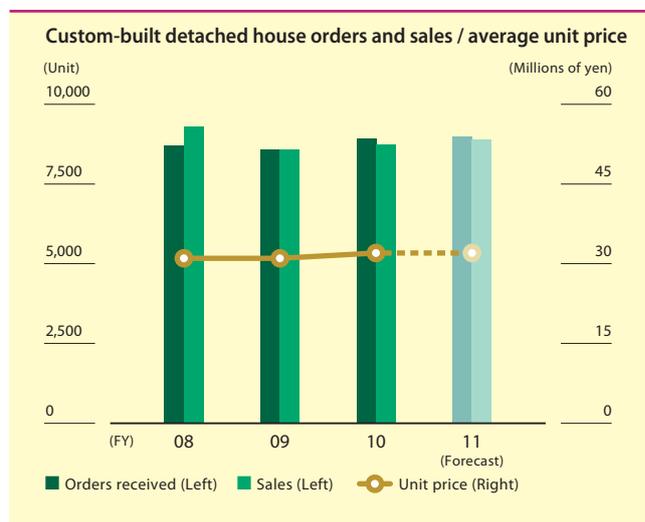
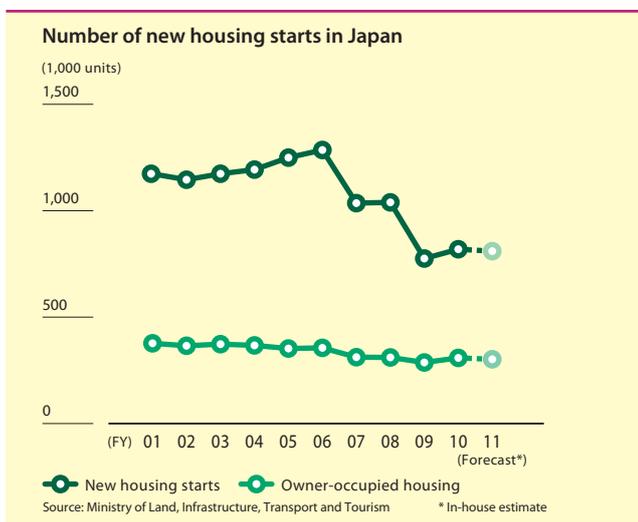
**Q** Business results improved in fiscal 2010, reflecting an upturn in the business environment. What is your assessment of the Group’s performance for the year?

**A** Profitability recovered by more than we forecast at the start of the fiscal year thanks to tailwinds in the market, such as a recovery in new housing starts, and ongoing rigorous cost reduction.

In fiscal 2010, new housing starts in Japan, which are closely correlated with the performance of the Group’s businesses, increased 5.6% year on year to 819,000 units, partly reflecting government stimulus measures designed to promote house purchases. Owner-occupied housing starts also increased, up 7.5% to 309,000. Against this backdrop, the Group’s results were solid overall. Sales rose 10.2% year on year to ¥797.5 billion and recurring income increased 50.1% to ¥14.2 billion, driven by the Group’s two core businesses—the timber and building materials business, which benefited from the upturn in housing starts, and the housing business, owing to an increase in average sales prices and progress with the rationalization of building processes. Due to deterioration in the operating environment for the Group’s pension assets amid weakness in the stock market, the Company incurred losses related to an actuarial difference in accounting for retirement benefit obligations. Excluding this factor, recurring income increased 139.4% year on year to ¥17.0 billion, illustrating the sharp improvement in profitability in our core businesses.

The Great East Japan Earthquake affected the Group’s business in a number of ways. The handover of some custom-built homes slipped into fiscal 2011 and we booked extraordinary losses totaling around ¥0.8 billion for repairs to offices, model homes and factories, and for emergency inspections of homes recently handed over to owners in the disaster-affected region. However, damage was limited to a minimum thanks to the support of our business partners.

In our mainstay custom-built housing business, orders and the number of houses completed exceeded fiscal 2009 levels and the average unit price also increased owing to a higher ratio of houses fitted with solar power systems and other energy-saving devices. We also rationalized manufacturing facilities. In the renovation business, we continued to increase headcount to support steady expansion. In the timber and building materials business, sales volume increased overall, with European timber showing particularly strong growth. Overseas, the housing business in Australia performed well and manufacturing



operations in Oceania and Indonesia were steady. However, earnings in overseas business were weak overall due to delays in starting up the plywood business in China and continued weakness in the US housing market. The real estate business

turned profitable at the recurring income level in fiscal 2010. This reflected strong sales in the detached spec homes business amid a recovery in market conditions, and steady sales of leasing properties in the real estate development business.

[ Outlook for fiscal 2011 (fiscal year ending March 31, 2012) ]

**Q** The outlook for fiscal 2011 is particularly uncertain owing to the earthquake. In what direction do you plan to take the Company?

**A** Our goal is to generate and strengthen earnings by offering homes that people can live in with peace of mind.

The housing market in fiscal 2011 could fluctuate depending on the impact of the earthquake. However, in areas outside the disaster-affected region as well, we see a growing need for homes that are safe and reassuring places to live. In light of those needs, we believe one of the Group's key responsibilities is to offer homes that give people peace of mind. Our start-of-year fiscal 2011 assumptions are for new housing starts of between 800,000 and 820,000 units, and for owner-occupied housing starts of roughly 300,000 units. Based on these assumptions, we forecast sales will rise 2.2% year on year to ¥815.0 billion and recurring income from core operations (excluding the impact of any actuarial difference in accounting for retirement benefit obligations) will increase 8.8% to ¥18.5 billion.

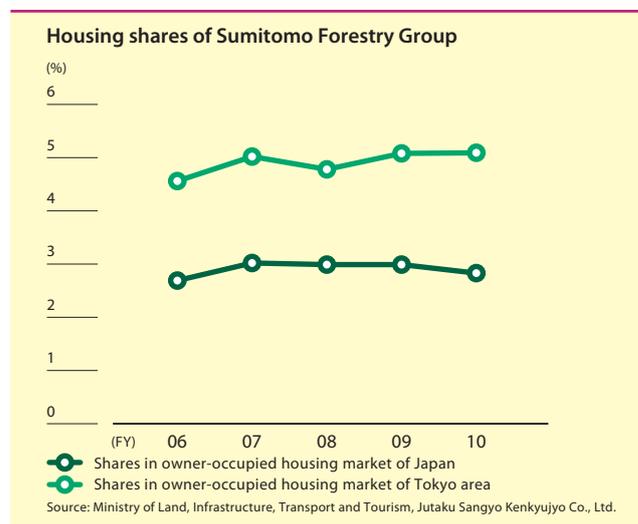
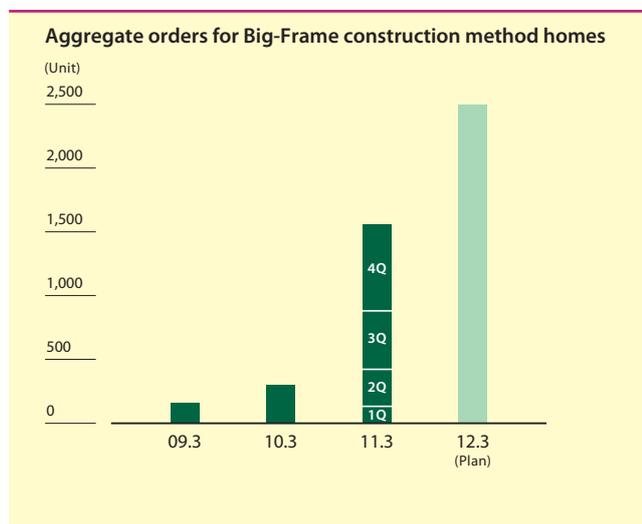
In the timber and building materials business, we intend to use our domestic and international procurement and sales network—one of the most extensive in the sector—to rapidly reduce the supply-demand gap that widened after the earthquake. Leveraging our network, we will ensure stable supply of materials and aim to secure profits in the business. We plan to accelerate the development of new businesses, such as homebuilding materials logistics operations, launched in fiscal 2009, as well as JHOP (Japan Housing Open Platform),

our “cloud-based” business support service for building contractors. We will also target an increase in market share through a localized strategy and develop new products by drawing on the combined strengths of the whole Group.

In the new custom-built housing business, we will work to accurately respond to growing customer needs for safety and earthquake resistance. Sales of homes that employ our proprietary Big-Frame construction method and our *Earthquake Energy-Absorbing Panels (GS Panels)* have risen since the earthquake, and we are targeting further growth. In addition, under our area strategy, we will offer a more segmented product lineup tailored to the needs of customers in each region, targeting the top share in each regional market. In urban areas, especially in Tokyo, where we boast one of the top market shares, we aim to maintain and expand our market share, while in Aichi Prefecture and other areas with high potential demand, our goal is to boost market share by hiring more employees and expanding our model home sites.



**Big-Frame construction method**  
A proprietary approach that offers earthquake resistance and floor plan flexibility.



[ Growth strategy ]

**Q** Please tell us about your medium- to long-term growth strategy and progress in the overseas business, renovation businesses, which you are focusing on as priority growth businesses.

**A** We are continuing to implement the basic strategies of our Long-Term Management Plan, Project SPEED. Our focus is on increasing earnings from priority growth businesses while enhancing the stability of earnings from core businesses.

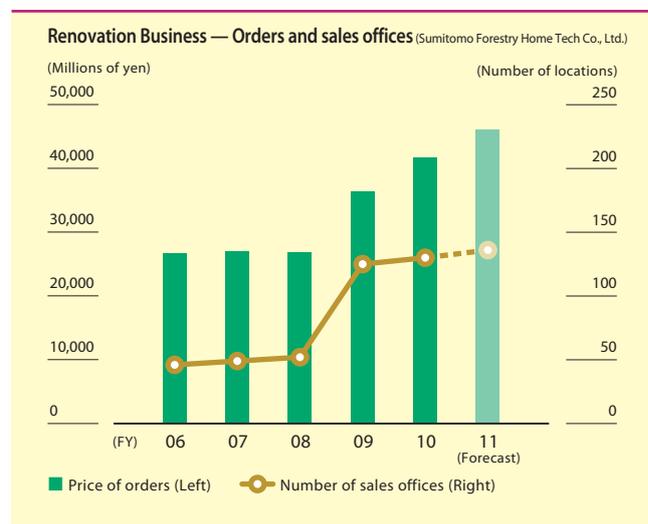
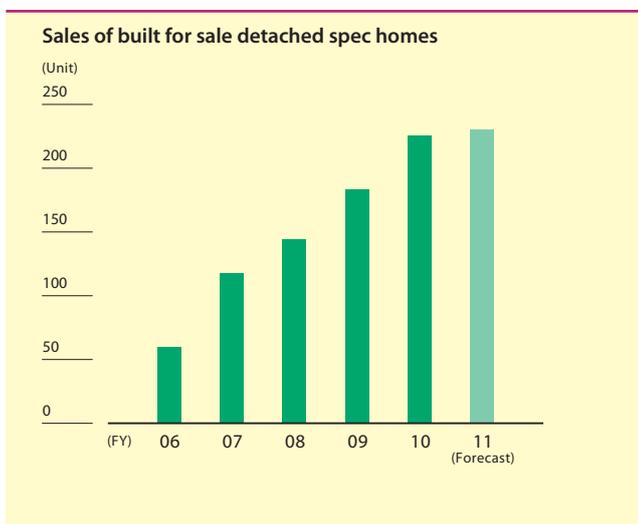


We launched our Long-Term Management Plan, Project SPEED, in May 2007. This 10-year plan is aimed at creating and expanding businesses, and boosting efficiency. Our objective is to build a balanced business portfolio that is not dependant on the number of housing starts in Japan. However, housing starts slumped from around 1.29 million units in fiscal 2006 to about 820,000 units in fiscal 2010. While we have achieved a certain level of stability in our core businesses despite this harsh backdrop, the business environment has shifted dramatically since we formulated our plan. Consequently, while maintaining the fundamental direction of the plan, we have adopted a new near-term goal in response to the changes in our business environment—establish an operating structure capable of consistently generating recurring income of ¥20 billion. We will also revise our medium- to long-term numerical targets at intervals of roughly three years. In addition, decisions on investments to support future growth will put equal emphasis on the Group’s financial position.

In our overseas business, we plan to further expand our housing business in Australia, which is performing well, increase the productivity of our existing building material manufacturing operations, and rebuild the housing business in the United States. We also intend to establish a vertically integrated business in four Pacific Rim regions—Southeast Asia, Oceania,

China / South Korea, and North America—giving us a presence in those markets from plantation operations right through to housing. In addition to our investment in a particle board factory in Vietnam, currently under construction, we intend to bring our plywood manufacturing business in China up to speed as quickly as possible. In the renovation business, we rolled out an integrated home renovation brand, *Reforest*, in fiscal 2010. Under this brand, we aim to tap into a wide range of demand for remodeling and renovating detached housing and homes from traditional Japanese-style houses to condominiums, by leveraging our strong technical skills and ability to flexibly respond to customer needs. In the real estate business, we will focus on the detached spec homes business and leasing business and leverage the combined strengths of the Group to develop them so that they support our entire housing business.

Moreover, effective from fiscal 2011, we established two new teams to accelerate business development under the direct leadership of senior management: the Strategic Business Research Department, which will develop new businesses in Japan and abroad and explore M&A opportunities, and the Wood-Use Integration Department. We also set up the Sumitomo Forestry Business Institute and increased support for education and technical training to raise the skills of our workforce.



[ Promote wider use of wood ]

**Q** As a corporate Group focused on timber, what are your plans for new businesses?

**A** We plan to move into a range of new business areas related to timber and housing. In order to generate added value from wood, we aim to expand its possibilities and promote its wider use, and reinforce environmental businesses in ways unique to Sumitomo Forestry.



Large-scale forestation project currently being implemented with a local Indonesian company

As a company that was originally focused on forest management in Japan, we have created a wide range of added value from timber in the housing-related field through the distribution, manufacture and processing of timber and building materials and through a move into the housing business. We view forests and timber as precious renewable resources that absorb and retain CO<sub>2</sub>, rather than as exhaustible resources. We think they will play critical roles in a society in harmony with the environment.

In fiscal 2011, we established the MOCCA (Wood-Use Integration) Department under my direct control in order to expand the possibilities of timber and promote its wider use. This department will oversee our efforts to increase applications for timber through greater use of wood construction and wood materials in building structures. In Japan, we expect timber resources to be used more widely in the future, partly due to the enactment of new legislation aimed at promoting the use of wood in public buildings. Based on this outlook, we will work closely with our Tsukuba Research Institute, which conducts cutting-edge timber research, to promote wider use of wood across all areas of the Group.

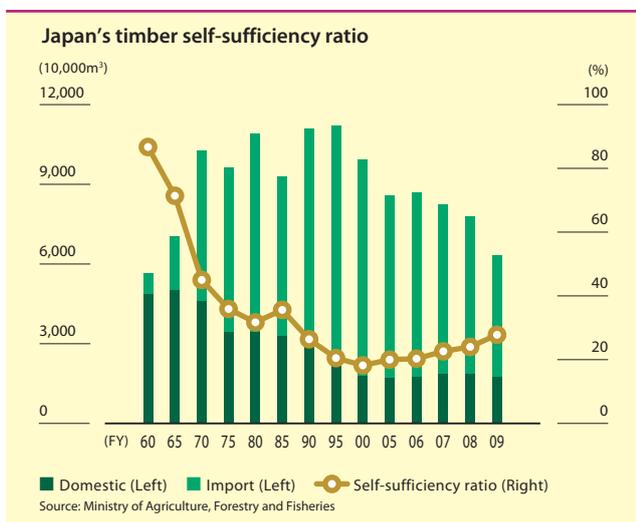
Forest management and forestation is attracting worldwide attention as a new environmental business. In Japan, we are expanding the amount of Company-owned forests we manage, increasing the area of privately owned forest managed by our forestry management outsourcing business, and providing assistance for the acquisition and sale of carbon credits. Overseas, we are pushing ahead

with a major forestation project in Indonesia that will ultimately create 280,000 hectares of forests. Also, in the field of wood biomass power generation, where we already have a track record after installing a system at our Indonesian building material manufacturing affiliate, PT. Rimba Partikel Indonesia, we established Kawasaki Biomass Electric Power Co., Ltd. in Japan in fiscal 2010 and achieved other progress in wood-related environmental business.

This year has been designated as the International Year of Forests by the United Nations. Although Japan is a heavily forested country, with forests accounting for around two thirds of its land area, the forestry industry in Japan has stagnated and less than 30% of our timber needs are met from domestic sources. The government has said it wants to boost this figure to 50% by 2020. Amid rising interest in forest resources in Japan and worldwide, spurred by the International Year of Forests, we plan to leverage our uniquely fortunate position of being able to grow as a business and have a positive impact on the global environment through the very pursuit of our business activities. Looking further ahead, we will deepen our involvement in forestry, the foundation of our business, aiming to become the world's leading forestry company with a level of influence in the global timber and building materials market that matches that name.



Wood biomass power plant (Kawasaki Biomass Electric Power Co., Ltd.)





[ Policy on Dividends and Retained Earnings ]

**Q** What are your thoughts on the distribution of profits?

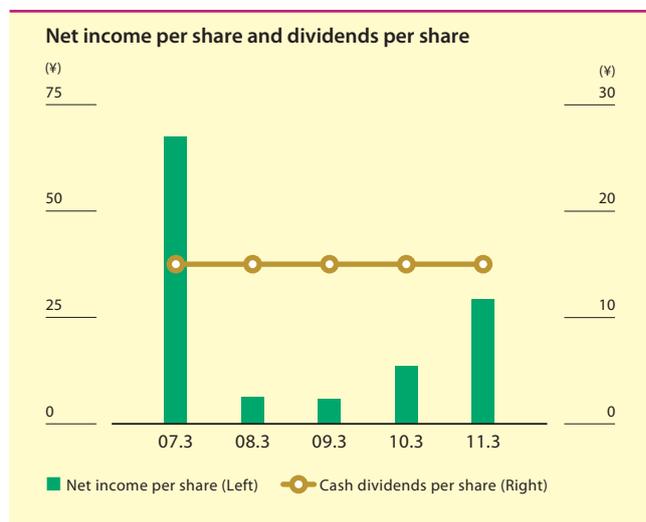
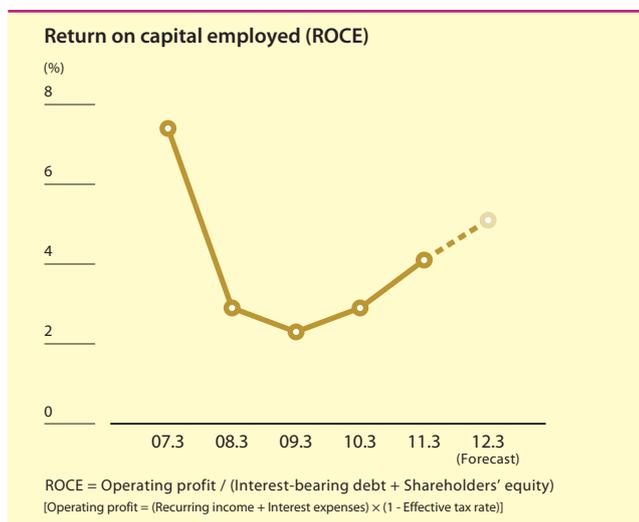
**A** While maintaining the payment of a stable dividend as a basic policy, we will invest in growth fields to respond to future changes in our business environment and build an earnings base for the medium- to long-term.

The payment of returns to shareholders is one of our principal concerns and our basic policy is to pay a stable return. For fiscal 2010, we maintained the full-year dividend at ¥15 per share. We intend to use retained earnings to respond to future changes in our business environment and to conduct effective investment and research that contributes to our long-term management objective of increasing corporate value. Going forward, we will continue working to improve our ability to generate earnings as reflected in a rising return on capital employed (ROCE)—a key management indicator—as we pay appropriate shareholder returns that are in line with our earnings and reflect a balanced consideration of factors like our business fundamentals, financial condition, and investment plans.

Finally, the tragedy of the Great East Japan Earthquake underlined for me again that living in peace and comfort is something we all crave. Housing, which is such an important aspect of our everyday lives, will always remain a key area that

we need to constantly improve. We have provided, and we will provide housing that is secure, safe, comfortable, healthy to live in, and environmentally friendly. Guided by our corporate philosophy, the Sumitomo Forestry Group will strive to create a prosperous society by supplying high-quality housing-related services and homes.

We face constant change, but no matter how much things change, we will always stay true to our roots and fulfill our role as a company based on the Sumitomo Spirit, which urges that “We conduct business that is beneficial to society based on the principles of integrity and sound management.” This also requires that we constantly work to improve the quality of our business and maintain and strengthen our earnings base. Our goal is to meet the expectations of all our stakeholders by reinforcing our core businesses and rapidly building the balanced business portfolio envisioned in our long-term management plan.





## *Special Feature*

# The Evolving *Sumitomo Forestry Home* Houses

**Aiming to create safe homes with low environmental impact that maximize the qualities of wood**

Since the Great East Japan Earthquake, there has been growing interest in the safety of homes due to concerns over damage caused by the disaster in Japan. Also, energy efficiency has become a public issue following power shortages after the nuclear accident, with Japan's energy future now a common topic of discussion. In this feature section, we look in more detail at the safety and durability of *Sumitomo Forestry Home* houses and our environmental performance such as energy efficiency. We also reveal some of the initiatives we are taking to develop new types of housing for the future.

# 01 The safety of Sumitomo Forestry Home houses

Utilizing three construction methods to achieve high levels of safety, we build wood-frame homes based on proven technology and provide support to ensure our customers enjoy safe and comfortable living environments for many years.

## Home development underpinned by an intimate knowledge of wood

On an equal-weight basis, Japanese cedar has roughly four times the tensile strength of steel\*<sup>1</sup> and around six times the compressive strength of concrete\*<sup>2</sup>. Japanese cypress, meanwhile, has extremely good durability, lasting for roughly 2,000 years after harvesting. These examples illustrate the excellent performance of wood as a construction material. Also, logs of a certain thickness that catch fire form a carbonized layer on the surface that delays the spread of flames to the center of the wood. All our custom-built wooden houses, which combine these characteristics of wood with our unique technologies, achieve the highest level of earthquake resistance and long-term durability based on the Japanese Housing Performance Indication System.

\*1. The maximum stress textiles, steel or other materials can withstand without tearing or rupturing while being stretched in one direction.

\*2. The maximum compressive load a material can withstand.

