

We
Believe
in...

Profile

The Sumitomo Forestry Group engages in the forestry and environment business, the timber and building materials business, the housing business and the overseas business, and handles the largest volume of timber and building materials in Japan, while also holding a leading share of custom-built wooden homes.

The Group's roots lie in the management of the forest around the Sumitomo family's Besshi Copper Mine, which opened in 1691. Since our foundation, we have broadened our business activities closely associated with wood, and accumulated a high level of expertise and technology over more than 300 years.

Based on our corporate philosophy—"utilize timber as a renewable, healthy and environmentally friendly natural resource, and contribute to the realization of a prosperous society through all types of housing-related services"—we are committed to further developing comprehensive housing and wood products businesses.



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.

Company-owned forest in Niihama,
Ehime Prefecture



Wood

Wood is a renewable, natural resource that possesses outstanding characteristics as a material as well as environmental advantages. In 2011, Japan experienced significant hardship as a result of the Great East Japan Earthquake and nuclear accident. Through wood, Sumitomo Forestry Group is taking a proactive stance on the recovery of the affected areas and future energy policy. We continue to believe in the power of wood, and through our operations we will pursue the possibilities offered by wood.




Smart



Wood

The Power of Wood in Smart Houses

Following the Great East Japan Earthquake, society was faced with a growing need to save power and secure emergency energy supplies, and attention focused on smart houses equipped with solar power systems, fuel cells, storage batteries, and the Home Energy Management System (HEMS) facilities. As well as deploying these advanced technologies, Sumitomo Forestry is promoting smart houses that reduce CO₂ and energy use over the lifecycle of the house, through the inherent environmental advantages of wooden homes and the *Ryouonbou* design concept, an energy-conservation design technology that utilizes the power of nature.

Special Feature  p.20




Hope

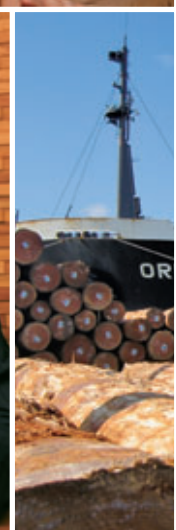
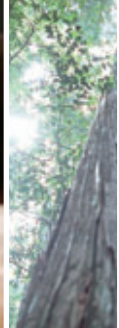


Wood

Hope from the Power of Wood

A miraculous, sole surviving pine from the well-known *Takata-Matsubara* forest in the city of Rikuzentakata, which was devastated by the 2011 tsunami. Known as the "Pine Tree of Hope," this tree became a symbol of recovery. Sumitomo Forestry successfully cultivated seedlings from the DNA of the "Pine Tree of Hope," using its regenerative and culture technologies. As well as ensuring that this tree—which is also a symbol of hope for the future—is handed down to future generations, we will continue actively working towards the recovery of the disaster-hit region by maximizing the strengths of our business.

Special Feature  p.24



People



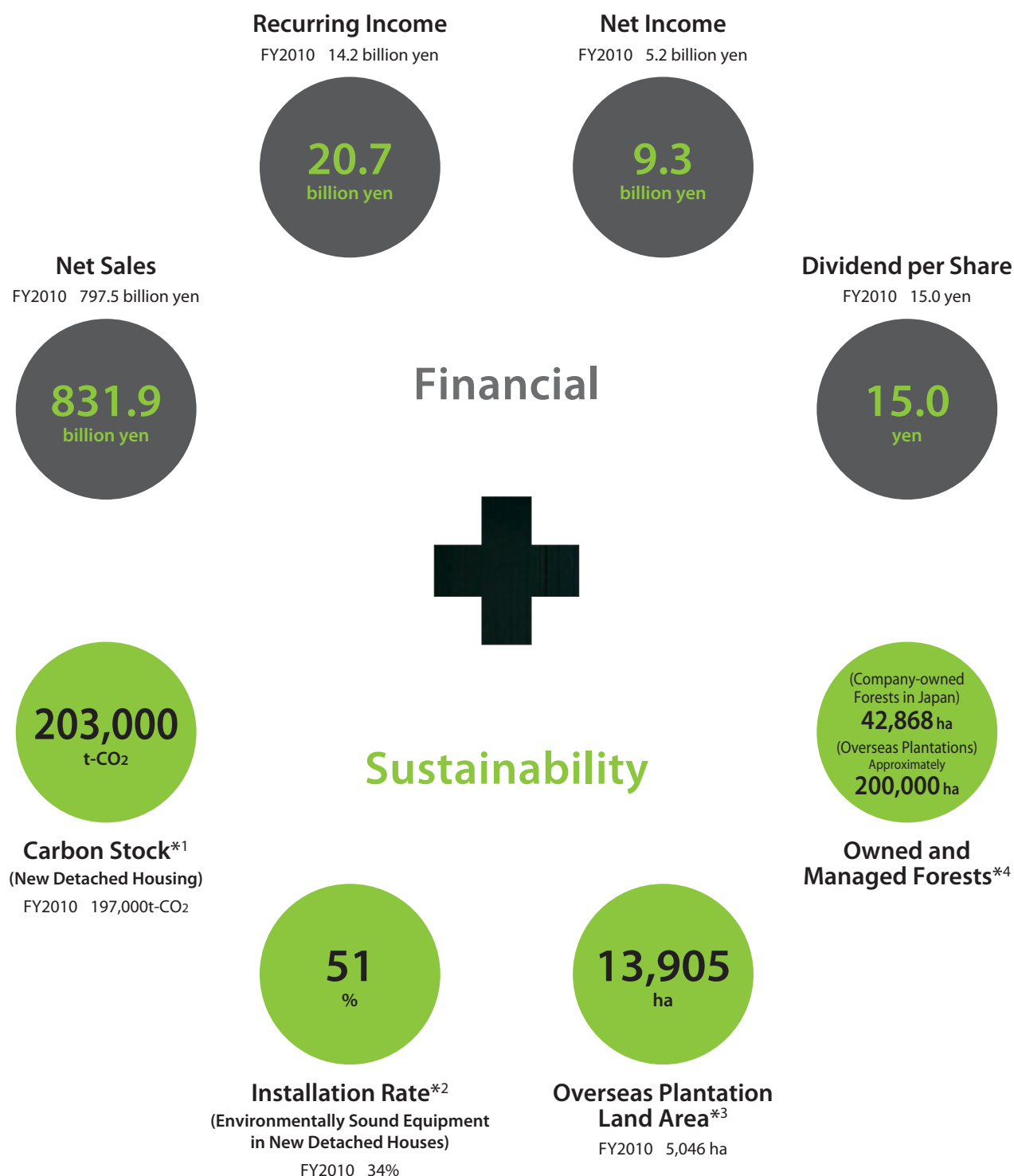
Wood

The Sumitomo Forestry Group—Connected by Wood

The business of the Sumitomo Forestry Group—from cultivating forests and building homes to the distribution of timber and building materials and manufacturing of building materials—is truly global, and the people engaged in these operations have a close association with wood. As well as identifying the ever-changing needs of the times in which we live, we are constantly seeking sustainable business structures, mindful of the future generation. At the same time, we are working to achieve even further growth as we contribute to society in various