## Multi-Balance construction method: Combining traditional techniques with cutting-edge technology

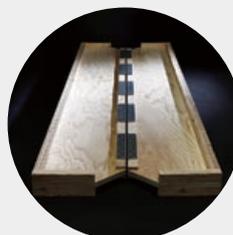
Our proprietary Multi-Balance construction method is an evolution of the traditional Japanese wooden post-and-beam construction method that has a proven track record in many of our homes, including our mainstay *MyForest* range. The traditional post-and-beam frame construction method is enhanced with our original load-bearing wall materials such as *Kizure Panels*, *D-Panels*, and *Tough Panels*, resulting in an extremely robust structure that can safely withstand repeated shocks from major earthquakes or typhoons. A key feature of this construction method is the use of laminated engineered wood such as *Super Cypress*, which is roughly 1.2 times stronger than ordinary natural wood, while the *Earthquake Energy-Absorbing Panels (GS Panels)* used in the structure are highly resistant to earthquake shocks, reducing building deformation during major earthquakes by up to approximately 70%\*. These panels are fitted as standard to our custom-built detached houses *MyForest [GS]* and can also be added as an option to other homes built with the Multi-Balance construction method

depending on construction conditions. A growing number of our customers are choosing to add these panels to their new home plans.

\*Compared with the ordinary diagonal strut construction method.



**MyForest [GS] (built with the Multi-Balance construction method)**  
A custom-built detached house fitted with *Earthquake Energy-Absorbing Panels (GS Panels)* as standard that are highly resistant to earthquakes. The panels further enhance the earthquake resistance of the Multi-Balance construction method.



### **Earthquake Energy-Absorbing Panels (GS Panels)**

Our panels convert earthquake tremors into heat to significantly reduce damage to the building. They do not tend to degrade over time and maintain their earthquake resistance for a long period.

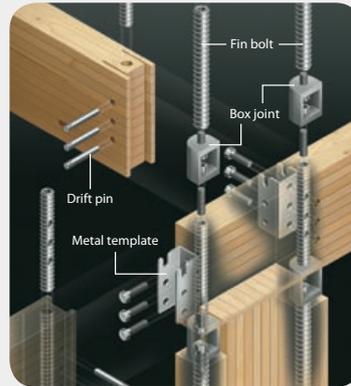
## Big-Frame construction method: Excellent earthquake resistance and high degree of planning freedom popular with customers

The Big-Frame construction method is based on a building frame with reinforced joints linking the columns and the beams, supported by a Rahmen structure that precludes the need for durable facings\*. The end result is a construction method for wooden houses that is unique to Sumitomo Forestry. Big columns, with five times greater width than columns in typical construction methods, are connected to the beams with reinforced metal components, resulting in high earthquake resistance without the need for durable facings and creating an extremely robust overall structure. The method creates open living spaces, allowing greater freedom at the home planning stage and offering more possibilities to change the layout in the future. In order to encourage wider uptake in the market for Big-Frame housing products, we are actively working to boost visibility and reduce costs to drive sales higher.

\*Walls capable of withstanding horizontal loads from earthquakes and strong winds.



**BF-Si (Big-Frame construction method)**  
An extremely safe structure that also realizes open living spaces.



The large columns and the beams which directly convey strength are connected by originally developed Big-Frame joints comprised of all-metal parts (fin bolt, box joint and template). This results in a highly rigid, robust wooden structural framework with very little rattle or compressive strain.

## Two-by-Four construction method: Realizing multi-story construction in fire prevention zones

The two-by-four construction method uses a six-sided box monocoque structure\*, giving the building high earthquake resistance that prevents distortion and deformation. The rear sides of walls and the roof, which tend to become a path for flames during a fire, are made using a fire prevention structure. The homes are also designed as firebreaks, are resistant to heat from fires in neighboring buildings and employ exterior wall structures that are resistant to damage. The resulting package is a building with advanced, multiple fire resistance features. The two-by-four construction method was given approval as Japan's first fire-resistant wooden frame in 2004. This enabled the construction of wooden buildings in certain sizes and regions and for certain purposes that had previously been forbidden. Our first four-story housing product, the *EARLYbird-For*, employs wood in the design to create warm and extremely safe living spaces, giving customers the option to also create spacious family living environments in urban areas where building codes

are particularly strict. These products also meet the need for houses with adjoining rental apartments or shops.

\*A construction method that uses the walls, floor and ceilings as an integrated whole to support the structural load.



**Exterior view of the *EARLYbird-For*, our wood-construction four-story fire-resistant housing**  
Highly resistant to fire and earthquakes, this product's four-story construction enables the efficient use of small plots in urban areas and has enough space for two families to live in comfort.



← Direction of the fire  
 → Air inside walls and ceilings  
 Gypsum board  
 Structural plywood

**Fire stop structure**  
A structure designed to confine fires to single floors or rooms, making it difficult for the fire to spread to the rest of the building.

### Extensive guarantee and support system

Sumitomo Forestry provides extensive long-term and regular backup to customers to ensure their houses remain safe places to live. We guarantee the structure and water resistance of our homes for 20 years, 10 years longer than required by law. For homes that have been approved as excellent long-term housing by the government and local authorities, we provide a guarantee system of up to 30 years. Customers can also call a phone helpline 24 hours a day, 365 days a year and we have a regular maintenance system and program in place that can be used for up to 60 years for the life of the home.

## 02 Energy efficient and environmental features

Our homes are based on energy efficient design technology that harnesses the power of nature. They also come fitted with equipment that reduces energy consumption and CO<sub>2</sub> emissions, giving our homes extremely advanced environmental performance.

Moreover, we take steps unique to Sumitomo Forestry in our planting efforts that offset CO<sub>2</sub> emissions during the construction phase.



### Ryouonbou: Using the power of nature to achieve energy efficiency

Energy used in the home is mostly for heating and cooling. We have adopted some of the knowledge and innovations from traditional Japanese homes that can adapt to changes in the weather to create our *Ryouonbou* design process, which is aimed at improving the energy efficiency of homes. *Sumitomo Forestry Home* houses comfortably exceed the insulation and hermetic performance defined in next-generation energy conservation standards\*, which equate to the highest level of heating performance in the Japanese Housing Performance Indication System. Leveraging these characteristics, we design

floor plans that draw the breeze and sunlight into the home and plant shrubs in optimum locations to create comfortable living spaces that do not rely too much on heating or cooling systems.

\*Japan's energy conservation standards were created in 1980 to reduce energy consumption in homes. Since then, these standards have been revised and strengthened, with new energy conservation standards introduced in 1992 followed by next-generation energy conservation standards in 1999. *Sumitomo Forestry Home* houses achieve the highest level (4) in the next-generation energy conservation standards.

### The *Ryouonbou* design concept

In summer, our homes are cooled by blocking sunlight and by creating paths for the breeze to carry away heat. In winter, we maximize the rays of the sun and prevent heat from dissipating to keep the home warm.



#### Summer

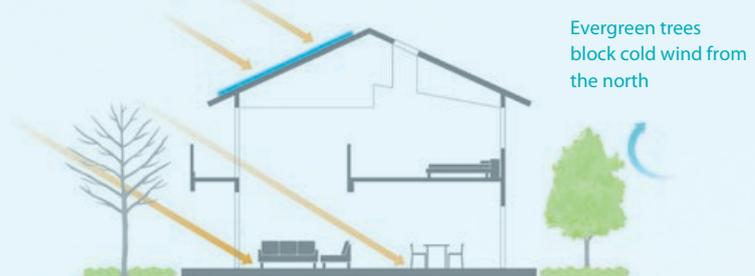
Block the sunlight using deciduous trees



Cool air from north-facing greenery comes indoors

#### Winter

Sunlight enters the interior after the leaves fall from the trees



Evergreen trees block cold wind from the north

## Using solar power and fuel cell units to promote energy efficiency

We strongly promote energy saving through our houses. The *Solabo*, our eco-housing product, features environmental equipment as standard and introduces the *Ryouonbou* design concept, boosting its environmental performance. We are also promoting energy efficiency by increasing the ratio of environmental equipment fitted in our other housing products.

We estimate that one of our homes with a solar power system and hot-water heating system that efficiently uses solar energy to heat the water generates up to around 66% less CO<sub>2</sub> emissions over the course of a year than a normal home. This figure rises to a maximum of roughly 76% when an *ENE FARM* household fuel cell is also installed. The *ENE FARM* fuel cell generates electricity from a chemical reaction between hydrogen extracted from gas and oxygen in the air.

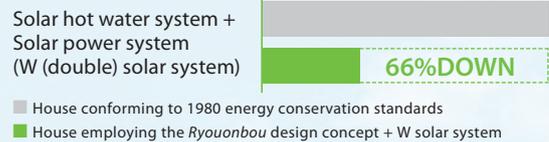


Environmental housing product *Solabo*, which generates its own energy

\*Assumptions for calculations:

- Comparison between a home (using both electricity and gas, hot-water system; ordinary gas water heater) built based on the 1980 energy conservation standards, a Sumitomo Forestry home based on a *Ryouonbou* design concept with a solar power system (3.84kW) and a variety of environmental equipment and gas appliances (electricity and gas dual use). Heating and cooling systems employed are air conditioning units and under floor heating in the living room. The home used for modeling purposes was a two-story home that belongs to region IV of the geo-climatic regional division of the energy conservation standard for heat insulation performance, with floor area of 130.83m<sup>2</sup> accommodating a family of four.
- CO<sub>2</sub> emissions per unit of electricity: 0.555kg-CO<sub>2</sub> / kWh; CO<sub>2</sub> emissions per unit of gas (processed natural gas): 2.29kg-CO<sub>2</sub> / m<sup>3</sup>.
- The home we used for modeling purposes was based on certain assumed conditions that may diverge from actual conditions due to differences in occupant lifestyles, weather conditions and the location of the building.

### Comparison of annual CO<sub>2</sub> emissions

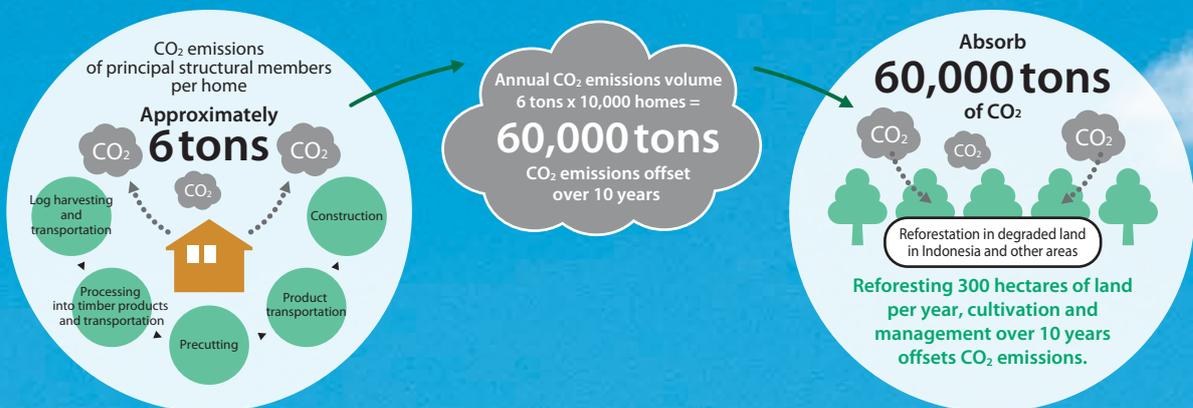


## Wooden houses that stock CO<sub>2</sub>; carbon offset initiatives

Compared with steel or concrete houses, wood houses generate less CO<sub>2</sub> emissions during the construction phase. Typical wooden houses\* also stock a carbon volume equivalent to the amount stocked by a forest covering 3.5 tennis courts (around 900m<sup>2</sup>). We actively use domestically produced wood for principal structural members and promote the use of our forests in Japan as CO<sub>2</sub> absorbs. We also replant trees

in degraded forests in Indonesia and other areas equivalent to twice the floor area of each house we build, offsetting CO<sub>2</sub> related to principal structural members during the construction phase. In these ways, we are working to contribute to the environment even as we build houses for our customers.

\*Assuming carbon volume of around 6 tons stocked into wood used to build a home with a total area of 136m<sup>2</sup>.



## 03 Developing new types of housing for the future

We are aiming to help prevent global warming by ensuring the most efficient supply-demand energy balance possible for the whole of society. Specifically, our goal is to create *Sumitomo Forestry Home* houses that conserve, generate, store and visualize energy, and push forward with the development of technology compatible with smart grids\*.

### Aiming to create life cycle carbon minus homes

Sumitomo Forestry is conducting research and development on lifecycle carbon minus (LCCM) homes. LCCM homes achieve a negative carbon footprint over their lifecycle by offsetting the CO<sub>2</sub> generated during the construction, occupancy and dismantling stages with solar power and heating and other forms of renewable energy during occupancy.

Developing technologies that conserve, generate, store and visualize energy is vital to making LCCM homes a reality. Specifically, we are enhancing insulation efficiency and using highly efficient equipment to boost the energy efficiency of our homes, using solar power generation systems and household fuel cells, and installing electricity storage batteries for when power is not needed. We also need to create a home energy management system (HEMS) that optimally manages overall energy supply and consumption within the home and that also communicates those conditions to the occupants.

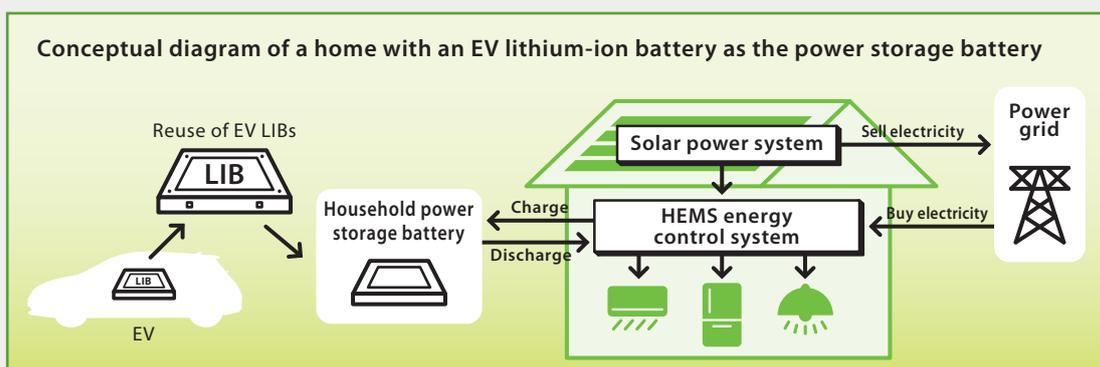
At the APEC conference held in Yokohama in November 2010, we participated in the Yokohama Smart City Project demonstration, revealing our LCCM concept model for the first time. The concept model featured an electric vehicle

high-capacity Lithium-ion battery as the home's power storage battery, which could be recycled into batteries in the future under a project we also outlined. We also explained the progress we are making with HEMS. In addition, we are currently carrying out a testing program, including the construction of a trial home to monitor the performance of an installed household power storage system.

The role of homes in society is undergoing a significant change. Based on our overriding goal of supplying homes that are comfortable and that people can live in with peace of mind, we will continue to do our part to realize a sustainable society by driving the continued evolution of *Sumitomo Forestry Home* houses so that they are energy efficient and help prevent global warming.

\*Smart grids:

Next-generation power grids that utilize IT to constantly optimize power supply and demand. The goal with smart grids is to develop highly efficient, high-quality, and extremely reliable power supply systems by controlling distributed power sources such as existing hydro and thermal power generation facilities and new energy sources such as wind and solar power.

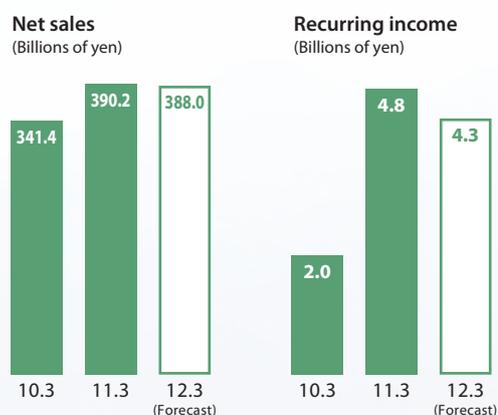


# Business Strategies by Segment

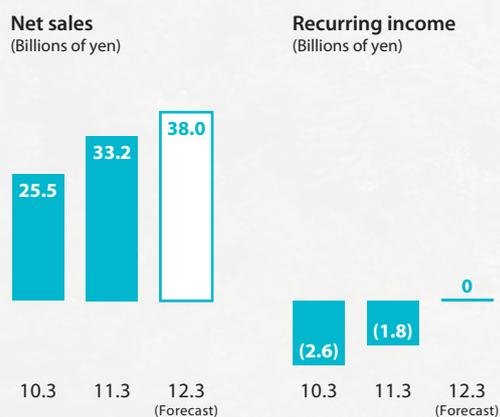
## Introduction of business strategies in fiscal year 2011 by segment

(Year ended March 31)	Net sales (Billions of yen)		Recurring income (Billions of yen)	
	2011	2012 (Forecast)	2011	2012 (Forecast)
Timber and Building Materials Business	390.2	388.0	4.8	4.3
Overseas Business	33.2	38.0	(1.8)	0
Housing Business	346.3	367.0	19.0	18.5
Real Estate Business	50.9	48.0	0.9	0.5
Other Businesses	13.5	11.0	0.5	0.3
Adjustment	(36.7)	(37.0)	(9.2)	(5.1)
Total	797.5	815.0	14.2	18.5

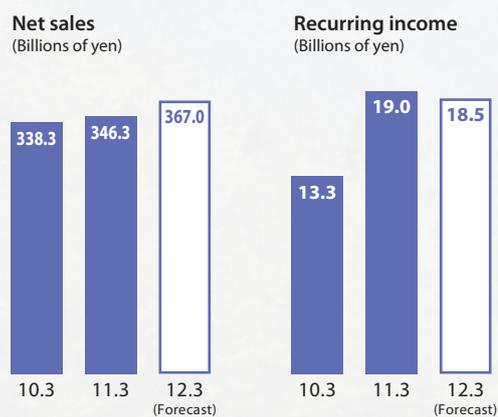
### Timber and Building Materials Business



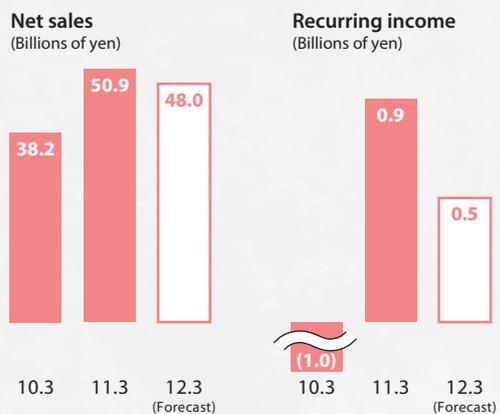
### Overseas Business



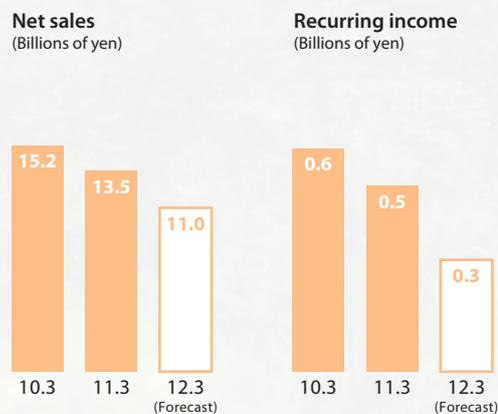
### Housing Business



### Real Estate Business



### Other Businesses



\*1. Figures are rounded to nearest yen.

\*2. Net sales and recurring income of each segment shown include inter-segment transactions. For the year ended March 31, 2010, figures by new segments are calculated from the results of old segments for reference only.

\*3. In this annual report, the domestic forestry business, which falls outside the scope of the reporting segments under the management approach from the year ended March 31, 2011, is reported in the Other Businesses section.



## Timber and Building Materials Business

We operate a distribution business, which sources timber and building materials from Japan and overseas then supplies them to domestic customers, and a manufacturing business, which makes wood building materials in Japan.

We have the top market share in Japan (based on timber and building materials volume handled) and have created a procurement system that allows us to secure stable supplies from around the world. We are also working to develop and promote the use of sustainable timber products.

### Strategy for medium- and long-term growth

The timber and building materials business is likely to face ongoing fluctuations in supply and demand for a while owing to the impact of the earthquake. However, using our domestic and overseas procurement network, we will work to ensure a stable supply of products while carefully monitoring procurement and sales and managing inventories in accordance with market needs. In addition, we will endeavor to boost earnings stability over the medium- to long-term in timber and building materials, one of the core businesses in the Group. To realize this goal, we will expand our market share in existing businesses by reinforcing our regional strategy, and develop new businesses in the distribution and IT infrastructure fields. We also plan to create new products by drawing on the strengths of the whole Group.



Super Cypress, laminated engineered wood

### Expanding market share and developing new businesses

Leveraging our leading market position in Japan, we aim to increase our market share further by rolling out an area strategy that helps our customers in each region to overcome the operational issues they face. Amid continued buoyant demand in emerging economies, we plan to use our global procurement network for timber and building materials to ensure domestic customers have access to stable supplies.

In new businesses, we are focusing on expanding our homebuilding materials distribution business, which we started in fiscal 2010, including initiatives such as the launch of Japan Housing Open Platform (JHOP), a new business system for building contractors offered as a cloud computing service. Also, using the INOS business, a network that unites Sumitomo Forestry and local homebuilders, we are working to boost sales of building materials in the domestic renovation market, which offers good prospects for growth.

## Drawing on the Group's strengths in product development

In product development, against the backdrop of expansion in environmental and renewable energy businesses, we plan to enhance our ability to supply plantation and timber cut from forests that have received forestry certification, and reinforce the development and sale of logs and timber products for the Asian market.

In 2009, we launched *KIKORIN-PLYWOOD*, an environmentally sound plywood product containing at least 50% timber sourced from certified or plantation forests. Sales volume for this product is growing steadily. The ratio of plantation or certified timber used in the plywood we import now exceeds 40%, and this is set to rise further. In other building materials and MDF\*, we also intend to strengthen our lineup of environmentally sound products both in Japan and overseas.

Additionally, we established Kawasaki Biomass Electric Power Co., Ltd. as a three-way joint venture with partners

SUMITOMO JOINT ELECTRIC POWER CO., LTD. and FULUHASHI EPO CORPORATION. In February 2011, operations began at the company's Kawasaki Biomass Power Plant, which is Japan's largest plant using only wood-based biomass as the fuel. The plant makes wood chip fuel from timber left over from construction work, then uses the fuel to generate electricity. In this way, we aim to promote the reuse of timber and more efficient use of forest resources, as well as help prevent global warming through carbon-neutral power generation.

\*Medium density fiberboard: an engineered wood product made by forming wood fibers into panels.



Wood Biomass Power Plant, Kawasaki Biomass Electric power Co., Ltd

## Japan Housing Open Platform (JHOP)



Topic

### Providing software and systems to building contractors as a cloud computing service

Amid a shrinking housing market in Japan, we believe it is vital to support building contractors, who play a key role in local housing construction markets, in order to energize the timber and building materials market. With this in mind, we launched JHOP in July 2010. Developed in conjunction with NEC Corporation, JHOP provides cutting-edge software and systems over the internet at a reasonable price to companies in the house building industry (building contractors, design offices, and building material suppliers and manufacturers). The service provides marketing support and enables them to streamline work processes.

After free registration, users can access the applications they need on a pay-as-you-go basis. JHOP provides a suite of integrated functions for administrative work that occurs in each stage of the house construction process, such as building design, estimate formulation, building process management, project execution, and after-sales maintenance. This support is also being upgraded. Using our unique position in the detached housing market as a materials distributor and house

builder, we plan to promote JHOP in both the building contractor and homebuilding materials fields in order to energize the market overall.

#### <Key JHOP services>



#### JHOP 3D home visualizations

JHOP allows users to create high-quality home visualizations using 3D computer graphics.





## Overseas Business

In each of our operating areas, we operate vertically integrated businesses comprising plantation forestry, building materials manufacturing, timber and building materials distribution, and housing.

We cultivate plantation forests to provide raw materials for wood product manufacturing, and develop and sell wood building materials using the timber from certified and plantation forests. We also offer housing products that draw on the know-how we have accumulated in our domestic housing business.

### Strategy for medium- and long-term growth

In our overseas business, we aim to create upstream-to-downstream, vertically integrated businesses related to wood in four operating areas: North America, Southeast Asia, Oceania, and China / South Korea. Utilizing the connections between businesses in each area, we are working to create horizontal synergies by expanding business transactions between Group companies, creating a mutual backup system for manufacturing businesses, and sharing business approaches.

Based on this strategy, we aim to stabilize profits in our entire overseas business by rapidly implementing measures at existing businesses where profitability needs to improve and by channeling management resources into new businesses that we are developing as future sources of profits.

### Expanding plantations to grow earnings

The Sumitomo Forestry Group has plantation operations in countries such as Indonesia, Papua New Guinea, and New Zealand. The trees cultivated at these plantations are used as a raw material for our wood products. These businesses also contribute to the environment by restoring degraded forests and preserving biodiversity. In order to rapidly turn forestry operations into a standalone source of earnings, we are reinforcing cooperation within the Group, enhancing information sharing capabilities, strengthening our sales organization, and expanding the total area of forests under management to realize economies of scale. In 2010, we also began planting activities in earnest at a large-scale reforestation project in Indonesia.



Wood building materials manufacturing process



Planting activities in Indonesia

## Rapidly achieving profitability in manufacturing businesses in growth markets

We are strengthening our building materials manufacturing businesses overseas to tap into solid demand growth in emerging economies. We aim to rapidly achieve full output at our plywood manufacturing business in Fuxin, China, which began commercial operations in 2010. We also plan to start production at a new particle board manufacturing operation in Vietnam by 2012. Targeting higher sales in emerging growth markets, the Group is working to reinforce marketing structure and increase operational efficiency.



Fuxin Sumirin Wood Products Co., Ltd.

## Generating group synergies in the overseas housing market

The Sumitomo Forestry Group has housing businesses in four countries: the United States, China, South Korea, and Australia. In Australia, where the housing market is buoyant, we operate a detached housing business through our stake in the Henley Properties Group. We have also started a local business for developing housing land as part of our growth strategy for the market. In the housing business in the United States, we are introducing business methods used at the Henley Properties Group to boost profitability at existing operations, as well as other initiatives to maximize synergies across the Group.

\*Sumitomo Forestry Australia Pty Ltd., a wholly owned Sumitomo Forestry Group company, has a 50% equity stake in the Henley Properties Group.



Home built by the Henley Properties Group

## Reinforcing our vertically integrated business

Topic

### Moving into housing land development in Australia, strengthening our business base in the United States

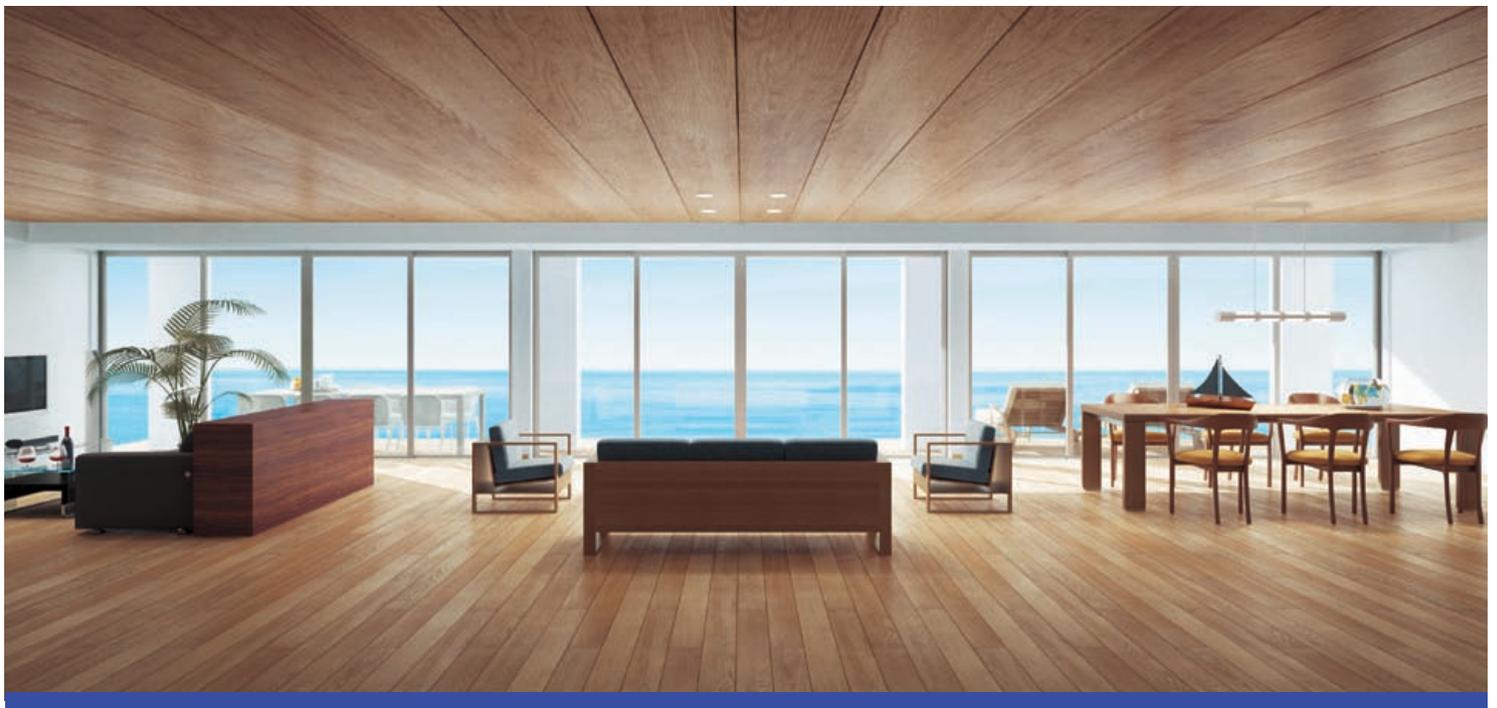
In all of our operating areas worldwide, we are rolling out initiatives to strengthen the foundations for our vertically integrated business. In Australia's buoyant suburban housing markets, where demand is stable, housing supply has fallen short of demand in recent years. We have launched a housing land development business in Australia to diversify our land procurement methods. In December 2010, we established Grices Road Unit Trust through the Henley Properties Group, and this trust has started acquiring land in the Melbourne suburbs for use as sites for spec homes.

In addition, we established Henley USA, LLC in July 2010 to rebuild our housing business in the United States. This company has started a spec homes business in Seattle in the United States using the successful business approaches of the Henley Properties Group in Australia on a trial basis. In March 2011, we also decided to acquire all the shares in Canyon Creek Cabinet Company, a United States company making and selling wood cabinets. This

acquisition has given us a new manufacturing capability in North America.

The Group intends to further strengthen its business base overseas over the medium- and long-term to boost profits.





## Housing Business

Centered on custom-built wooden homes, we operate a wide range of lifestyle-related businesses, including wood construction apartment buildings, renovation and landscaping.

In custom-built wooden homes, we have several leading brands and hold a top market share. Our homes offer superior safety and energy efficiency and showcase the beauty of wood, making them relaxing places to live in.

### Strategy for medium- and long-term growth

Although we forecast demand will emerge due to restoration and rebuilding work in the areas affected by the Great East Japan Earthquake in fiscal 2011, deterioration in housing market sentiment and rising prices for building materials are concerns. In this business environment, we will work to secure orders in the custom-built detached housing business by satisfying customer needs for safety and earthquake resistance, as well as by implementing a locally focused marketing strategy to generate stable profits. In the renovation and wood construction apartment building businesses, we will continue to strengthen marketing and work to expand the businesses further.

Creating a highly targeted area strategy, increasing orders in urban markets, and attracting varied customers using the internet and other channels

In regional sales, we have created a more targeted nationwide area strategy by revamping our 9-zone sales area into a 20-zone area. Based on this new framework, we will reinforce marketing strategy in each area by tailoring sales activities to local characteristics and customer needs. In the three largest urban markets (Tokyo, Osaka, and Aichi), where rebuilding

demand is strong and there are good prospects for order growth, we will reinforce marketing activities by focusing on developing products and model homes that accurately target housing needs in each area. We plan to particularly reinforce marketing in Aichi Prefecture, where the market is expected to continue growing. We also aim to use more diverse channels to attract customers, such as web-based advertising and marketing events. We already hold *Sumai Haku* housing fairs, where potential customers can experience Sumitomo Forestry houses for themselves to gain a better understanding of technology and features. From fiscal 2010, we also started running *Web Sumai Haku* housing fairs on the internet, with some success. Going forward, we intend to use the internet to target a wider range of customers. Other methods we intend to use to actively attract customers include sales initiatives to secure introductions from existing owners of Sumitomo Forestry homes and from ordinary companies.



*Sumai Haku* housing fair

## Enhancing our response to market needs for earthquake resistance and environmentally sound products

We are aiming to promote wider understanding in the market of the superior earthquake resistance and safety of our custom-built detached wooden homes. We also aim to offer a wide range of housing options, such as residential homes, rental properties, and houses that are also used as business premises. In particular, in fiscal 2011, we will boost sales of homes using the Big-Frame construction method and *Earthquake Energy-Absorbing Panels (GS Panels)*. In addition, we intend to develop and strengthen sales of environmentally sound housing equipment such as solar power generation systems and home-use fuel cell units.



Earthquake resistance testing using actual-size structural models

## Strengthening the housing stock businesses

In the renovation business, where demand is likely to expand, we are upgrading our product and services to boost orders. Specifically, we are enhancing renovation services for traditional Japanese-style homes and offering fixed-price services for condominiums and detached housing. We are also continuing to strengthen our workforce to support sales area expansion, and putting a particular focus on sales activities in the Tokyo metropolitan area, the largest renovation market in Japan.

Renovating a traditional Japanese-style home



(Before)



(After)

### Topic

## Integrating home renovation brands under the *Reforest* name

### Creating a clearer and more extensive product and service lineup

We have streamlined the extensive range of remodeling and renovation services offered by Sumitomo Forestry Home Tech Co., Ltd. to make them easier to understand, and in January 2011, we integrated all our home renovation products under a single brand called *Reforest* to enhance market visibility.

Under this integrated brand, Sumitomo Forestry Home Tech relaunched its fixed-price condominium renovation service in May 2011 under a new name, *Reforest Ma:Ri*. The condominium renovation market has been growing in recent years and it now accounts for ¥747 billion of the total ¥4,400 billion housing renovation market\* in 2009. We are committed to taking a number of steps to tap into this growing demand for condominium renovation, including setting up a new Dedicated Condominium Renovation Team targeting Tokyo's 23 wards, and reinforcing sales centered on urban markets

by offering proposals for safe, reassuring homes that draw on the strengths of the Sumitomo Forestry Group to realize interior designs that feature extensive use of wood.

\*Source: Tokyo Kantei Co., Ltd.



*Reforest Ma:Ri*: fixed-price condominium renovation product featuring extensive use of wood



## Real Estate Business

Detached spec home business that creates communities and lifestyles, and real estate development businesses including consulting services for effective utilization of real estate, sales of spec condominiums, management of condominium leasing and residential care facilities for the elderly, real estate brokerage and intermediation, and asset and property management.

### Strategy for medium- and long-term growth

We are reinforcing the operating base in the real estate business, which we have positioned as a peripheral business to support the Group's housing-related business. Specifically, we will work to enhance earnings in the detached spec home business and the real estate development business. In other real estate-related businesses, we aim to deepen ties within the Group while rapidly building an operating structure capable of generating stable profits.

### Initiatives to boost earnings

In the detached spec home business, unit sales of detached housing are rising steadily, and over the medium- to long-term we plan to increase annual sales from the 200-unit level to 500 units. In order to achieve this goal, we will leverage the Sumitomo Forestry brand equity accumulated in the custom-built wooden home business, and maximize strengths such as our ability to offer products that extensively feature wood. In parallel, in the sales system we will improve the sharing of sales information within the Group and work to reduce costs. Focusing on the three largest urban markets of Tokyo, Osaka, and Nagoya, where demand is likely to be firm, we will purchase land to market high-quality yet attractively priced products.



*The House  
Kohoku Tsunashima*



*Forest Garden  
Minami Osawa*

## Securing more stable sources of profits

In the condominium leasing operation of the real estate development business, which offers prospects for steady earnings, we are aiming to stabilize profits from our portfolio of leasing properties by replacing existing properties with higher margin ones in response to changes in real estate market conditions, specifically with respect to residences for single people, families and locations. We will also look at shifting to lower risk properties when building our portfolio of leasing property. In spec condominium development, we will put priority on securing profits from projects currently underway rather than launching new developments.



Residence Court  
Bajikoen

## Reinforcing businesses related to real estate

We will reinforce our position in a range of real estate-related businesses, including brokerage of used housing, management of leasing assets, PFI\* projects, and housing for Chinese exchange students. Also, in management of private-pay elderly care facilities, we will work to further raise the quality of our already high-quality eldercare and improve profitability in order to ensure stable operations at existing facilities.

\*PFI (Private Finance Initiative) is a method for using private-sector capital, management capability, or technological capability to construct, maintain, manage, and operate public facilities and infrastructure.



Grand Forest Shizuoka Aoi no  
Mori, private-pay elderly care  
facility

## Topic

### Forest Garden Keio Horinouchi

#### A residential development based on the concept of linking homes with the community through the use of local timber

*Forest Garden Keio Horinouchi* is a large residential development project with 106 lots, comprising 91 lots for detached spec homes and 15 lots for custom-built homes.

The project is based on the concept of linking homes with the community through the use of local Japanese cypress from the Tama area for some principal structural members in the homes. This creates a local connection that leads to a deeper bond between the houses and the community.

In the detached spec home business, we are creating homes that are safe and reassuring places to live, based on the detailed design capabilities and proven technologies we have cultivated in our custom-built wooden home business, as well as the careful selection of locations emphasizing convenience and the environment. We are also promoting the development of communities with high asset values and long-term livability by taking into account the surrounding environment when creating new communities.



Timber from the surrounding mountains is used in the homes' principal structural members

*Forest Garden Keio Horinouchi*



## Other Businesses

We provide property insurance agency services and comprehensive support to Group companies through the development of IT systems, as well as leasing operations and the manufacture and sale of farming and gardening materials.

In addition, Sumitomo Forestry manages about 42,600 hectares of Company-owned forests in Japan. We are expanding environmentally sound, sustainable forestry management and using that expertise to expand environmental businesses including forestry consulting and outsourced forest management services.

### Making forestry more efficient

Our forestry business is managed in an environmentally sound, sustainable manner under a long-term forestry operation plan. When making acquisitions to expand the area of Company-owned forests, we select forests that enable integrated management with our existing sites. We are also working to make forestry more efficient by carrying out joint operations in national forests adjoining our sites. This approach, together with initiatives such as developing forestry equipment optimized for Japan's difficult mountainous terrain, selling logs directly to timber processing and plywood plants, and introducing sales methods that lower distribution costs, is aimed at further reducing costs to boost profitability.



**Tower yarder**  
A mobile vehicle that enables the collection of wood by an overhead wire line, thus promoting greater efficiency in forestry operations.

### Developing an emission credits business

The Sumitomo Forestry Group is pushing ahead with development of its emission credits business. Specifically, we have secured new offset credits under the Japan Verified Emission Reduction (J-VER) system for CO<sub>2</sub> absorbed by Company-owned forests, and in fiscal 2010, CERs\*<sup>1</sup> were issued to the Group for the first time. These CERs, a type of credit for the reduction of greenhouse gas emissions, were approved for a wood biomass power generation facility\*<sup>2</sup> at Group company PT. Rimba Partikel Indonesia (RPI), which makes wood panels. Going forward, we will look into new ways of securing credits from such forests that we have been maintaining and growing through the prevention of human-caused deforestation and forest degradation, and the implementation of forest conservation, sustainable forest management, and planting.

\*1. Certified Emission Reduction: Credits issued by the United Nations based on the volume of greenhouse gas emissions reduced by CDM-approved businesses.

\*2. A Clean Development Mechanism (CDM) business approved by the United Nations.



Wood biomass power generation facility at RPI

## Expanding new environment-related businesses

Leveraging our forestry management technology, we are working to create and grow environment-related businesses over the medium- to long-term, based on the environmental contribution of the core businesses in the Sumitomo Forestry Group, such as outsourced forestry management services for forests owned by other companies, and overseas plantation consulting, as well as initiatives in various biomass energy fields using mainly wood.



Forestry management

In order to expand these environment-related businesses, we established the Environmental Business Department in April 2010. This department oversees and supports all environmental projects in the Group worldwide and leads the effort to develop new and unique environmental businesses capable of contributing to future profits.

Plantation forest operations



(Before)



(After)

## Utilizing the J-VER offset credit system

Topic

### Generating new value from Company-owned forests in Japan

The J-VER offset credit system was established by the Ministry of the Environment in November 2008 as an offset credit system specific to Japan to aid the shift to a low-carbon society.

In January 2010, Sumitomo Forestry's 233 hectare Company-owned forest in Miyazaki Prefecture secured approval for credits as a CO<sub>2</sub> sink. This was the first approval for a sustainable forest management promotion project\* under the J-VER system. Since approval, we have sold credits to various companies and used them for a number of events.

In fiscal 2010, we sold some credits to external parties and used them to offset CO<sub>2</sub> emissions related to the running of our model home sites nationwide. We also actively used the credits to contribute to the environment. Specifically, we donated J-VER offset credits to the Interactive Fair for Biodiversity, held in conjunction

with the 10th Conference of the Parties (COP10) to the Convention on Biological Diversity in Nagoya, Aichi Prefecture, to offset CO<sub>2</sub> emissions from power used at the fair.



Sumitomo Forestry's booth at COP10

\*In this annual report, the domestic forestry business has been included in the Other Businesses section, as it now falls outside the scope of reportable segments following the adoption of segment classification based on management approach from the year ended March 31, 2011.

# CSR Management

The Sumitomo Forestry Group places top priority on addressing four material issues to fulfill our corporate social responsibilities.

## CSR Management Policy

Aiming for the realization of our corporate philosophy and to create "corporate quality" worthy of the trust of society, Sumitomo Forestry Group believes it is essential to balance three aspects of corporate social responsibility management: economy, society, and environment.

To ensure that all employees understand our CSR management policies and act on them, the Group has published Our Work and CSR, as well as Our Values and Ideals. The Group also determined four

material issues to be given priority in its initiatives, aspiring to the realization of a sustainable society.

1. Providing Timber Products and Materials from Sustainable Forests
2. Providing Environmentally Friendly Homes
3. Promoting Global Warming Countermeasures through Our Business
4. Promoting Family-Centric Employee Lifestyles

## Corporate Philosophy

The Sumitomo Forestry Group utilizes timber as a renewable, healthy, and environmentally friendly natural resource, and contributes to a prosperous society through all types of housing-related services.

## Action Guidelines

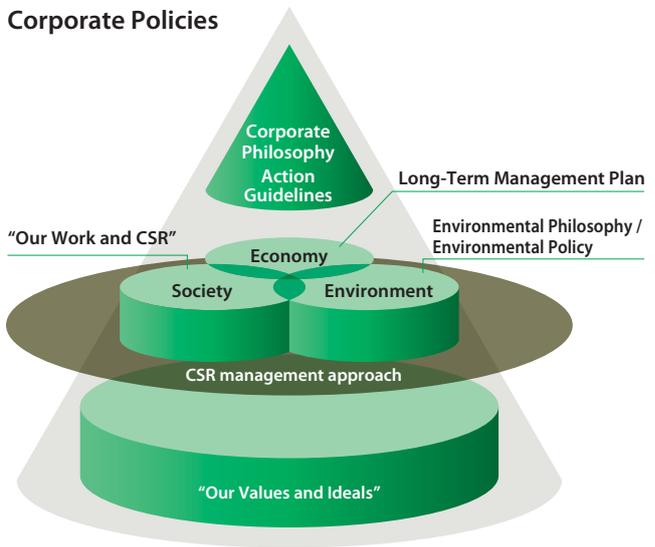
**Sumitomo Spirit:** We conduct business that is beneficial to society based on the principles of integrity and sound management.

**Respect for Humanity:** We create an open and inclusive corporate culture that values diversity.

**Symbiosis with the Environment:** 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.

## Corporate Policies



For more information about our corporate policies, please refer to: (<http://sfc.jp/english/corporate/policies/>)

## The Great East Japan Earthquake: Helping the disaster region recover



The temporary housing construction team onsite

Sumitomo Forestry has provided funds donated by Group companies and employees and constructed temporary housing as part of its efforts to support the recovery effort. Sumitomo Forestry Home Engineering Co., Ltd., which usually constructs custom-built housing for the Group, is responsible for building the temporary housing. More than 220 carpenters and other craftsmen, including Sumitomo Forestry Home Engineering workers, worked onsite. The Group also provided peripheral support using its nationwide network, sending supplies to business partners in the region affected by the earthquake and ordering work mainly from companies with head offices or businesses in the region.



President Akira Ichikawa (in green helmet) visited 15 sites in the disaster region, including the temporary housing construction site, to see conditions for himself and supervise activities.

## Corporate Governance

### Basic Policy

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

### Management System

#### Executive Officer System

The Company introduced the executive officer system to separate the management oversight and operational execution functions, with the objective of strengthening oversight and supervision of operations, and to clarify the lines of operational responsibility. The Board of Executive Officers, comprised of all executive officers (15 members, as of June 30, 2011), meets once a month, as a rule, and reports on the status of operational progress.

#### Board of Directors / Executive Committee

The Board of Directors, which is responsible for decision-making and oversight functions of the Group, meets monthly. The seven directors comprising the board make decisions related to all important matters, and confirm business results, etc., as well as strengthening oversight of the execution of operations duties. The Executive Committee meets twice a month to ensure sufficient deliberation of critical issues can be conducted prior to the convocation of Board of Directors meetings. During the year ended March 31, 2011, the Executive Committee met a total of 22 times.

In June 2005, as a policy to provide incentives for directors, the retirement benefit system for directors was abolished and replaced by a remuneration system that is closely linked to business performance.

#### Board of Auditors

Established as a company with auditors, the Company had five auditors, including three external auditors, who oversee operational execution by the directors during the year ended March 31, 2011. We believe that efforts to enhance and strengthen the audit function based on those policies and plan have established management objectivity. Audits are based on the Corporate Auditor Audit Practice Standards, which were revised by the Japan Corporate Auditors Association in March 2011, and the consequently revised Corporate Auditor Audit Practice Regulations and Rules for Board of Auditor Meetings, and have established an effective corporate governance system.

In addition to attending important company meetings, auditors meet once every quarter to exchange views with representative directors regarding business issues and improvements to the auditing environment. A supervisory department has been set up within the parent company to provide management and guidance for various Group companies. In addition, the Group Board of Auditors (a meeting to exchange information), made up of auditors from various Group companies, meets once every two months to ensure the appropriateness of the Group's overall operations.

#### External Auditors

Mr. Hiroshi Miki is an attorney and a noted authority in legal matters, and has been judged capable of conducting audits of the Company's execution of operations from an objective perspective.

Mr. Satohiko Sasaki is a renowned authority in the fields of forestry management and forest resource science, with significant experience in preservation of forests, particularly in Southeast Asia, and has been judged capable of conducting audits of the Company's environmental operations and development of business outside of Japan from an objective perspective. Mr. Satoshi Teramoto is a certified public accountant with a high degree of specialized knowledge of and extensive practical experience in finance and accounting, and has been judged capable of conducting audits of the Company's execution of operations from an objective perspective. None of the three auditors has any capital, personal, transactional or other relationships with the Sumitomo Forestry Group that would constitute a conflict of interest.

#### Attendance of External Auditors at Meetings of the Board of Directors and Board of Auditors (FY2010)

Position and Name	Board of Directors Meetings (convened 16 times)		Board of Auditors Meetings (convened 14 times)	
	Number of meetings attended	% of meetings attended	Number of meetings attended	% of meetings attended
Corporate Auditor: Hiroshi Miki	16	100%	14	100%
Corporate Auditor: Satohiko Sasaki	16	100%	14	100%
Corporate Auditor: Satoshi Teramoto*1	13	81%	11	79%

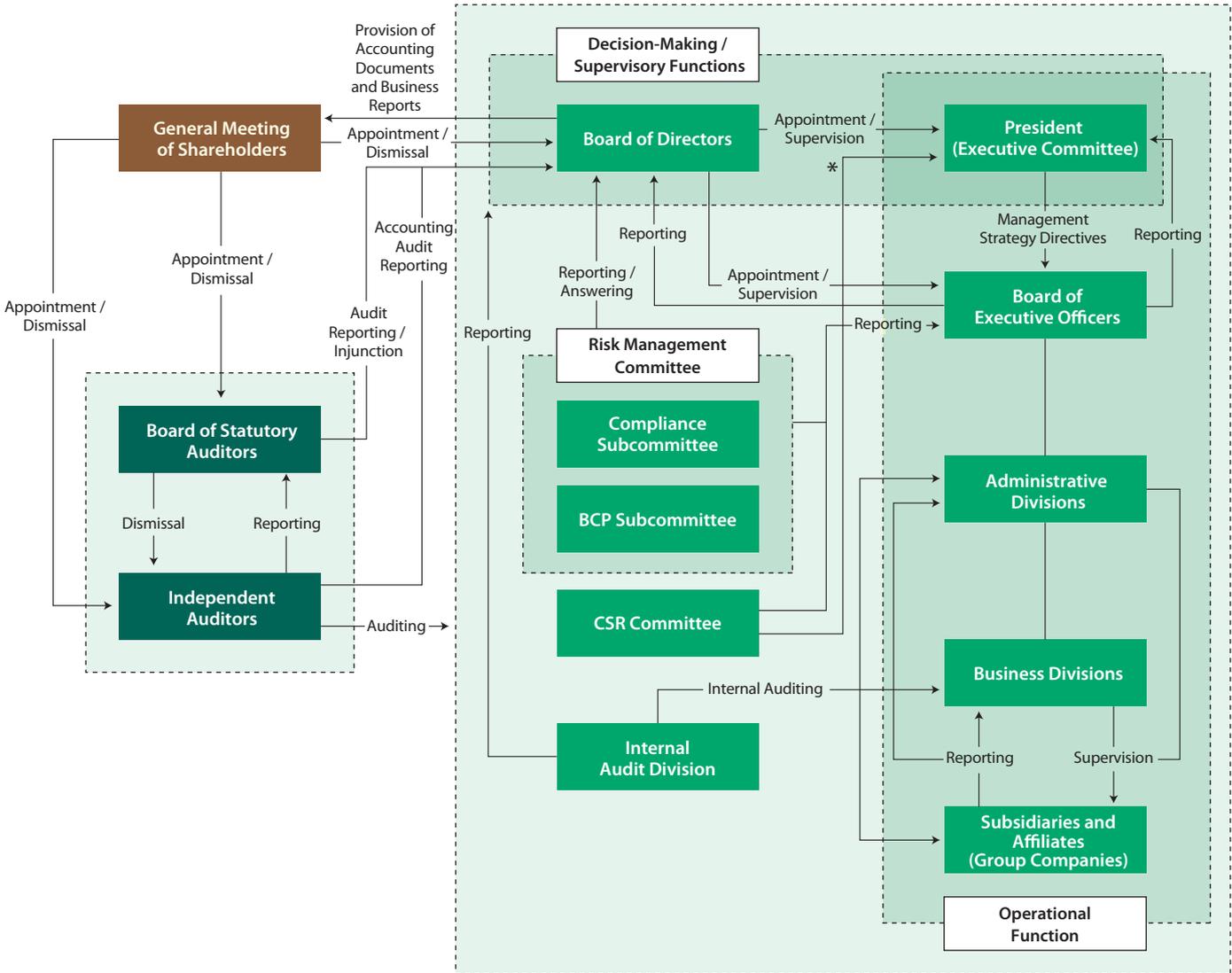
#### Directors' Remuneration, etc.

Directors (8)*2	¥350 million
Corporate Auditors (5)	¥71 million (including ¥23 million in remuneration for three external auditors)

\*1. Corporate auditor Satoshi Teramoto has attended all 13 Board of Directors meetings and all 11 Board of Auditors meetings held in FY2010 since his appointment on June 25, 2010.

\*2. Directors' remuneration includes that of one director who retired at the end of the 70th regular shareholders' meeting on June 25, 2010, for the end of his term.

**Business Execution and Management Supervision Mechanism**



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

**Accounting Audit**

Accounting audits were conducted by a certified public accountant employed by Ernst & Young ShinNihon LLC, an accounting corporation, and the staff involved in the accounting audits was comprised of four certified public accountants and twelve assistant certified public accountants.

**Strengthening Disclosure and Accountability**

To increase the transparency of its operations, Sumitomo Forestry holds analyst meetings following formal announcement of its interim and year-end results and conducts conference calls after first quarter

and third quarter results. It also actively seeks to create opportunities to communicate, including holding 155 individual meetings with institutional investors in fiscal 2010.

In addition to these meetings for institutional investors, the Company held briefings for individual investors in July 2010 in Tokyo and Osaka. Around 160 individual investors attended the briefings, which provided information on the Group's operations and its environmental initiatives.

By proactively disclosing information, we not only fulfill our obligation of explanation, but also provide direct feedback from our shareholders and investors to management.

## Internal Controls / Compliance

### Compliance

The Sumitomo Forestry Group is committed to proactive compliance-based management, aspiring to always be worthy of society's trust by following social rules and strictly complying with the law. The Group also continuously enhances internal controls and risk management to ensure the Group can effectively deal with changes in the operating environment as well as a diversity of risks.

### Risk Management and Internal Controls

The Group has set compliance management as its most important issue and has established internal controls based on the basic policy on risk management set forth by the Board of Directors to respond to foreseeable risks across the Group. In March 2009, the Group revised the corporate regulations, establishing Risk Management Regulations and Crisis Management Rules. Compliance risk and disaster risk have been assigned priority and are being addressed through subcommittees comprised of working-level managers under the auspices of the Risk Management Committee.

### Disaster Risk

#### 1. Safety verification system introduced across the Group in Japan

In July 2010, the Company introduced an email-based safety verification system for all Group business sites and employees in Japan. To check whether the system was functioning properly, the Company conducted a training exercise where emails were automatically sent to approximately 12,100 Group employees. Employees were required to reply to the emails confirming their status. As a result, the Company has established an emergency contact system and several means of verifying the safety of its employees. This framework enabled the Company to rapidly account for all its personnel, including part-time employees and casual staff, after the Great East Japan Earthquake.

#### 2. Disaster prevention cards distributed

In conjunction with the introduction of the safety verification system at all domestic Group sites, the Company distributed revised versions of its disaster prevention cards in January 2011. The cards are pocket sized and give advice on the steps employees should follow in the event of a disaster.



Disaster prevention cards

#### 3. Use of disaster stockpiles

After the Great East Japan Earthquake, the Company used stockpiles of items for disasters such as emergency rations, masks and water to aid those in the disaster region. Helmets, water and maps also proved useful for employees and visitors to Group offices who had difficulty returning home.

#### 4. BCP for earthquake with epicenter in the capital Area (formulated 2008)

In fiscal 2009, after putting in place the necessary frameworks, such as an alternate headquarters, selection of members for the disaster response team, and infrastructure, training was held for every level and layer of the Group based on a scenario of accounting for the 3,000 employees based in the capital area. In fiscal 2010, the Company expanded the safety verification system to cover all Group business sites in Japan.

In January 2011, the Company conducted a training drill for employees at the head office in Chiyoda Ward, Tokyo to help them walk home in the event of a disaster. This followed a similar drill in 2009. The Company also used disaster prevention facilities at the Tokyo Fire Department to conduct a BCP training exercise. Employees from eight Group companies based in Tokyo took part in the exercise.

#### 5. Communication between management during major disasters

In fiscal 2010, the Company distributed satellite mobile phones and mobile PCs to senior managers to ensure communication is maintained among management during a major disaster, such as an earthquake with its epicenter in the capital area. An exercise was conducted to verify the operational capabilities of the system.

#### 6. BCP for novel influenza (formulated 2008)

In fiscal 2009, the Group prepared policies and manuals and put in place the necessary infrastructure and hygienic goods to prepare for a potential outbreak of a new strain of influenza. The Group will continue to monitor the situation closely amid lingering concerns about the risk of an outbreak and spread of a highly infectious strain of novel influenza.

## Human Resource Development and Workplace Environment

In order to realize the objectives in its Corporate Philosophy and Action Guidelines, which state, "We work to create an open and inclusive corporate culture that values diversity," Sumitomo Forestry's fundamental policy on human resources development is to cultivate highly motivated personnel, guided by the keywords of "independence" and "support." In fiscal 2010, the Company formulated a five-year human resources development plan covering the years fiscal 2011 to fiscal 2015. Going forward, the Company will push ahead with the development of all personnel in the Group in Japan and overseas through initiatives such as standardizing training programs across Group companies and bringing in Group personnel for work experience at the Company.

### Basic Personnel Policy

As we aim to be a truly "excellent company" in housing and wood products businesses, we shall make efforts to put in place effective personnel systems, carry out appropriate and efficient placement of human assets, implement human resources development and training, and build a group of "strong and independent" individuals who are always willing to take up a challenge, all in accordance with Sumitomo Forestry's Corporate Philosophy, which states, "Respect for humanity—We work to create an open corporate culture that instills a strong sense of pride and motivation in employees."

### Employment Policies

In hiring employees, we seek people who have the mental toughness and people-skills to push ahead with corporate innovation in Japan and abroad, have a sense of the fairness and integrity that characterize Sumitomo Forestry's corporate culture, and have an abiding respect for humanity.

### Childcare-related Programs

Pregnancy	Childbirth	12 Months	18 Months	Entry to Elementary School	End of Sixth Year Elementary School
	Partner childbirth leave				Men only
Healthcare leave for expectant or new mothers		*1 Available during pregnancy or up to one year after childbirth / return to work			Women only
	Prenatal / postnatal leave				Men and Women
	Childcare leave (available to women after postnatal leave)*3		*2 Available until the child reaches 18 months or March 31 after the year the child reaches 12 months, whichever is longer		
	Reduced working hours / 4-day working week system*3				
	Flexible work start and finish times (can be used in conjunction with reduced working hours / 4-day working week system*3)				
	Restricted overtime and night work				
	Overtime work exemptions and restrictions / night work restrictions*3				
	Leave to care for a child or attend a special event*4				

\*3 Employees eligible after at least one year of continuous service

\*4 Employees eligible after at least six months of continuous service

Sumitomo Forestry is committed to contributing to local economies. For this reason, its Group companies outside Japan have endeavored since their founding to hire and train local employees and managers to the greatest extent possible. Group companies in Indonesia\*1 and New Zealand\*2 have hired approximately 99% of all employees locally. While some businesses may require short-term positions, Sumitomo Forestry endeavors to foster positive relationships with local communities and generate ongoing employment by creating employment opportunities with continued contract renewals over the long term.

\*1. PT. Kutai Timber Indonesia, PT. Rimba Partikel Indonesia, PT. AST Indonesia

\*2. Nelson Pine Industries Ltd.

### Employment Breakdown

(As of March 31, 2011, Non-consolidated)

Management level	1,936	Hosted from other companies	15
Non-management level	2,417	Average years of service	12.7
Contract employees (Interior coordinators)	34	Ratio of disabled employees	2.06%
Contract employees (Non-interior coordinators)	68		

### Promoting Employee Diversity

Sumitomo Forestry is committed to creating a workplace in which people can fulfill their ambitions and exercise their skills irrespective of gender, and continues initiatives designed to expand career opportunities for women, enhanced childcare policies, and create a comfortable workplace for people with disabilities.

### Female Employment Ratios (%)

(As of April 1 of each fiscal year)	FY2007	FY2008	FY2009	FY2010	FY2011
Female employees including contract employees (Interior coordinators and non-interior coordinators)	15.8	16.4	16.4	16.9	16.8
Female employees in management positions	0.9	0.9	1.3	1.3	1.4
Newly hired female university graduates	25.0	21.0	21.0	22.4	24.6

## Helping Employees Achieve a Work-Life Balance

Sumitomo Forestry, as a company involved with housing and lifestyles, strives to create a workplace where employees can treasure their families and create a rich family life. The Company is committed to continuous improvement of a system that supports both work and private life, as well as ensuring that all employees take advantage of the system by a special division.

The Company encourages female employees, and also male employees to take childcare leave.

Sumitomo Forestry launched its telework program in fiscal 2009, in which employees who have needs for childcare or family care, or who have long commute times, may work at home or other locations remotely, aiming to promote work styles that support both increased efficiency and a better work-life balance. In fiscal 2010, ten people made use of this program.

Work-Life Balance pamphlet



The Kurumin Mark of certification

## Training the Next Generation of Craftspeople

Sumitomo Forestry recognizes that to continue building *Sumitomo Forestry Home* houses that utilize the advantages of the traditional wooden post-and-beam construction method, it is essential to pass on skills and techniques to the next generation of workers. To achieve its objective of nurturing the skills and knowledge of craftspeople (carpenters), Sumitomo Forestry founded the Sumitomo Forestry School of Professional Building Techniques in 1988 as an intra-corporate vocational training school. Through fiscal 2010, 885 new craftspeople have graduated from the school. The skill of these graduates is demonstrated by the superb results recorded every year at the annual National Skills Competition.



48th National Skills Competition, where the next generation of craftspeople compete for the title of best in Japan.

## Career Consultation and Support

The Career Support Desk opened in April 2007 to support employees with assistance specific to their needs in managing their careers. Specialized career advisers provide expert career advice for individual employees.

## A Varied Menu of Training Programs

In accordance with its fundamental policy on human resources development, the Company provides a wide range of training

opportunities so that employees can foster their careers and steadily acquire business skills in line with their life plans.

In order to provide employees of all occupations and grades with the opportunities to voluntarily increase their skills or build their careers, the Group provides a range of training courses and e-learning programs on a variety of subjects. It also provides employees with a menu of study courses offered by external institutions and has a support system in place to help them acquire new qualifications. The Group also runs a program aimed at creating future business leaders, which includes management strategy courses and the opportunity to study at overseas business schools.

## Prevention of Child Labor and Forced Labor

The Sumitomo Forestry Group's offices in and outside Japan hire employees in compliance with local legislation, and do not engage in illegal labor practices such as child labor and forced labor.

## External Recognition

Sumitomo Forestry is included in the following Socially Responsible Investment Indices (as of June 2011).

### DJSI World

We have been included in this index since September 2005.



### FTSE4 Good Global Index

We have been included in this index since September 2004.



FTSE4Good

### Morningstar SRI Index

We have been included in this index since September 2008.



### Sector leader in the SAM's "The Sustainability Yearbook 2011"

We were selected as the sector leader in the Home Construction Sector of "The Sustainability Yearbook 2011," a CSR rating by SAM, which researches and analyzes companies listed in DJSI World.



## Environmental and Social Initiatives

For further information about Sumitomo Forestry Group's CSR activities, please refer to "Environmental and Social Report," available at <http://sfc.jp/english/information/kankyo/>

## Global Compact

We became a participant in the United Nations Global Compact in December 2008. The Global Compact was launched by the previous UN Secretary General Kofi Annan in 1999. The Global Compact is aimed at realizing a sustainable society by resolving the various problems that have arisen from the globalization of the world's economy. Participating companies are required to support and implement 10 principles in the four fields of human rights, labor standards, the environment, and anti-corruption.



## Directors

(As of June 30, 2011)



(Front row, from left) Hideyuki Kamiyama, Ryu Yano, Akira Ichikawa (Back row, from left) Shigeru Sasabe, Hitoshi Hayano, Hideo Watabe, Ken Wada

### Directors

**\*Chairman / Director**  
Ryu Yano

**\*President / Director**  
Akira Ichikawa

**\*Director**  
Hideyuki Kamiyama

**\*Director**  
Hitoshi Hayano

**Director**  
Shigeru Sasabe

**Director**  
Hideo Watabe

**Director**  
Ken Wada

\* Representative Director

### Statutory Auditors

**Senior Statutory Auditor**  
Shigehiko Shiozaki

**Statutory Auditor**  
Satoru Takeno

**\*Statutory Auditor**  
Hiroshi Miki

**\*Statutory Auditor**  
Satohiko Sasaki

**\*Statutory Auditor**  
Satoshi Teramoto

\* External Corporate Auditors as stipulated by the Commercial Code

### Executive Officers

**\*President and Executive Officer**  
Akira Ichikawa

**\*Executive Vice President and Executive Officer**  
Hideyuki Kamiyama  
Responsible for Forestry & Environment Division, Overseas Business Division, Divisional Manager of Timber & Building Materials Division

**\*Senior Managing Executive Officer**  
Hitoshi Hayano  
Divisional Manager of Housing Division

**\*Managing Executive Officer**  
Shigeru Sasabe  
Responsible for Corporate Planning, Finance, Information Systems, General Administration, Personnel, Corporate Communications, Internal Audit, Intellectual Property, Environmental Management, Tsukuba Research Institute

**\*Managing Executive Officer**  
Hideo Watabe

Divisional Manager of Real Estate Business Division

**\*Managing Executive Officer**  
Ken Wada

Deputy Divisional Manager of Housing Division, Responsible for Marketing

**Managing Executive Officer**  
Akihisa Fukuda

Responsible for Corporate Planning, Finance, Information Systems, and General Manager of Corporate Planning Department

**Managing Executive Officer**  
Toshiro Mitsuyoshi

General Manager of Overseas Business Department of the Overseas Business Division

**Executive Officer**  
Seiichi Takano

Deputy Divisional Manager of Housing Division  
Responsible for Technology, Construction Management, Building Materials Procurement & Logistics, Quality Control & Customer Information, Environment & Safety

**Executive Officer**  
Toshio Yasuda

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

**Executive Officer**  
Takashi Mikawa

General Manager of MOCCA (Wood-Use Integration) Department, Deputy Divisional Manager of Housing Division

**Executive Officer**  
Tadashi Ban

Deputy Divisional Manager of Timber & Building Materials Division, General Manager of Business Development Department of the same Division

**Executive Officer**  
Akito Kataoka

Divisional Manager of Forestry & Environment Division, General Manager of Forestry Department of the same Division

**Executive Officer**  
Takanori Umeki

Deputy Divisional Manager of Timber & Building Materials Division

**Executive Officer**  
Kunihiko Takagiri

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

\* Doubles as Director and Executive Officer

# Financial Section



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\* In this section, segment information is reported according to the new segment classification from fiscal 2010.

# Eleven-Year Summary

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

Millions of yen

	2011	2010	2009	2008
<b>Operating Results:</b>				
Net sales	¥797,493	¥723,923	¥823,810	¥861,357
Gross profit	132,568	124,269	133,493	135,277
Selling, general and administrative expenses	118,330	114,522	126,656	128,041
Operating income	14,238	9,747	6,837	7,235
Recurring income* <sup>1</sup>	14,206	9,465	6,160	7,659
Net income (loss)	5,175	2,377	1,028	1,115
<b>Financial Position:</b>				
Total assets	¥489,417	¥469,738	¥427,738	¥450,730
Working capital* <sup>2</sup>	89,665	88,338	81,700	64,156
Interest-bearing debt	69,229	66,786	49,127	25,816
Total net assets	163,110	162,930	156,192	173,089
<b>Cash Flows:</b>				
Cash flows from operating activities	¥ 17,515	¥ 37,239	¥ (8,161)	¥ 26,106
Cash flows from investment activities	(13,247)	(19,117)	(29,062)	(17,587)
Cash flows from financing activities	372	11,546	24,196	(4,262)
Cash and cash equivalents at the end of the year	75,582	71,662	40,730	54,475
<b>Capital Investment:</b>				
Tangible fixed assets* <sup>3</sup>	¥ 11,923	¥ 10,636	¥ 24,075	¥ 9,578
Intangible fixed assets	2,434	1,561	2,013	1,694
Others	215	395	150	222
Total	14,572	12,592	26,238	11,494
Depreciation and amortization	8,437	8,502	8,477	7,258
Yen				
<b>Per Share Data:</b>				
Net income (loss)	¥ 29.2	¥ 13.4	¥ 5.8	¥ 6.3
Net assets	919.5	917.8	880.9	976.0
Cash dividends	15.0	15.0	15.0	15.0
%				
<b>Financial Ratios:</b>				
Gross profit margin	16.6	17.2	16.2	15.7
Operating income margin	1.8	1.3	0.8	0.8
Recurring income margin	1.8	1.3	0.7	0.9
Return on assets (ROA)* <sup>4</sup>	3.0	2.1	1.4	1.6
Return on equity (ROE)* <sup>4</sup>	3.2	1.5	0.6	0.6
Equity ratio	33.3	34.6	36.5	38.4
Interest-bearing debt ratio* <sup>5</sup>	29.8	29.1	23.9	13.0
Current ratio	136.8	140.3	141.6	127.6
Interest coverage ratio [times]	8.2	6.8	4.5	4.5

\*1. Recurring income = Operating income + Non-operating income – Non-operating expenses  
Non-operating income includes interest income, purchase discounts, dividends income, foreign exchange gains, miscellaneous gains, and other income generated from normal business activities. Non-operating expenses include interest expense, sales discounts, foreign exchange losses, miscellaneous expenses, and other expenses from normal business activities.

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

## Millions of yen

2007	2006	2005	2004	2003	2002	2001
¥911,674	¥791,128	¥723,193	¥673,779	¥645,100	¥644,731	¥682,375
141,117	127,853	125,582	120,778	109,632	109,438	118,064
120,711	112,407	107,116	103,201	100,859	106,398	102,065
20,405	15,446	18,466	17,577	8,773	3,040	15,999
21,259	16,800	18,692	17,074	9,721	3,731	16,909
11,954	10,842	8,014	9,870	(15,440)	466	6,994
¥500,136	¥464,193	¥370,684	¥369,755	¥357,322	¥365,531	¥371,102
76,453	68,037	67,579	66,377	60,260	60,477	61,319
25,739	22,067	15,580	19,929	16,497	18,124	24,517
188,855	175,206	152,500	146,269	129,727	147,440	150,979
¥ 7,084	¥ 16,626	¥ 6,685	¥ 25,962	¥ 19,734	¥ 17,332	¥ 3,468
(7,102)	(8,998)	(12,895)	(7,646)	2,026	(16,439)	(1,960)
665	(14,039)	(7,087)	(735)	(8,171)	(9,716)	(13,873)
50,311	49,628	55,928	69,312	52,029	38,873	47,476
¥ 7,020	¥ 8,132	¥ 7,016	¥ 4,040	¥ 2,761	¥ 7,705	¥ 4,448
1,586	1,857	1,673	1,468	2,077	2,194	1,889
420	454	549	883	283	225	252
9,026	10,443	9,237	6,392	5,123	10,124	6,590
6,476	6,403	6,452	6,447	5,985	5,289	4,551
Yen						
¥ 67.4	¥ 61.3	¥ 45.3	¥ 55.8	¥ (87.5)	¥ 2.6	¥ 39.6
1,059.2	996.0	866.5	830.5	736.4	835.1	854.9
15.0	13.0	13.0	13.0	10.0	10.0	10.0
%						
15.5	16.2	17.4	17.9	17.0	17.0	17.3
2.2	2.0	2.6	2.6	1.4	0.5	2.3
2.3	2.1	2.6	2.5	1.5	0.6	2.5
4.4	4.0	5.0	4.7	2.7	1.0	4.6
6.6	6.6	5.4	7.2	(11.1)	0.3	4.7
37.5	37.7	41.1	39.6	36.3	40.3	40.7
12.1	11.2	9.3	12.0	11.3	10.9	14.0
129.3	129.3	137.4	135.7	132.6	131.8	131.1
11.2	10.8	18.6	21.9	18.3	7.8	22.6

\*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)

# Management Discussion and Analysis

## Market Overview

In fiscal 2010, ended March 31, 2011, an improvement in corporate earnings owing to rising demand in emerging countries and stimulus measures, and a pickup in consumer spending supported a moderate recovery in the Japanese economy. However, the economic outlook remained uncertain due to downward pressures on the economy such as yen appreciation, stock market weakness, and continued deflation, while the economic impact of the Great East Japan Earthquake on March 11, 2011 was also a concern.

In the housing industry, there were signs of a pickup in new housing starts, which rose 5.6% year on year to 819,000 units, partly due to support from government incentives to promote house purchases. Owner-occupied housing starts, which are closely correlated with the performance of the Group's housing business, rose 7.5% year on year to 309,000 units. Market conditions were also firm in the timber and building materials industry, with the increase in new housing starts supporting a recovery in demand for building materials.

## Consolidated Operating Results

### 1 Net Sales and Orders Received

Net sales increased 10.2% year on year to ¥797,493 million. This mainly reflected higher unit sales of custom-built detached housing and generally solid sales in the timber and building materials distribution business and the building materials manufacturing business.

The value of orders received for custom-built detached housing totaled ¥284,420 million, up 7.2% year on year, while the number of orders received came to 8,926 units, up 3.9%. Sales of custom-built detached housing totaled ¥270,903 million, up 2.5% year on year, while unit sales came in at 8,721 units, an increase of 1.6%.

### 2 Selling, General and Administrative Expenses

Selling, general and administrative expenses totaled ¥118,330 million, an increase of 3.3% compared with the previous fiscal year. Although the Company continued its comprehensive Group-wide expense reduction efforts, selling, general and administrative expenses rose by ¥3,807 million. This was due to factors such as an increase in personnel expenses, which resulted from an actuarial difference in accounting for retirement benefit obligations owing to deterioration in the operating environment for the Group's pension assets amid weakness in the stock market.

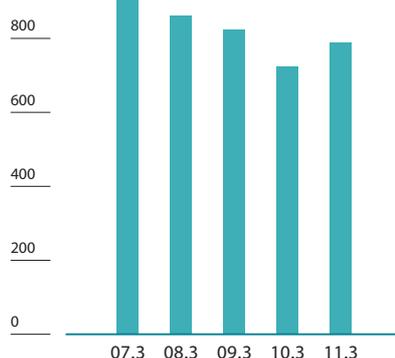
**Number of New Housing Starts in Japan**

(Thousands of units)  
1,500



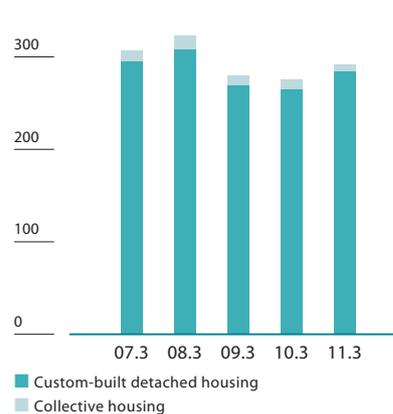
**Net Sales**

(Billions of yen)  
1,000



**Amount of Orders Received**

(Billions of yen)  
400



### 3 Operating Income

Although personnel expenses rose due to the actuarial difference in accounting for retirement benefit obligations, operating income increased by ¥4,492 million to ¥14,238 million, an improvement of 46.1% from the previous fiscal year. This improvement was attributable to an increase in sales and gross profit, which reflected higher sales volume for timber and building materials, an increase in unit sales of custom-built detached housing, and streamlined production. Excluding the impact of the abovementioned actuarial difference, operating income would have increased 139.4% year on year to ¥17,030 million.

### 4 Net Income

Net income increased by ¥2,798 million to ¥5,175 million, an improvement of 117.7% compared with the previous fiscal year, despite the booking of extraordinary losses such as losses related to the sale of a domestic subsidiary's business, loss on devaluation of investment securities, and disaster-related losses.

Net income per share came to ¥29.21, an increase of ¥15.79 from the previous fiscal year.

## Segment Results

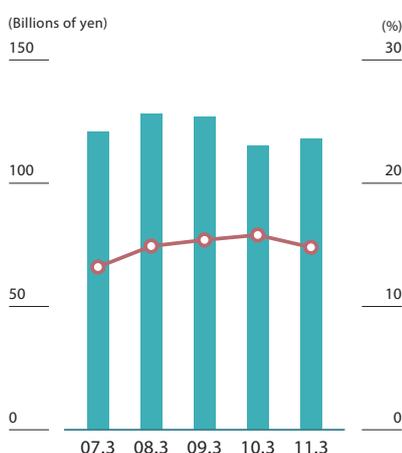
\*Sales and recurring income figures given below include intersegment sales and transfers. Recurring income figures have been used for the segment results section.

### 1 Timber and Building Materials Business

Net sales in the timber and building materials business rose 14.3% year on year to ¥390,231 million, and recurring income increased 141.7% to ¥4,848 million.

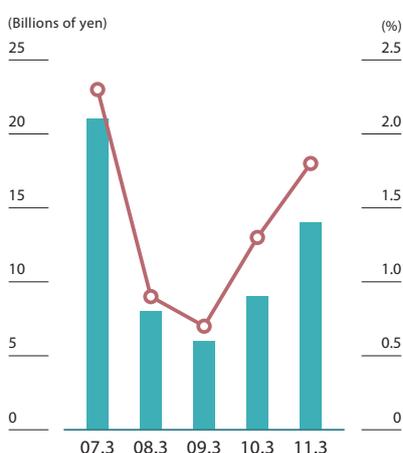
In Japan, the timber and building materials distribution business and the building materials manufacturing business were generally strong on the back of a recovery in demand. In the timber and building materials distribution business, almost all divisions saw an increase in the volume of materials handled and average unit prices also rose, driving an increase in sales. Sales of imported products such as European timber were particularly strong. The building materials manufacturing business also registered strong sales of building materials for new-build homes. Amid prospects for increased demand for domestic timber, Sumitomo Forestry Wood Products Co., Ltd., which is responsible for handling all the Group's domestic timber, focused on creating a stable supply system for high-quality domestically produced timber, which contributed to profits in the business. In addition, Home Eco Logistics Co., Ltd., which was established in April 2010, worked to build a new business model aimed at helping materials manufacturers and other companies reduce costs and CO<sub>2</sub> emissions during distribution by rationalizing distribution activities. This business model is based on the provision of our proprietary home building materials distribution system, which was developed in the housing business.

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



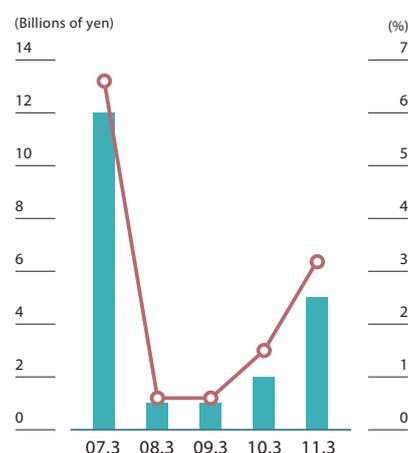
■ SG&A expenses (Left)  
 ○ SG&A expenses ratio\* (Right)  
 \*SG&A expenses ratio = SG&A expenses / Net sales

#### Recurring Income and Recurring Income Margin



■ Recurring income (Left)  
 ○ Recurring income margin (Right)

#### Net Income and ROE



■ Net income (Left)  
 ○ ROE (Right)

## ② Overseas Business

Net sales in the overseas business rose 30.5% year on year to ¥33,234 million. The business reported a recurring loss of ¥1,829 million, compared with a recurring loss of ¥2,582 million in the previous fiscal year.

In the overseas distribution of timber and building materials, we worked to expand sales channels by leveraging our material procurement capabilities in products handled by the Group and from other sources. In the overseas building materials manufacturing business, the recovery trend continued on the back of year-on-year increases in production and sales volume at manufacturing companies in New Zealand and Indonesia. However, the Group's manufacturing company in China will need more time to get up to speed. In the overseas housing business, the US market remained sluggish and this resulted in the booking of loss on devaluation of land earmarked for development as housing lots. In Australia, the business established a joint venture to carry out housing land development as part of efforts to build an operating base to support business expansion in the market. In the plantation forest businesses in Papua New Guinea, New Zealand and Indonesia, the focus was on building systems to ensure access to stable supplies of plantation timber to drive profit growth. At the same time, steps were taken to help energize local economies through the creation of jobs and other measures.

## ③ Housing Business

Net sales in the housing business rose 2.4% year on year to ¥346,279 million, and recurring income increased 43.3% to ¥18,988 million.

The custom-built detached housing business reinforced its sales organization in areas other than model homes to prepare for an expected contraction in the domestic housing market due to the aging of Japanese society over the medium- to long-term. The business also reinforced its earnings base through further streamlining of production activities and cost reduction, with orders received, sales and profits all rising year on year.

Sales promotion initiatives included holding *Sumai Haku* housing fairs in Japan's three major urban centers for the first time in two years, as well as promotional events nationwide that showcased the appeal of our environmentally friendly housing fitted with solar power generation systems and other features. We also used the internet to upgrade sales promotion tools with the launch of two new websites linked to our homepage: *BF Floor Plan Designer*, which allows users to see interior floor plans they have designed in a 3D virtual environment, while *Home Building Master* uses gameplay to promote deeper understanding of what is involved in the house building process. We also worked to increase customer satisfaction by changing the contract for outside work on

### Housing Business / Real Estate Business

(Years ended March 31)		2008	2009	2010	2011	2012 (forecast)
<b>Orders</b>						
Custom-Built Detached Housing	(¥million)	¥295,413	¥268,889	¥265,203	<b>¥284,420</b>	¥289,000
	(Units)	9,301	8,703	8,593	<b>8,926</b>	9,000
<b>Sales</b>						
Custom-Built Detached Housing	(¥million)	¥296,861	¥294,551	¥264,215	<b>¥270,903</b>	¥285,400
	(Units)	9,408	9,297	8,580	<b>8,721</b>	8,900
Detached Spec Homes*2	(¥million)	¥ 2,718	¥ 3,253	¥ 7,851	<b>¥ 9,567</b>	¥ 10,000
	(Units)	118	144	183	<b>226</b>	230
<b>Total Detached Homes</b>	(¥million)	<b>¥299,579</b>	<b>¥297,805</b>	<b>¥272,066</b>	<b>¥280,470</b>	<b>¥295,400</b>

\*1. Percentage-of-completion method applied to figures from the fiscal year ended March 31, 2010.

\*2. Combined figures for land and buildings shown from the fiscal year ended March 31, 2010.

houses, such as gardens, gates and carports, previously handled by Sumitomo Forestry Landscaping Co., Ltd., to our Housing Division branches in order to integrate this exterior work into contracts for house construction.

In terms of product strategy, we actively worked to boost sales of homes that employ our proprietary Big-Frame construction method\* and sought to differentiate our products from those of our rivals to enhance product competitiveness.

In the apartment business, unit sales increased year on year, driven by efforts to secure sales introductions from existing owners of our homes and from business partners.

Earnings in the renovation business are growing steadily. In marketing, leveraging our strong technical capabilities and extensive experience, we focused on expanding orders for relatively large home construction projects. We also actively promoted fixed-price services for complete renovations of detached housing. In addition, we boosted the appeal of our renovation products by integrating them under a single brand called Reforest. The creation of this new brand along with moves to upgrade our sales organization and increase headcount was aimed at tapping renovation demand for homes not originally built by Sumitomo Forestry, with the goal of creating a business base to support expansion in the renovation business. We also worked to increase our competitiveness in technology. In fiscal 2010, we developed

a proprietary system for the restoration and earthquake retrofitting of traditional Japanese-style homes. Underpinned by our track record in home renovation and inspection, the system allows us to propose optimum reinforcing work for earthquake retrofitting tailored to the conditions of each building and in accordance with legal and regulatory requirements.

**\*Big-Frame construction method**

The Big-Frame construction method was developed by Sumitomo Forestry and has been improved on since it was first used in our three-story housing product *Proudio-BF*, launched in February 2005. It was the first wooden beam Rahmen structure to be patented in Japan. Requiring no through pillars, the Big-Frame construction method provides a high degree of planning freedom, accommodates plans with pillar positions that differ by floor, and makes it easy to design large spaces with few intervening walls.

### Segment Performance Highlights

(Years ended March 31)	Millions of yen				
	2010	2011	2010/2011 (change)	(% of change)	2012 (forecast)
<b>Net sales</b>	¥723,923	<b>¥797,493</b>	+73,570	+ 10.2%	¥815,000
Timber and Building Materials Business	341,432	<b>390,231</b>	+48,799	+ 14.3%	388,000
Overseas Business	25,472	<b>33,234</b>	+ 7,762	+ 30.5%	38,000
Housing Business	338,295	<b>346,279</b>	+ 7,984	+ 2.4%	367,000
Real Estate Business	38,169	<b>50,881</b>	+12,712	+ 33.3%	48,000
Other Businesses	15,171	<b>13,529</b>	(1,642)	(10.8%)	11,000
Adjustments	(34,617)	<b>(36,662)</b>	(2,045)	—	(37,000)
<b>Recurring Income</b>	¥ 9,465	<b>¥ 14,206</b>	+ 4,741	+ 50.1%	¥ 18,500
Timber and Building Materials Business	2,006	<b>4,848</b>	+ 2,843	+141.7%	4,300
Overseas Business	(2,582)	<b>(1,829)</b>	+ 753	—	0
Housing Business	13,250	<b>18,988</b>	+ 5,738	+ 43.3%	18,500
Real Estate Business	(1,042)	<b>903</b>	+ 1,945	—	500
Other Businesses	583	<b>502</b>	(81)	(14.0%)	300
Adjustments	(2,750)	<b>(9,206)</b>	(6,456)	—	(5,100)

\*1. Net sales and recurring income include intersegment sales and transfers.

\*2. Net sales and recurring income adjustments show total sales at the Administrative Division that cannot be allocated to specific businesses.

#### 4 Real Estate Business

Net sales in the real estate business rose 33.3% year on year to ¥50,881 million. The business reported recurring income of ¥903 million, compared with a recurring loss of ¥1,042 million in the previous fiscal year.

In the detached spec homes business, the recovery in market conditions supported a year-on-year increase in unit sales, leading to steady business expansion. We conducted project development based on the concept of linking our homes with local communities, which helped to support healthy sales. One of these projects was *Forest Garden Keio Horinouchi* in Hachioji City, Tokyo. At this large-scale development, where a total of 106 residential lots are planned, we used Japanese cypress from the local Tama area for some principal structural members in the homes. In the real estate leasing business, we continued to sell and acquire rental

properties and worked to raise occupancy rates to generate stable income. In both real estate sales and management and the management of private-pay elderly care facilities, we worked to build an operating structure resilient to changes in the operating environment, in order to support business expansion. We also took steps to boost service provision.

#### 5 Other Businesses

In addition to the above businesses, we provide a range of services for companies in the Sumitomo Forestry Group, such as IT system development and leasing operations, and for our housing customers, such as property insurance agency services. We also manufacture and sell farming and gardening materials. In fiscal 2010, net sales totaled ¥13,529 million, a decline of 10.8% year on year, and recurring income came to ¥502 million, down 14.0%.

#### Recurring Income of Main Subsidiaries

##### Timber and Building Materials Business

(Years ended March 31)	Millions of yen		
	2010	2011	2012 (forecast)
Sumitomo Forestry Crest Co., Ltd.*1	¥ 11	¥ 462	¥ 670

##### Overseas Business

(Years ended December 31)	Millions of yen		
	2009	2010	2011 (forecast)
Overseas Subsidiaries*2			
PT. Kutai Timber Indonesia (Indonesia)	¥ (507)	¥ 90	¥ 220
Alpine MDF Industries Pty Ltd. (Australia)	(77)	(100)	120
Nelson Pine Industries Ltd. (New Zealand)	1,499	1,378	810

##### Housing Business / Real Estate Business

(Years ended March 31)	Millions of yen		
	2010	2011	2012 (forecast)
Sumitomo Forestry Residential Co., Ltd.	¥ 205	¥ 321	¥ 340
Sumitomo Forestry Engineering Co., Ltd.	948	1,240	1,050
Sumitomo Forestry Home Service Co., Ltd.	(12)	134	200
Sumitomo Forestry Landscaping Co., Ltd.	447	(127)	200
Sumitomo Forestry Home Tech Co., Ltd.	1,556	2,060	2,500

\*1. Absorbed Toyo Plywood Co., Ltd. through a merger in April 2010.

\*2. Figures for overseas subsidiaries have been translated into Japanese yen at the following rates:

	US\$	AUS\$	NZ\$
FY 2009:	93.57	74.01	59.35
FY 2010:	87.76	80.64	63.26
FY 2011:	82.30	82.70	62.20

## Financial Position and Cash Flow

### ① Financial Position

At the end of March 2011, total assets stood at ¥489,417 million, an increase of ¥19,678 million from the end of the previous fiscal year, owing mainly to an increase in trade receivables in the timber and building materials business.

Liabilities increased by ¥19,499 million to ¥326,307 million, reflecting an increase in trade payables in the timber and building materials business and an increase in advances received on uncompleted construction contracts due to an increase in the number of houses under construction in the housing business.

Interest-bearing debt rose by ¥2,443 million from the end of the previous fiscal year to ¥69,229 million, while the interest-bearing debt ratio increased from 29.1% to 29.8%.

Despite a steeper decline in foreign currency translation adjustments owing to yen appreciation and a decrease in unrealized gain on available-for-sale securities resulting from weakness in the stock market, net assets increased by ¥180 million to ¥163,110 million, owing to an increase in net income. The equity ratio declined by 1.3 percentage points from the end of the previous fiscal year to 33.3%.

### ② Cash Flow

Net cash provided by operating activities was ¥17,515 million. This mainly reflected income before income taxes and minority interests of ¥11,010 million, as well as an increase in advances received on uncompleted construction contracts due to an increase in the number of houses under construction in the detached housing business as of the end of the fiscal year.

Net cash used in investing activities was ¥13,247 million. This primarily reflected cash used for the acquisition of assets for property leasing in the real estate business and for the construction of a new particle board plant at an overseas subsidiary.

Net cash provided by financing activities was ¥372 million. This mainly reflected dividends paid, outweighed by proceeds from long-term debt at a domestic subsidiary.

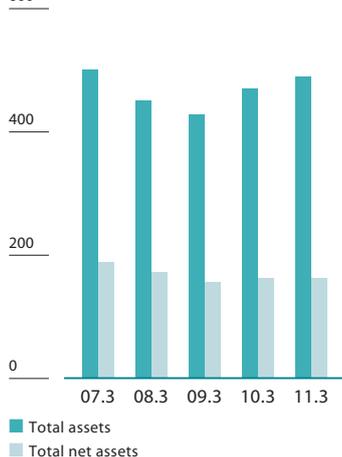
As a result of the above, cash and cash equivalents at the end of the fiscal year stood at ¥75,582 million, an increase of ¥3,919 million from the end of the previous fiscal year.

### ③ Capital Expenditures

Capital expenditures increased by 15.7%, from ¥12,592 million in the previous fiscal year to ¥14,572 million in the fiscal year under review. Investment in tangible fixed assets rose 12.1% year on year to ¥11,923 million, while investment in intangible assets increased 55.9% to ¥2,434 million. Major investments included ¥3.9 billion for the purchase of rental real estate, ¥2.2 billion for the construction of a particle board plant in Vietnam, ¥1.7 billion for investment in facilities at overseas manufacturing operations, and ¥1.8 billion for IT system investment.

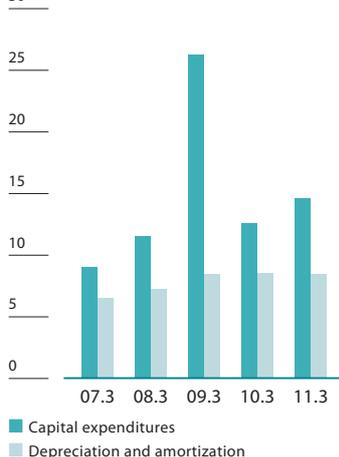
Total Assets and Total Net Assets

(Billions of yen)



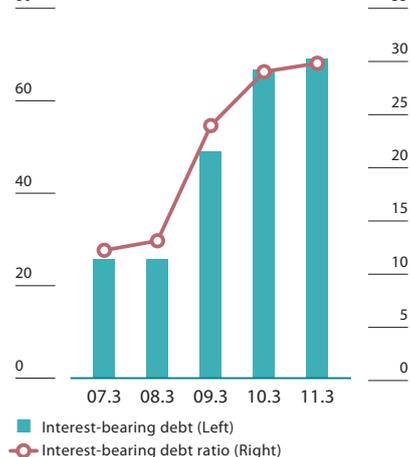
Capital Expenditures, Depreciation and Amortization

(Billions of yen)



Interest-Bearing Debt and Interest-Bearing Debt Ratio

(Billions of yen)



# Business Risk

## ① Housing Market Trends

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

### 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 business results by weakening customers' appetite for purchasing housing.

### 2) Interest Rate Fluctuations

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

### 3) Land Price Fluctuations

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

### 4) Tax System Changes

An increase in the consumption tax rate directly applicable to housing purchases would potentially reduce housing demand significantly, and could impact the Group's business results.

## ② Statutory Changes

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

## ③ Timber and Building Materials Market Conditions

A decline in prices for timber and building materials reduces the profitability of the timber and building materials 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 price for other raw materials, such as oil, can directly or indirectly affect raw materials prices and influence the Group's business results.

## ④ Exchange Rate Fluctuations

The Group is taking measures to reduce the foreign exchange risks attendant on foreign currency-denominated imports through foreign exchange forward contracts and other means. However, foreign exchange rate fluctuations could temporarily drive the Group's costs higher or lower. Meanwhile, a Group company that manufactures and sells wooden building materials abroad, for example, could be impacted if the host country currency appreciates against the currency used for settlement.

## ⑤ Product Quality Assurance

The Group endeavors to implement complete quality control of its key product, housing, and all aspects of its operations. However, unforeseen circumstances can potentially lead to significant quality issues that could influence the Group's business results.

## ⑥ Overseas Business Activities

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

## ⑦ Retirement Benefit Obligations

A significant deterioration in the operating environment for the Group's pension assets, such as substantial fluctuations in the domestic stock market or the necessity to revise the assumptions for pension actuarial calculations, can entail an increase in pension assets or increase the costs associated with the pension accounts, and could influence the Group's business results and financial position.

### 8 Stock Market

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

### 9 Natural Disasters

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

### 10 Information Security

The Group makes every possible effort to ensure the proper and secure management of the large volume of customer information it holds, through establishing necessary rules and systems and conducting extensive education and training of executives and employees. Despite such precautions, customer information could leak out due to a computer system breach by a malicious third party, the theft of recording media holding such information, a human error by an 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 its business results.

### 11 Environmental Risk

“Symbiosis with the Environment” is a top priority for the Group and is one of the four action guidelines of the Group’s corporate philosophy. Changes to environmental regulations in Japan or overseas or major environmental issues could lead to fines, compensation payments, costs associated with resolving environmental problems, or other expenses that could influence the Group’s business results.

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

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

### 13 Provision of Credit to Business Partners

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

### 14 Litigation Risk

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

### 15 Fundraising Risk

The Group conducts fundraising, such as borrowing from financial institutions, and as such there is the possibility that fundraising costs may increase or fundraising itself could be restricted due to changes in the economic environment or lower credit ratings. In this event, the Group’s business results and financial position could be impacted.

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

# Consolidated Balance Sheets

Sumitomo Forestry Co., Ltd. and Consolidated Subsidiaries  
As of March 31, 2011 and 2010

ASSETS	Millions of yen		Thousands of U.S. dollars (Note 4)
	2011	2010	2011
<b>Current assets:</b>			
Cash and time deposits (Notes 12, 16)	¥ 55,618	¥ 52,714	\$ 670,090
Marketable securities (Notes 5, 12, 16)	20,000	19,000	240,964
Receivables —			
Notes and accounts, trade (Notes 7, 16)	118,451	107,427	1,427,123
Loans and other (Note 16)	46,736	43,478	563,080
Inventories —			
Finished goods, logs and lumber (Note 7)	19,015	17,230	229,096
Developed land and housing for sale	31,492	26,333	379,425
Land and housing projects in progress	31,242	32,420	376,411
Deferred tax assets (Note 9)	7,915	6,308	95,366
Other current assets	4,241	3,700	51,101
Allowance for doubtful accounts	(1,272)	(836)	(15,324)
Total current assets	333,439	307,772	4,017,332
<b>Property, plant and equipment, at cost less accumulated depreciation:</b>			
Land (Notes 6, 7, 8)	26,048	26,692	313,837
Buildings and structures (Notes 7, 8)	51,244	50,928	617,398
Machinery and equipment (Notes 7, 8)	61,360	64,032	739,281
Timberland (Note 6)	10,972	11,063	132,191
Construction in progress	3,062	439	36,888
Leased assets	6,615	4,541	79,704
	159,302	157,696	1,919,299
Less accumulated depreciation	(71,700)	(68,826)	(863,858)
Net property, plant and equipment	87,602	88,870	1,055,441
<b>Intangible assets, net of amortization:</b>			
Goodwill	201	309	2,422
Other intangible assets	6,867	6,328	82,736
Total intangible assets	7,068	6,637	85,158
<b>Investments and other assets:</b>			
Investment securities (Notes 5, 7, 16)	48,458	51,094	583,831
Long-term loans and receivables	5,739	5,187	69,143
Deferred tax assets (Note 9)	1,354	1,138	16,317
Prepaid pension cost (Note 18)	—	1,595	—
Other assets	8,903	9,481	107,269
Allowance for doubtful accounts	(3,146)	(2,037)	(37,901)
Total investments and other assets	61,309	66,459	738,659
<b>Total assets</b>	<b>¥489,417</b>	<b>¥469,738</b>	<b>\$5,896,590</b>

See accompanying notes to consolidated financial statements.

LIABILITIES AND NET ASSETS	Millions of yen		Thousands of U.S. dollars (Note 4)
	2011	2010	2011
<b>Current liabilities:</b>			
Payables —			
Notes and accounts, trade (Notes 16, 17)	¥150,161	¥147,582	\$1,809,173
Other	7,743	7,098	93,295
Short-term debt (Note 7)	11,620	12,207	139,998
Current portion of long-term debt (Note 7)	6,968	116	83,954
Current portion of lease obligation (Note 7)	1,095	815	13,192
Advances received from customers	38,622	31,901	465,320
Accrued income taxes	6,909	2,205	83,242
Accrued employees' bonuses	8,256	7,337	99,467
Accrued directors and corporate auditors' bonuses	60	35	723
Other current liabilities	12,340	10,138	148,677
Total current liabilities	243,774	219,434	2,937,041
<b>Long-term liabilities:</b>			
Bonds issued (Note 7)	15,000	15,000	180,723
Long-term debt (Notes 7, 16, 17)	32,101	36,008	386,760
Long-term lease obligation (Note 7)	2,445	2,640	29,459
Deferred tax liabilities (Note 9)	8,782	9,358	105,803
Accrued employees' retirement benefits (Note 18)	6,152	5,390	74,126
Other long-term liabilities	18,052	18,979	217,495
Total long-term liabilities	82,532	87,374	994,366
<b>Contingent liabilities (Note 15)</b>			
<b>Net assets:</b>			
<b>Shareholders' equity (Note 13)</b>			
Common stock —			
Authorized: 400,000,000 shares			
Issued and outstanding: 177,410,239 shares in 2011 and 177,410,239 shares in 2010	27,672	27,672	333,398
Capital surplus	26,872	26,872	323,753
Retained earnings	107,584	105,066	1,296,197
Treasury stock: 270,845 shares in 2011 and 263,750 shares in 2010	(267)	(262)	(3,216)
Total shareholders' equity	161,861	159,348	1,950,132
<b>Accumulated other comprehensive income</b>			
Unrealized gain on available-for-sale securities	4,876	5,594	58,750
Deferred gain on hedges	154	24	1,856
Translation adjustments	(4,005)	(2,378)	(48,255)
Total accumulated other comprehensive income	1,025	3,241	12,351
<b>Minority interests</b>	224	342	2,699
Total net assets	163,110	162,930	1,965,182
<b>Total liabilities and net assets</b>	¥489,417	¥469,738	\$5,896,590
<b>Per share of common stock:</b>			
Net assets	¥ 919.54	¥ 917.82	\$ 11.08



# Consolidated Statements of Changes in Net Assets

Sumitomo Forestry Co., Ltd. and Consolidated Subsidiaries  
For the years ended March 31, 2011 and 2010

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2011	2010	2011
<b>SHAREHOLDERS' EQUITY</b>			
<b>Common stock</b>			
Balance at the end of previous period	¥ 27,672	¥ 27,672	\$ 333,398
Changes during the period			
Total changes during the period	—	—	—
Balance at the end of current period	¥ 27,672	¥ 27,672	\$ 333,398
<b>Capital surplus</b>			
Balance at the end of previous period	¥ 26,872	¥ 26,872	\$ 323,755
Changes during the period			
Disposal of treasury stock	(0)	(0)	(2)
Total changes during the period	(0)	(0)	(2)
Balance at the end of current period	¥ 26,872	¥ 26,872	\$ 323,753
<b>Retained earnings</b>			
Balance at the end of previous period	¥105,066	¥105,346	\$1,265,859
Changes in accounting policy change at foreign subsidiaries	—	—	—
Changes during the period			
Cash dividends (¥15.00 per share)	(2,657)	(2,657)	(32,014)
Net income	5,175	2,377	62,352
Total changes during the period	2,518	(280)	30,338
Balance at the end of current period	¥107,584	¥105,066	\$1,296,197
<b>Treasury stock at cost</b>			
Balance at the end of previous period	¥ (262)	¥ (260)	\$ (3,161)
Changes during the period			
Purchases of treasury stock	(5)	(2)	(60)
Disposal of treasury stock	0	0	5
Total changes during the period	(5)	(2)	(55)
Balance at the end of current period	¥ (267)	¥ (262)	\$ (3,216)
<b>Total shareholders' equity</b>			
Balance at the end of previous period	¥159,348	¥159,630	\$1,919,851
Changes in accounting policy change at foreign subsidiaries	—	—	—
Changes during the period			
Cash dividends (¥15.00 per share)	(2,657)	(2,657)	(32,014)
Net income	5,175	2,377	62,352
Purchases of treasury stock	(5)	(2)	(60)
Disposal of treasury stock	0	0	3
Total changes during the period	2,513	(282)	30,281
Balance at the end of current period	¥161,861	¥159,348	\$1,950,132

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2011	2010	2011
<b>ACCUMULATED OTHER COMPREHENSIVE INCOME</b>			
<b>Unrealized gain on available-for-sale securities</b>			
Balance at the end of previous period	¥ 5,594	¥ 2,359	\$ 67,403
Changes during the period			
Net changes in items other than shareholders' equity	(718)	3,235	(8,653)
Total changes during the period	(718)	3,235	(8,653)
Balance at the end of current period	¥ 4,876	¥ 5,594	\$ 58,750
<b>Deferred gain on hedges</b>			
Balance at the end of previous period	¥ 24	¥ 29	\$ 291
Changes during the period			
Net changes in items other than shareholders' equity	130	(5)	1,565
Total changes during the period	130	(5)	1,565
Balance at the end of current period	¥ 154	¥ 24	\$ 1,856
<b>Translation adjustments</b>			
Balance at the end of previous period	¥ (2,378)	¥ (5,961)	\$ (28,649)
Changes during the period			
Net changes in items other than shareholders' equity	(1,627)	3,583	(19,606)
Total changes during the period	(1,627)	3,583	(19,606)
Balance at the end of current period	¥ (4,005)	¥ (2,378)	\$ (48,255)
<b>Minority interests</b>			
Balance at the end of previous period	¥ 342	¥ 135	\$ 4,119
Changes during the period			
Net changes in items other than shareholders' equity	(118)	207	(1,420)
Total changes during the period	(118)	207	(1,420)
Balance at the end of current period	¥ 224	¥ 342	\$ 2,699
<b>Total net assets</b>			
Balance at the end of previous period	¥162,930	¥156,192	\$1,963,016
Changes in accounting policy change at foreign subsidiaries	—	—	—
Changes during the period			
Cash dividends (¥15.00 per share)	(2,657)	(2,657)	(32,014)
Net income	5,175	2,377	62,352
Purchases of treasury stock	(5)	(2)	(60)
Disposal of treasury stock	0	0	3
Net changes in items other than shareholders' equity	(2,334)	7,020	(28,115)
Total changes during the period	180	6,738	2,166
Balance at the end of current period	¥163,110	¥162,930	\$1,965,182

See accompanying notes to consolidated financial statements.

# Consolidated Statements of Cash Flows

Sumitomo Forestry Co., Ltd. and Consolidated Subsidiaries  
For the years ended March 31, 2011 and 2010

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2011	2010	2011
<b>Cash flows from operating activities:</b>			
Income before income taxes and minority interests	¥11,010	¥10,583	\$132,646
Adjustments —			
Depreciation and amortization	8,437	8,502	101,647
Impairment loss	695	2,049	8,369
Amortization of goodwill	110	213	1,326
Provision for (reversal of) doubtful accounts	1,548	382	18,650
Provision for (reversal of) employees' retirement benefits, less payments	2,428	(14,672)	29,256
Interest and dividends income	(967)	(1,049)	(11,656)
Interest expense	1,318	1,162	15,874
Equity in losses of affiliates	778	2,244	9,370
Losses on devaluation of marketable securities and investment securities	1,024	179	12,339
Losses (gains) on sales of marketable securities and investment securities, net	(285)	(173)	(3,437)
Losses (gains) on disposal of fixed assets, net	(197)	214	(2,375)
Loss on natural disaster	545	—	6,570
Effect of adoption of accounting standard for asset retirement obligations	706	—	8,506
Change in assets and liabilities:			
Notes and accounts receivable, trade	(12,340)	3,657	(148,680)
Inventories	(1,720)	5,842	(20,719)
Other current assets	(3,415)	(2,947)	(41,150)
Notes and accounts payable, trade	2,026	24,987	24,407
Advances received from customers	7,331	(3,010)	88,329
Other current liabilities	1,391	(49)	16,764
Other	50	153	605
Total	20,471	38,265	246,641
Interest and dividends income received	1,374	965	16,558
Interest paid	(1,276)	(1,170)	(15,379)
Income taxes paid, net	(3,054)	(821)	(36,790)
Net cash provided by operating activities	17,515	37,239	211,030
<b>Cash flows from investment activities:</b>			
Proceeds from sales of marketable securities	—	295	—
Decrease (increase) in short-term loans receivable	(165)	934	(1,984)
Payments for purchases of fixed assets	(11,662)	(10,400)	(140,502)
Proceeds from sales of fixed assets	1,743	2,046	21,006
Payments for purchases of intangible assets	(2,473)	(1,604)	(29,791)
Payments for purchases of investment securities	(1,466)	(11,104)	(17,664)
Proceeds from sales of investment securities	480	317	5,781
Payments for additional acquisition of stock of consolidated subsidiaries	(2)	—	(22)
Proceeds from purchase of stock of subsidiary newly consolidated	—	26	—
Proceeds from sales of subsidiary's stock resulting in change of scope of consolidation	313	—	3,771
Payments for long-term loans receivable	(386)	(1,017)	(4,651)
Repayments of long-term loans receivable	264	1,149	3,184
Other	105	242	1,269
Net cash used in investment activities	(13,247)	(19,117)	(159,603)
<b>Cash flows from financing activities:</b>			
Increase (decrease) in short-term debt	1,094	880	13,178
Payment of lease obligation	(1,264)	(923)	(15,226)
Proceeds from long-term debt	3,342	1,911	40,265
Repayments of long-term debt	(138)	(2,898)	(1,666)
Proceeds from issuance of bonds	—	15,000	—
Dividends paid	(2,657)	(2,657)	(32,014)
Other	(5)	232	(57)
Net cash provided by financing activities	372	11,546	4,480
<b>Effect of exchange rate changes on cash and cash equivalents</b>	(721)	1,205	(8,687)
<b>Net increase (decrease) in cash and cash equivalents</b>	3,919	30,873	47,220
<b>Cash and cash equivalents at the beginning of the year</b>	71,662	40,730	863,402
<b>Increase (decrease) in cash and cash equivalents due to change of scope of consolidation</b>	—	60	—
<b>Cash and cash equivalents at the end of the year (Note 12)</b>	¥75,582	¥71,662	\$910,622

See accompanying notes to consolidated financial statements.

# Notes to Consolidated Financial Statements

Sumitomo Forestry Co., Ltd. and Consolidated Subsidiaries  
As of March 31, 2011 and 2010

## 1. Nature of Operations

Sumitomo Forestry Co., Ltd. (the "Company") and its Group companies are involved in various business activities related to wood and houses, with timberland operations serving as the foundation of its business. Specifically, the Company's operations encompass forest management as well as timber and building materials-related operations, including the procurement, manufacture and sale of timber and building materials; housing-related operations, including the construction, sale, after-sales maintenance and landscaping of custom-built and other homes and sale and brokerage of real estate; and other lifestyle-related businesses, including the leasing 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 for the year ended March 31, 2009 have been prepared by using the accounts of foreign consolidated subsidiaries prepared in accordance with either International Financial Reporting Standards (IFRS) or accounting principles generally accepted in the United States as adjusted for certain items including those for goodwill, actuarial differences and capitalized development costs.

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

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

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

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

## 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) Statements 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) Provision for loss on natural disaster

A provision for loss on natural disaster is provided for possible expenses to be incurred for the restoration of assets damaged by the Great East Japan Earthquake.

### (f) 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.

**(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, 2011, which was included in other current liabilities in the accompanying consolidated balance sheets, was ¥2,007 million (US\$24,180 thousand).

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

Accrued employees' retirement benefits are provided based on the projected retirement benefit obligation and the plan assets at year-end.

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

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

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

The balance of these reserves at March 31, 2011, which was included in other long-term liabilities in the accompanying consolidated balance sheets, was ¥61 million (US\$735 thousand).

**(j) Reserve for restructuring costs**

The allowance for restructuring costs is stated at the estimated losses on restructuring of discontinued operation and on readjustment of town lots of land at the end of the fiscal year.

The balance of these reserves at March 31, 2011, which was included in other long-term liabilities in the accompanying consolidated balance sheets, was ¥1,435 million (US\$17,289 thousand).

**(k) 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.

**(l) Derivatives**

Derivatives are stated at fair value.

**(m) Inventories**

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

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

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

**(n) 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.

**(o) Intangible assets**

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

**(p) Impairment of fixed assets**

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

**(q) Hedge accounting**

i) Hedge accounting method:

The deferred method is applied as hedge accounting method.

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

ii) Hedging method:

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

iii) Scope of hedging:

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

iv) Hedge effectiveness evaluation method:

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

**(r) 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.

**(s) Application of accounting standard for asset retirement obligations**

Effective from April 1, 2010, the Company applied "Accounting Standard for Asset Retirement Obligations" (ASBJ Statement No.18, issued on March 31, 2008) and "Implementation Guidance on Accounting Standard for Asset Retirement Obligations" (ASBJ Guidance No.21, issued on March 31, 2008).

As a result, operating income and ordinary income decreased by ¥67 million (US \$810 thousand), and income before income taxes and minority interests decreased by ¥782 million (US \$9,418 thousand).

**(t) Application of accounting standard for business combinations**

Effective from April 1, 2010, the Company applied "Accounting Standard for Business Combinations" (ASBJ Statement No.21, issued on December 26, 2008) and "Revised Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures" (ASBJ Guidance No.10, Revised December 26, 2008).

**(u) Application of accounting standard for presentation of comprehensive income**

Effective the year ended March 31, 2011, the Company applied "Accounting Standard for Presentation of Comprehensive Income" (ASBJ Statement No.25, issued on June 30, 2010). The amounts of "Accumulated other comprehensive income" and "Total accumulated other comprehensive income" for the year ended March 31, 2011 had been presented as "Valuation and translation adjustments" and "Total valuation and translation adjustments," respectively, in prior years.

**(v) 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.

**(w) Revenue recognition**

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

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

**(x) 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.

**(y) Consumption taxes**

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

**(z) 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.

**(aa) 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.

**(bb) Reclassifications**

Certain accounts in the consolidated financial statements for the year ended March 31, 2010 have been reclassified to conform to presentation in 2011.

## 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 ¥83 = US\$1, the approximate exchange rate prevailing in the Japanese foreign exchange market at March 31, 2011. This translation should not be construed as a representation that the yen amounts actually represent, or have been or could be converted into, U.S. dollars.

## 5. Securities

The carrying amounts and estimated fair value of the securities classified as available-for-sale and held-to-maturity at March 31, 2011 and 2010 were as follows:

	Millions of yen			
	2011			
	Carrying amounts	Unrealized gains	Unrealized losses	Estimated fair value
Securities classified as:				
Available-for-sale:				
Equity securities	¥25,850	¥9,579	¥(1,700)	¥33,729
Debt securities	—	—	—	—
Held-to-maturity:				
Debt securities	1,047	10	(7)	1,051
Other	¥20,000	¥ —	¥ —	¥20,000

	Millions of yen			
	2010			
	Carrying amounts	Unrealized gains	Unrealized losses	Estimated fair value
Securities classified as:				
Available-for-sale:				
Equity securities	¥26,864	¥10,819	¥(1,674)	¥36,009
Debt securities	—	—	—	—
Held-to-maturity:				
Debt securities	792	4	(6)	790
Other	¥19,000	¥ —	¥ —	¥19,000

	Thousands of U.S. dollars			
	2011			
	Carrying amounts	Unrealized gains	Unrealized losses	Estimated fair value
Securities classified as:				
Available-for-sale:				
Equity securities	\$311,443	\$115,414	\$ (20,478)	\$406,379
Debt securities	—	—	—	—
Held-to-maturity:				
Debt securities	12,618	121	(81)	12,658
Other	\$240,964	\$ —	\$ —	\$240,964

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, 2011 and 2010 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Proceeds	¥21	¥312	\$256
Gross gains	0	173	2
Gross losses	5	—	60

The difference between the above carrying amounts and the amounts shown in the accompanying consolidated balance sheets principally consisted of non-marketable securities and equity securities of unconsolidated subsidiaries and affiliates.

## 6. Timberland

The investment in timberland at March 31, 2011 and 2010 comprised the following:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Standing timber:			
Mature timber	¥10,786	¥10,850	\$129,955
Growing timber	186	213	2,236
	10,972	11,063	132,191
Land	727	785	8,765
	¥11,699	¥11,848	\$140,956

The timberland accounts at March 31, 2011 and 2010 were reduced by ¥242 million (US\$2,918 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, 2011 and 2010 generally represented short-term borrowings which bore interest of 2.76% and 2.56% per annum, respectively. Long-term debt at March 31, 2011 and 2010 were summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Loans, principally from banks and insurance companies, due 2011 to 2036 with interest of 1.46%:			
Secured			
Loans from banks or other	¥ 600	¥ 22	\$ 7,229
Unsecured			
Bonds issued	15,000	15,000	180,723
Loans from banks or other	38,469	36,101	463,485
Lease obligation	3,540	3,455	42,650
	57,609	54,579	694,087
Portion due within one year			
Loans from banks or other	6,968	116	83,953
Lease obligation	1,095	815	13,192
	8,063	931	97,145
	¥49,546	¥53,648	\$596,942

The following assets were pledged to secure bank loans and long-term debt at March 31, 2011 and 2010:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Receivables—			
Notes and accounts, trade	¥ 326	¥ 285	\$ 3,922
Finished goods, logs and lumber	1,285	1,467	15,485
Land	15	247	176
Buildings and structures	539	16	6,492
Machinery and equipment	845	1,148	10,177
	¥3,009	¥3,163	\$36,252

In addition to the above, certificates of deposit as security on entering into tree-planting business agreements at March 31, 2011 and 2010 were ¥8 million (US\$100 thousand) and ¥12 million, respectively, and investment securities as security for deferred payment of customs duties at March 31, 2011 were ¥9,589 million (US\$115,529 thousand).

The aggregate annual maturities of long-term debt and lease obligation at March 31, 2011 were as follows:

Years ending March 31	Bonds issued		Long-term debt		Lease obligation	
	Millions of yen	Thousands of U.S. dollars	Millions of yen	Thousands of U.S. dollars	Millions of yen	Thousands of U.S. dollars
2011	¥ —	\$ —	¥ 6,968	\$ 83,954	¥1,095	\$13,192
2012	—	—	6,668	80,342	1,240	14,945
2013	—	—	10,493	126,420	699	8,417
2014	10,000	120,482	5,495	66,205	309	3,727
2015	—	—	6,397	77,068	81	980
Thereafter	5,000	60,241	3,048	36,725	115	1,389
	¥15,000	\$180,723	¥39,069	\$470,714	¥3,540	\$42,650

## 8. Loss on Impairment of Fixed Assets

Loss on impairment of fixed assets for the year ended March 31, 2011 consisted of the following:

Location	Major use	Asset category	Millions of yen	Thousands of U.S. dollars
			2011	2011
Komatsushima City, Tokushima Prefecture	Factory	Land	¥695	\$8,370

## 9. Income Taxes

Income taxes in Japan applicable to the Companies generally comprise Corporation Tax, Enterprise Tax and Prefectural and Municipal Inhabitants Taxes. The effective statutory tax rate for fiscal 2011 was 40.0%.

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

	2011	2010
Statutory tax rate	40.0%	40.0%
Non-deductible expense for purposes	2.7	2.4
Per capita portion of Inhabitant Tax	2.9	3.0
Amortization of goodwill	0.3	2.0
Valuation allowance	5.2	12.2
Equity in losses of affiliates	2.8	8.5
Taxes on undistributed earnings of overseas subsidiaries	0.9	5.1
Other	(0.9)	4.5
Effective tax rate	53.8%	77.8%

The significant components of deferred tax assets and liabilities at March 31, 2011 and 2010 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
<b>Deferred tax assets:</b>			
Accrued employees' bonuses	¥ 3,583	¥ 3,170	\$ 43,173
Devaluation of real estate for sale and other assets	4,439	4,744	53,481
Pension and severance costs	3,406	3,864	41,030
Tax loss carryforwards	2,265	2,573	27,284
Impairment loss	2,230	1,989	26,870
Other	8,191	5,592	98,684
Gross deferred tax assets	24,113	21,933	290,522
Valuation allowance	(11,802)	(11,234)	(142,196)
Total deferred tax assets	12,311	10,700	148,326
<b>Deferred tax liabilities:</b>			
Deferred gains on sales of property	(897)	(897)	(10,810)
Gain on securities contributed to employee retirement benefit trusts	(1,590)	(1,590)	(19,161)
Unrealized gain on available-for-sale securities	(2,813)	(3,344)	(33,896)
Land revaluation differences	(1,309)	(1,309)	(15,773)
Taxes on undistributed earnings of overseas subsidiaries	(1,898)	(1,803)	(22,870)
Other	(3,324)	(3,676)	(40,052)
Gross deferred tax liabilities	(11,833)	(12,620)	(142,562)
Net deferred tax assets (liabilities)	¥ 478	¥ (1,921)	\$ 5,764

Net deferred tax assets were included in the consolidated balance sheets at March 31, 2011 and 2010 as follows:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
<b>Current assets —</b>			
Deferred tax assets	¥7,915	¥ 6,308	\$ 95,366
<b>Investment and other assets —</b>			
Deferred tax assets	1,354	1,138	16,317
<b>Current liabilities — Other</b>			
	(10)	(10)	(117)
<b>Long-term liabilities —</b>			
Deferred tax liabilities	(8,782)	(9,358)	(105,802)
Net deferred tax assets (liabilities)	¥ 478	¥ (1,921)	\$ 5,764

## 10. Other Gains (Losses), Net

Other gains (losses), net, for the years ended March 31, 2011 and 2010 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Gain on foreign exchange	¥ —	¥1,194	\$ —
Loss on foreign exchange	(207)	—	(2,499)
Gain on sales of property, plant and equipment	424	69	5,110
Loss on disposal of property, plant and equipment	(227)	(283)	(2,736)
Other, net	1,154	881	13,908
	¥1,144	¥1,862	\$13,783

## 11. Research and Development Expenses

Research and development expenses charged to selling, general and administrative expenses for the years ended March 31, 2011 and 2010 were ¥1,294 million (US\$15,595 thousand) and ¥1,476 million, respectively.

## 12. Cash and Cash Equivalents

Cash and cash equivalents at March 31, 2011 and 2010 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Cash and time deposits	¥55,618	¥52,714	\$670,091
Short-term investments	20,000	19,000	240,964
Less: Cash deposits and short-term investments which mature or become due over three months after the date of acquisition	(36)	(51)	(433)
Cash and cash equivalents	¥75,582	¥71,662	\$910,622

## 13. Shareholders' Equity

The Japanese Corporate Law ("the Law") became effective on May 1, 2006, replacing the Commercial Code. The Law 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, 2011 and 2010, which were included in retained earnings in the accompanying consolidated balance sheets, were ¥2,857 million (US\$34,423 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)

Finance lease transactions that do not transfer ownership and that commenced on or before March 31, 2008, are accounted for in a similar manner to the accounting treatment for ordinary operating lease transactions. If capitalized, the following amounts would be recorded in the financial statements (in equivalent amounts):

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Buildings and structures	¥3,472	¥7,133	\$41,835
Machinery and equipment	1,747	3,599	21,051
Other	21	84	251
Accumulated depreciation	(4,481)	(8,430)	(53,984)
	¥ 760	¥2,385	\$ 9,153

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Depreciation	¥1,623	¥2,729	\$19,555
Interest expenses	26	60	318

Finance leased charges in earnings to the Companies for the years ended March 31, 2011 and 2010 were ¥1,649 million (US\$19,873 thousand) and ¥2,789 million, respectively.

Depreciation costs 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.

Interest expenses are calculated by subtracting the amount equivalent to the acquisition cost from the total lease fee. The resulting differences, which are of an amount equivalent to the total interest payments over the lease periods, are allocated to each period by the interest method. The present values of future lease payments of the Companies as of March 31, 2011 and 2010 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Current obligation	¥539	¥1,596	\$6,489
Long-term obligation	242	840	2,916
Present value of lease payments	781	2,436	9,405

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

## 15. Contingent Liabilities

Contingent liabilities as of March 31, 2011 and 2010, for loans guaranteed amounted to ¥25,908 million (US\$312,147 thousand) and ¥22,389 million.

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Guarantee on loans from financial institutions			
Dongwha SFC Housing Co., Ltd.	¥ 53	¥ 62	\$ 643
Kawasaki Biomass Electric Power Co., Ltd.	2,730	1,394	32,894
Cascadia Resort Communities LLC	42	46	501
Purchasers with housing loans applied	22,907	20,701	275,985
Other	1	0	16
Guarantee on rent payment			
Sumikyō Co., Ltd.	¥ 175	¥ 187	\$ 2,108
Total	¥25,908	¥22,389	\$312,147

## 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 in order to raise funds. Further the Companies enter into derivative contracts as needed in relation to normal foreign currency-denominated transactions, and to manage funds within a limited scope, and do not conduct for speculative purposes.

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

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

### (c) Risk management for financial instruments

(Credit risk management)

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

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

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

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

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

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

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

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

### (e) Fair value of financial instrument

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

	Millions of yen		
	2011		Unrealized gain
	Carrying amount	Fair value	
Cash and time deposits	¥ 55,618	¥ 55,618	¥ —
Receivables-notes and accounts, trade	112,427	112,427	—
Marketable securities and investment securities			
Held-to-maturity	1,047	1,051	3
Available-for-sale	53,729	53,729	—
Receivables-loans and other	45,513	45,513	—
Total	¥ 268,335	¥ 268,338	¥ 3
Payables-notes and accounts, trade	¥(150,161)	¥(150,161)	¥ —
Long-term debt	(39,069)	(39,464)	(395)
Total	¥(189,231)	¥(189,626)	¥(395)
Derivatives*			
Hedge accounting not applied	¥ 25	¥ 25	¥ —
Hedge accounting applied	291	291	—
Total	¥ 315	¥ 315	¥ —

	Thousands of U.S. dollars		
	2011		
	Carrying amount	Fair value	Unrealized gain
Cash and time deposits	\$ 670,091	\$ 670,091	\$ —
Receivables-notes and accounts, trade	1,354,548	1,354,548	—
Marketable securities and investment securities			
Held-to-maturity	12,618	12,657	39
Available-for-sale	647,342	647,342	—
Receivables-loans and other	548,350	548,350	—
Total	\$ 3,232,949	\$ 3,232,988	\$ 39
Payables-notes and accounts, trade	\$(1,809,173)	\$(1,809,173)	\$ —
Long-term debt	(470,714)	(475,474)	(4,760)
Total	\$(2,279,887)	\$(2,284,647)	\$(4,760)
Derivatives*			
Hedge accounting not applied	\$ 298	\$ 298	\$ —
Hedge accounting applied	3,502	3,502	—
Total	\$ 3,800	\$ 3,800	\$ —

\* Net receivables / payables arising from derivatives are shown. Items that are net payables are shown in parentheses.

#### Notes:

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

##### (1) Assets

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

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

(Marketable securities and Investment securities)

The fair values of equity securities are based on market prices. The fair values of debt securities are based on market prices or quoted prices obtained from the financial institution.

##### (2) Liabilities

(Payables-notes and accounts, trade)

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

(Long-term debt)

The fair values of long-term debt with floating rate interest approximate book values because the interest rate of long-term debt reflects market interest rate shortly and the change of credit standing of the Company is not occurred significantly after implementing loan. Therefore, relevant book values are used. The fair values of long-term debt with fixed rate interest 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 of yen		Thousands of U.S. dollars
	2011	2010	2011
Unlisted equity securities	¥1,355	¥1,392	\$ 16,325
Preferred stock	3,000	3,000	36,145
Investment in affiliates	9,326	9,901	112,363

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

	Millions of yen			
	2011			
	1 year or less	5 years or less but more than 1 year	10 years or less but more than 5 years	More than 10 years
Cash and time deposits	¥ 55,272	¥ —	¥ —	¥—
Receivables-notes and accounts, trade	112,427	—	—	—
Marketable securities and investment securities				
Government bonds	—	108	940	—
Other	20,000	—	—	—
Receivables-loans and other	45,513	—	—	—
Total	¥233,213	¥108	¥940	¥—

	Thousands of U.S. dollars			
	2011			
	1 year or less	5 years or less but more than 1 year	10 years or less but more than 5 years	More than 10 years
Cash and time deposits	\$ 665,929	\$ —	\$ —	\$—
Receivables-notes and accounts, trade	1,354,548	—	—	—
Marketable securities and investment securities				
Government bonds	—	1,295	11,323	—
Other	240,964	—	—	—
Receivables-loans and other	548,350	—	—	—
Total	\$2,809,791	\$1,295	\$11,323	\$—

(Additional information)

Effective from the year ended March 31, 2010, the Company has applied the "Accounting Standard for Financial Instruments" (ASBJ Statement No.10, March 10, 2008) and the "Guidance on Disclosure about Fair Value of Financial Instruments" (ASBJ Guidance No.19, March 10, 2008).

## 17. Derivatives and Hedging Activities

Derivative transactions to which hedge accounting is not applied at March 31, 2011

	Millions of yen			
	2011			
	Contract notional amount	Contract amount due after one year	Fair value	Unrealized gain
Currency-related				
Forward foreign currency exchange contracts:				
Sell (Yen)	¥1,858	¥—	¥53	¥53
Sell (U.S. dollar)	311	—	(18)	(18)
Sell (Other)	268	—	(2)	(2)
Buy (U.S. dollar)	31	—	(6)	(6)
Buy (Euro)	11	—	(2)	(2)
Buy (Other)	12	—	(0)	(0)
Total	¥2,491	¥—	¥25	¥25

	Thousands of U.S. dollars			
	2011			
	Contract notional amount	Contract amount due after one year	Fair value	Unrealized gain
Currency-related				
Forward foreign currency exchange contracts:				
Sell (Yen)	\$22,382	\$—	\$637	\$637
Sell (U.S. dollar)	3,749	—	(222)	(222)
Sell (Other)	3,228	—	(24)	(24)
Buy (U.S. dollar)	369	—	(72)	(72)
Buy (Euro)	135	—	(19)	(19)
Buy (Other)	144	—	(2)	(2)
Total	\$30,007	\$—	\$298	\$298

Derivative transactions to which hedge accounting is applied at March 31, 2011

	Hedged item	Millions of yen		
		2011		
		Contract amount	Contract amount due after one year	Fair value
Forward foreign currency exchange contracts:				
Accounting in principle				
Sell (U.S. dollar)	Accounts amount payable	¥ 4,750	¥ 265	¥ (94)
Sell (Euro)		2,035	—	(57)
Buy (U.S. dollar)	Accounts amount payable	8,607	—	161
Buy (Euro)		5,159	—	280
Appropriated accounting for foreign currency				
Buy (U.S. dollar)	Accounts amount payable	350	—	*
Buy (Euro)	Accounts amount payable	57	—	
Total		¥20,956	¥ 265	¥291
Interest rate swaps:				
Accounted for by short-cut method				
Receive floating pay fixed	Long-term bank loans	11,000	8,800	*
Total		¥11,000	¥8,800	

	Hedged item	Thousands of U.S. dollars		
		2011		
		Contract amount	Contract amount due after one year	Fair value
Forward foreign currency exchange contracts:				
Accounting in principle				
Sell (U.S. dollar)	Accounts amount payable	\$ 57,225	\$ 3,189	\$(1,129)
Sell (Euro)		24,517	—	(686)
Buy (U.S. dollar)	Accounts amount payable	103,698	—	1,946
Buy (Euro)		62,152	—	3,371
Appropriated accounting for foreign currency				
Buy (U.S. dollar)	Accounts amount payable	4,212	—	*
Buy (Euro)	Accounts amount payable	684	—	
Total		\$252,488	\$ 3,189	\$ 3,502
Interest rate swaps:				
Accounted for by short-cut method				
Receive floating pay fixed	Long-term bank loans	132,530	106,024	*
Total		\$132,530	\$106,024	

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

Derivative transactions to which hedge accounting is not applied at March 31, 2010

	Hedged item	Millions of yen		
		2010		
		Contract notional amount	Contract amount due after one year	Fair value
Forward foreign currency exchange contracts:				
Sell (Yen)		¥ 909	¥—	¥79
Sell (U.S. dollar)		359	—	5
Total		¥1,268	¥—	¥84

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

## 18. Employees' Retirement Benefits and Pension Plans

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

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

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

In February 2010, the Company revised its post-employment benefit plan.

The Company has transferred about 25% of the defined-benefit pension plan to the defined-contribution pension plan. In parallel, the Company has decreased the proportion of life time annuity (with increasing the proportion of fixed-term annuity) in the defined-benefit pension plan.

The liability for employees' retirement benefits at March 31, 2011 and 2010 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Projected benefit obligation	¥(47,385)	¥(45,759)	\$ (570,906)
Fair value of plan assets	41,233	41,965	496,780
Unrecognized actuarial loss	—	—	—
Unrecognized prior service cost	—	—	—
Prepaid pension cost	—	—	—
Net liability for retirement benefits	¥ (6,152)	¥ (3,794)	\$ (74,126)
Net liability for retirement benefits consist of:			
Prepaid pension cost	¥ —	¥ 1,595	\$ —
Accrued employees' retirement benefits	(6,152)	(5,390)	(74,126)
	¥ (6,152)	¥ (3,794)	\$ (74,126)

The components of net periodic benefit cost for the years ended March 31, 2011 and 2010 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Service cost	¥2,616	¥ 3,068	\$31,520
Interest cost	983	1,076	11,849
Expected return on plan assets	(1,502)	(1,262)	(18,092)
Recognized actuarial loss	2,792	(2,364)	33,643
Amortization of prior service cost	137	(2,068)	1,647
Expense of changing accounting method	—	—	—
Net periodic benefit cost	¥5,027	¥(1,550)	\$60,567
Gain on transition of defined-contribution pension	—	(1,714)	—
Gain on abolishment of retirement benefit plan	(53)	—	(635)
Other	585	112	7,052
Total periodic benefit cost	¥5,560	¥(3,152)	\$66,984

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

Assumptions used for the years ended March 31, 2011 and 2010 were set forth as follows:

	2011	2010
Discount rate	2.1%	2.2%
Expected rate of return on plan assets	3.6%	3.6%
Recognition period of actuarial gain / loss	1 year	1 year

## 19. Investment Property

The Company and some of its consolidated subsidiaries hold some rental properties such as apartment houses in Tokyo and other areas. The net income for the investment properties for the years ended March 31, 2011 and 2010 was ¥1,145 million (US\$13,792 thousand) and ¥1,052 million. The Income is recognized in Net sales and the expense is principally charged to Cost of sales. The amounts recognized in the consolidated balance sheet and fair values related to investment properties are as follows:

	Millions of yen		Thousands of U.S. dollars			
	Carrying amount	Fair value	Carrying amount	Fair value		
	2010	Increase / (Decrease)	2011	2011		
	¥16,486	¥( 849)	¥15,637	¥16,572	\$188,395	\$199,666

(Additional information)

Effective from the year ended March 31, 2010, the Company has applied the "Accounting Standard for Disclosures about Fair Value of Investment and Rental Property" (ASBJ Statement No.20, November 28, 2008) and the "Guidance on Accounting Standard for Disclosures about Fair Value of Investment and Rental Property" (ASBJ Guidance No.23, November 28, 2008).

## 20. Segment Information

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

Timber and Building Materials: manufacturing or purchasing and sale of timber and building materials

Overseas: manufacturing or purchasing and sale of timber and building materials, construction of houses overseas

Housing: construction and renovation of houses, house exteriors, gardening, planting, sale of interiors

Real Estate: sales and brokerage of real estate

Other: leasing, insurance agent business and other

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

Millions of yen

Year ended March 31, 2011	Timber and Building Materials	Overseas	Housing	Real Estate	Subtotal	Other	Total	Adjustments	Consolidated
Sales and contract revenues:									
Unaffiliated customers	¥372,025	¥26,529	¥344,424	¥50,185	¥793,163	¥ 3,557	¥796,720	¥ 773	¥797,493
Intersegment transfers	18,206	6,704	1,855	696	27,462	9,973	37,435	(37,435)	—
Total	390,231	33,234	346,279	50,881	820,626	13,529	834,155	(36,662)	797,493
Segment income (loss)	4,848	(1,829)	18,988	903	22,911	502	23,412	(9,206)	14,206
Segment assets	147,135	52,576	98,083	62,917	360,711	10,843	371,554	117,863	489,417
Other items									
Depreciation and amortization	¥ 993	¥ 2,048	¥ 3,162	¥ 560	¥ 6,763	¥ 788	¥ 7,551	¥ 885	¥ 8,437
Amortization of goodwill	(18)	80	—	49	110	—	110	—	110
Interest income	20	106	2	42	169	0	170	55	225
Interest expense	735	981	342	883	2,941	23	2,965	(1,647)	1,318
Equity in earnings of affiliates	(23)	(755)	—	1	(778)	—	(778)	0	(778)
Investments in affiliates	125	9,209	—	3	9,337	—	9,337	(11)	9,326
Increase in tangible and intangible fixed assets	1,318	4,324	2,996	4,875	13,514	877	14,390	182	14,572

Millions of yen

Year ended March 31, 2010	Timber and Building Materials	Overseas	Housing	Real Estate	Subtotal	Other	Total	Adjustments	Consolidated
Sales and contract revenues:									
Unaffiliated customers	¥324,447	¥20,681	¥336,760	¥38,071	¥719,959	¥ 3,204	¥723,163	¥ 759	¥723,923
Intersegment transfers	16,985	4,790	1,535	99	23,409	11,967	35,376	(35,376)	—
Total	341,432	25,472	338,295	38,169	743,368	15,171	758,539	(34,617)	723,923
Segment income (loss)	2,006	(2,582)	13,250	(1,042)	11,632	583	12,215	(2,750)	9,465
Segment assets	135,557	51,811	90,670	63,344	341,381	10,307	351,689	118,050	469,738
Other items									
Depreciation and amortization	¥ 1,388	¥ 1,872	¥ 3,133	¥ 496	¥ 6,890	¥ 825	¥ 7,715	¥ 788	¥ 8,502
Amortization of goodwill	(18)	59	—	172	213	—	213	—	213
Interest income	21	463	2	1	487	1	488	33	521
Interest expense	846	839	357	830	2,872	23	2,895	(1,732)	1,162
Equity in earnings of affiliates	(48)	(2,196)	—	0	(2,244)	—	(2,244)	—	(2,244)
Investments in affiliates	150	9,748	—	3	9,901	—	9,901	—	9,901
Increase in tangible and intangible fixed assets	665	1,923	3,154	4,149	9,891	707	10,598	1,994	12,592

Thousands of U.S. dollars

Year ended March 31, 2011	Timber and Building Materials	Overseas	Housing	Real Estate	Subtotal	Other	Total	Adjustments	Consolidated
Sales and contract revenues:									
Unaffiliated customers	\$4,482,230	\$319,632	\$4,149,683	\$604,642	\$9,556,187	\$ 42,850	\$ 9,599,037	\$ 9,313	\$9,608,350
Intersegment transfers	219,352	80,777	22,354	8,387	330,870	120,154	451,024	(451,024)	—
Total	4,701,582	400,409	4,172,037	613,029	9,887,057	163,004	10,050,061	(441,711)	9,608,350
Segment income (loss)	58,414	(22,037)	228,777	10,880	276,033	6,043	282,077	(110,920)	171,157
Segment assets	1,772,709	633,448	1,181,727	758,033	4,345,918	130,636	4,476,554	1,420,036	5,896,590
Other items									
Depreciation and amortization	\$ 11,968	\$ 24,669	\$ 38,096	\$ 6,753	\$ 81,486	\$ 9,494	\$ 90,980	\$ 10,668	\$ 101,647
Amortization of goodwill	(222)	960	—	588	1,326	-	1,326	—	1,326
Interest income	239	1,277	21	504	2,041	4	2,045	665	2,710
Interest expense	8,860	11,823	4,119	10,635	35,436	281	35,718	(19,843)	15,874
Equity in earnings of affiliates	(280)	(9,097)	—	7	(9,370)	—	(9,370)	0	(9,370)
Investments in affiliates	1,502	110,955	—	41	112,498	—	112,498	(135)	112,363
Increase in tangible and intangible fixed assets	15,878	52,102	36,100	58,734	162,815	10,561	173,376	2,190	175,566

(Additional information)

Effective the year ended March 31, 2011, the Company has adopted new accounting standards for disclosures about segments of an enterprise and related information. Segment information for the year ended March 31, 2010 has been restated in accordance with such accounting standards for comparative purposes.

## 21. Net Income per Share

The computation of net income per share for the years ended March 31, 2011 and 2010 was as follows:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Numerator for net income per share:			
Net income	¥5,175	¥2,377	\$62,352
Income not available to common stockholders	—	—	—
Income available to common stockholders	5,175	2,377	62,352
Denominator for net income per share:			
Weighted average number of shares issued	177,142,840	177,147,826	

The diluted net income per share for the years ended March 31, 2011 and 2010 were not presented because there were no shares with dilutive effect.

## 22. Other Comprehensive Income

The following table presents components of other comprehensive income for the year ended March 31, 2010:

	Millions of yen
	2010
Unrealized gain on available-for-sale securities	¥3,235
Deferred loss on hedges	(5)
Translation adjustments	3,467
Share of other comprehensive income of companies accounted for by the equity method	112
Total other comprehensive income	¥6,809
Total comprehensive income (loss) attributable to:	
Shareholders of the parent company	¥9,190
Minority interests	¥ (27)

## Report of Independent Auditors

The Board of Directors  
Sumitomo Forestry Co., Ltd.

We have audited the accompanying consolidated balance sheets of Sumitomo Forestry Co., Ltd. and consolidated subsidiaries as of March 31, 2011 and 2010, and the related consolidated statements of income, changes in net assets, and cash flows for the years then ended and consolidated statement of comprehensive income for the year ended March 31, 2011, all expressed in yen. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Sumitomo Forestry Co., Ltd. and consolidated subsidiaries at March 31, 2011 and 2010, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2011 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 4.

*Ernst & Young ShinNihon LLC*

June 24, 2011

# Sumitomo Forestry Group at a Glance

(As of June 30, 2011)

## Domestic



### Sumitomo Forestry Crest Co., Ltd.

Manufacture and sales of various types of plywood, building components for housing, furniture, synthetic resin adhesive, etc.

### Sumitomo Forestry Wood Products Co., Ltd.

Forest management; various forestry businesses; procurement and sales of Japanese timber, etc.

### Sumirin Sash Co., Ltd.

Secondary processing and sales of aluminum sashes; exterior finishing

### Igeto Co., Ltd.

Sales of housing materials and fixtures

### Daichisansho Co., Ltd.

Sales of construction materials; interior and exterior finishing

### Japan Bioenergy Holdings Co., Ltd.

Management direction and holding of shares in wood chip supply companies

### Nihe Co., Ltd.

Sales of construction materials; ancillary work

### Northern Tech Co., Ltd.

Exterior wall finishing; renovation; sales and installation of housing fixtures

### Home Eco Logistics Co., Ltd.

Distribution services for home building materials

### Japan Bioenergy Co., Ltd.

Intermediate processing of industrial waste products, and supply and sales of wood chips

### Sumikyo Wintec Co., Ltd.

Sales of door and window sashes for housing and low- and mid-rise buildings; sales of exterior finishing materials

### Sumikyo Co., Ltd.

Sales of door and window sashes for housing; sales and installation of sidings; sales of exterior finishing materials

### Kawasaki Biomass Electric Power Co., Ltd.

Electric power generation using wood-chip biomass; wholesale electric power

### Nichiha Fuji Tec Co., Ltd.

Manufacture and sales of construction materials



### Sumitomo Forestry Home Engineering Co., Ltd.

Construction and construction supervision of Sumitomo Forestry's custom-built wooden homes

### Sumitomo Forestry Landscaping Co., Ltd.

Urban greening; landscaping for private residences; plant rental, etc.

### 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 homes

### Sumitomo Forestry Home Tech Co., Ltd.

Renovation and maintenance of Sumitomo Forestry's custom-built wooden homes and renovation of regular detached houses, as well as condominiums



### Sumitomo Forestry Residential Co., Ltd.

Management and renovation of condominiums and apartments

### Sumitomo Forestry Home Service Co., Ltd.

Sales agent for land and housing

### Sumirin Life Assist Co., Ltd.

Management of nursing care facilities and housing for senior citizens

### Meikan Honchosha PFI Co., Ltd.

Redevelopment of headquarters, etc., of Nagoya Port Authority

### Fill Care Co., Ltd.

Management of nursing care facilities for senior citizens, etc.



### Sumitomo Forestry Information Systems Co., Ltd.

Development of computer systems, etc.

### Sumirin Agro-Products Co., Ltd.

Production and sales of nursery compost, culture soil for gardening, soil conditioning materials, fertilizer, etc.

### Sumirin Business Service Co., Ltd.

Staffing business, training, administration outsourcing services

### Sumirin Enterprises Co., Ltd.

Various services for insurance agency, equipment leasing, travel agency and sales, etc.

### Kawanokita Development Co., Ltd.

Management of the Takinomiya Country Club golf course

## Overseas



### Forestry Business

- 1 **Kowa Lumber Co., Ltd. (Japan)**  
Import / export and sales of logs; export of forestry equipment and equipment parts
- 2 **Open Bay Timber Ltd. (Papua New Guinea)**  
Large-scale afforestation; log harvesting and export
- 3 **PT. Mayangkara Tanaman Industri (Indonesia)**  
Large-scale afforestation; log harvesting
- 4 **PT. Wana Subur Lestari (Indonesia)**  
Large-scale afforestation; log harvesting

### Manufacturing of Building Materials

- 5 **PT. Kutai Timber Indonesia (Indonesia)**  
Manufacture and sales of plywood, secondary processed plywood, processed timber products and particle board
- 6 **Probolingo Factory**
- 7 **Surabaya Branch**
- 8 **Samarinda Branch**
- 9 **Fuxin Sumirin Wood Products Co., Ltd. (China)**  
Manufacture and sales of plywood, processing timber
- 10 **Sumitomo Forestry Australia Pty Ltd. (Australia)**  
Oversight and participation in management of affiliates in Australia
- 11 **Alpine MDF Industries Pty Ltd. (Australia)**  
Manufacture and sales of medium density fiberboard (MDF)
- 12 **Sumitomo Forestry NZ Ltd. (New Zealand)**  
Holding company
- 13 **Nelson Pine Industries Ltd. (New Zealand)**  
Manufacture and sales of medium density fiberboard (MDF), veneer and laminated veneer lumber (LVL)
- 14 **Shouei Furniture Co., Ltd. (Thailand)**  
Manufacture and sales of furniture
- 15 **PT. Rimba Partikel Indonesia (Indonesia)**  
Manufacture and sales of particle board
- 16 **Jakarta Office**
- 17 **PT. AST Indonesia (Indonesia)**  
Manufacture and sales of materials for musical instruments and wooden building materials
- 18 **PT. Sinar Rimba Pasifik (Indonesia)**  
Manufacture and sales of wooden interior products
- 19 **Vina Eco Board Co., Ltd. (Vietnam)**  
Manufacture and sales of particle board

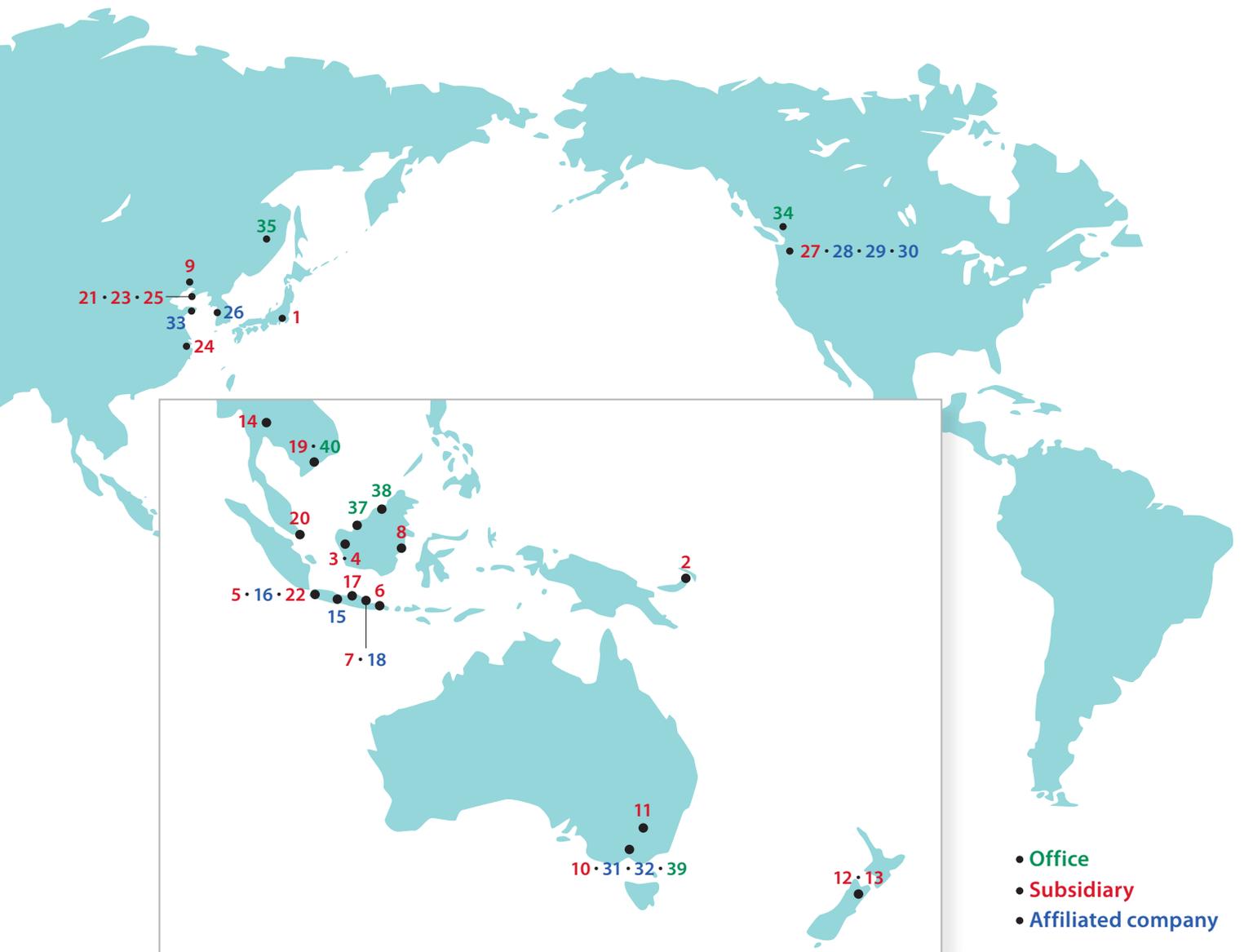


### Distribution of Timber and Building Materials

- 20 **Sumitomo Forestry (Singapore) Ltd. (Singapore)**  
Procurement and sales of timber and building materials; investment and financing
- 21 **Sumitomo Forestry (Dalian) Ltd. (China)**  
Import / export and wholesale of timber and building materials
- 22 **PT. Sumitomo Forestry Indonesia (Indonesia)**  
Procurement and sales of timber and building materials

### Housing Businesses

- 23 **Paragon Wood Product (Dalian) Co., Ltd. (China)**  
Design and construction of wooden housing; interior design and construction of housing and offices
- 24 **Paragon Wood Product (Shanghai) Co., Ltd. (China)**  
Interior design and construction of housing and office; manufacturing, processing and sales of trusses
- 25 **Dalian Sumirin Information Technology Service Co., Ltd. (China)**  
CAD work and other business processing
- 26 **Dongwha SFC Housing Co., Ltd. (Korea)**  
Construction and sales of wooden detached homes
- 27 **Sumitomo Forestry Seattle, Inc. (U.S.A.)**  
Oversight and participation in management of affiliates in U.S.A.; procurement and sales of timber and building materials
- 28 **Cascadia Resort Communities, LLC (U.S.A.)**  
Land development, housing business
- 29 **SFC Homes, LLC (U.S.A.)**  
Construction and sales of detached homes



- 30** Henley USA, LLC (U.S.A.)  
Construction and sales of detached homes
- 31** Henley Properties Group (Australia)  
Construction and sales of detached wooden homes
- 32** Grices Road Management Pty Ltd. (Australia)  
Land development for collective housing

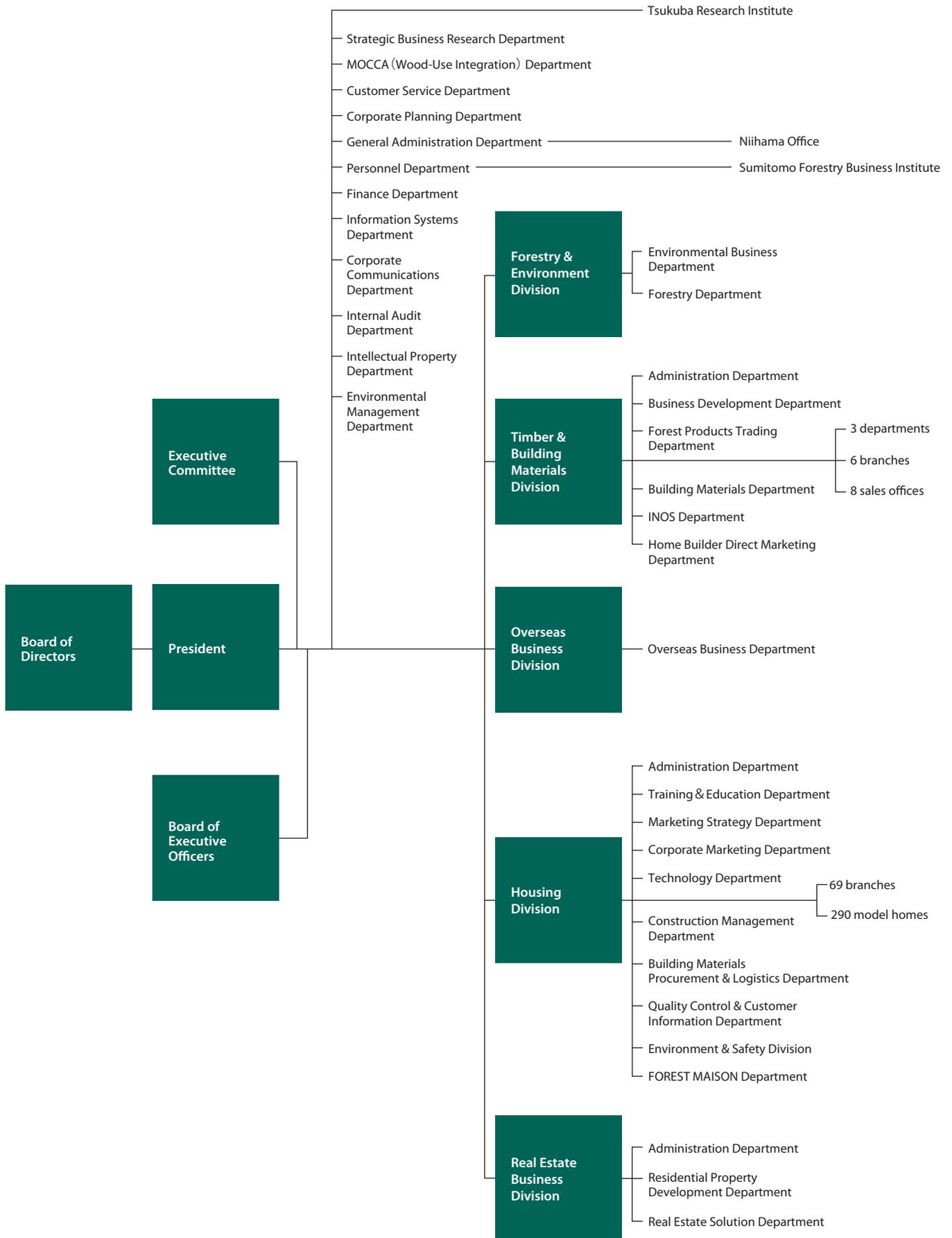


- 33** Yantai Golden Bridge Enterprise Co., Ltd. (China)  
Brokerage of rental housing

- Overseas Offices**
- 34** Vancouver Office
  - 35** Khabarovsk Office
  - 36** Amsterdam Office
  - 37** Sibiu Office
  - 38** Kota Kinabalu Office
  - 39** Melbourne Office
  - 40** Ho Chi Minh Office

# Organization Chart

(As of June 30, 2011)



# Investor Information

(As of June 30, 2011)

## Company Outline

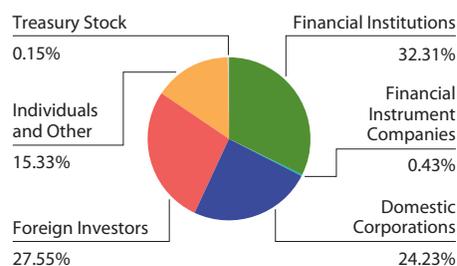
<b>Company Name:</b> Sumitomo Forestry Co., Ltd.	<b>Head Office:</b> Keidanren Kaikan, 3-2, Otemachi 1-chome, Chiyoda-ku, Tokyo 100-8270, Japan
<b>Founded:</b> 1691	<b>Consolidated Subsidiaries:</b> 45 (Overseas 18)
<b>Incorporated:</b> 1948	<b>Associated Companies:</b> 20 (Overseas 17)
<b>Paid-in Capital:</b> ¥27,672 million	<b>Number of Employees (Consolidated):</b> 13,778 (As of March 31, 2011)
<b>Stock Exchange Listings:</b> Tokyo, Osaka	<b>Homepage:</b> <a href="http://sfc.jp/english/">http://sfc.jp/english/</a>
<b>Total Number of Authorized Shares:</b> 400,000,000	<b>Independent Auditors:</b> Ernst & Young ShinNihon LLC
<b>Total Number of Shares Issued:</b> 177,410,239	<b>Contact Information:</b> Sumitomo Forestry Co., Ltd. Corporate Communications Department IR Team Tel: 81-3-3214-2270 Fax: 81-3-3214-2272
<b>Number of Shareholders:</b> 12,675 (As of March 31, 2011)	
<b>Ordinary Shareholders' Meeting:</b> June	

## Major Shareholders (As of March 31, 2011):

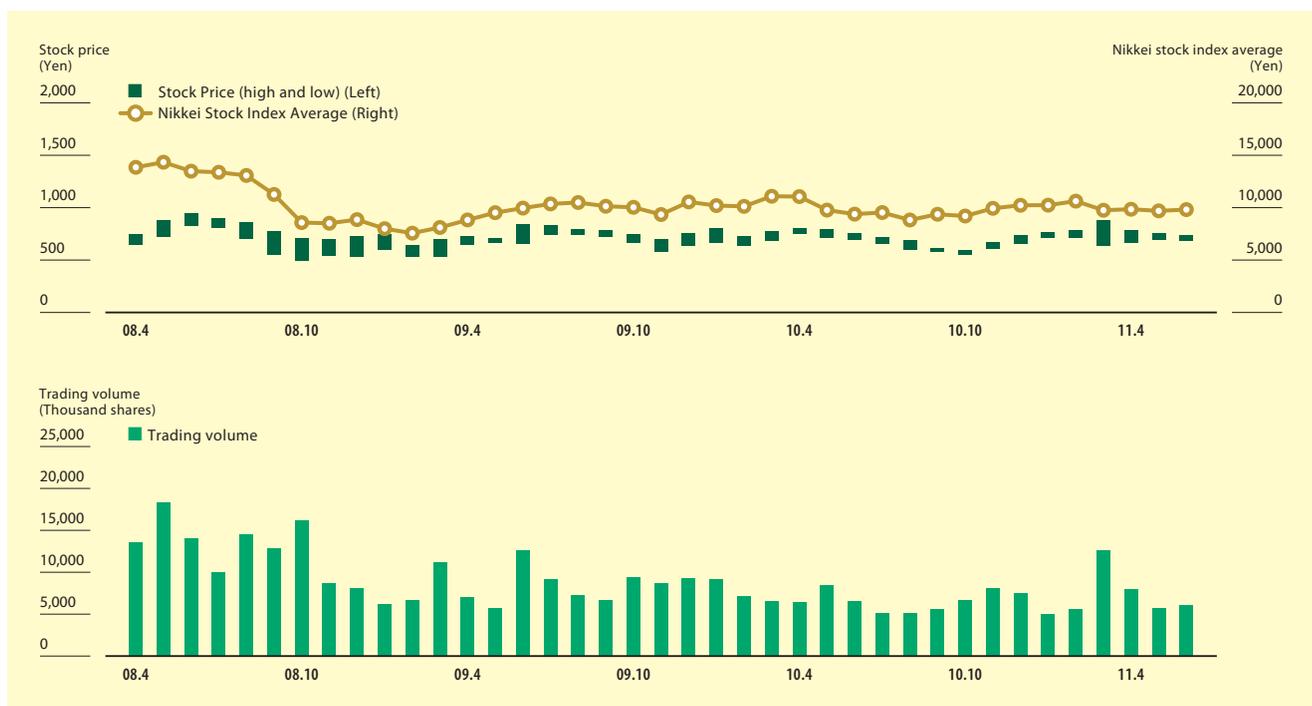
Shareholders	Number of shares held (Thousand shares)	Shareholding ratio (%)
Sumitomo Metal Mining Co., Ltd.	10,110	5.70
The Master Trust Bank of Japan, Ltd. (trust account)	7,726	4.36
The Iyo Bank, Ltd.	5,849	3.30
Japan Trustee Service Bank, Ltd. (trust account)	5,539	3.12
Sumitomo Corporation	4,383	2.47
Sumitomo Life Insurance Company	4,227	2.38
The Hyakujushi Bank, Ltd.	4,197	2.37
Sumitomo Mitsui Banking Corporation	4,136	2.33
Sumitomo Forestry Group Employees' Shareholding Association	3,742	2.11
The Sumitomo Trust and Banking Co., Ltd.	3,408	1.92

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

## Breakdown of Shareholders (As of March 31, 2011):



## Stock Price and Trading Volume (Osaka Securities Exchange):



## Forward-Looking Statements

Statements in this annual report with respect to Sumitomo Forestry's plans, strategies, objectives, forecasts, and other statements that are not historical facts are forward-looking statements based on management's assumptions and beliefs based on information available as of the production date of this report. Actual results may differ significantly from those discussed herein, owing to the impact of various factors, including but not limited to changes in the business environment, general economic conditions, and customer preferences.



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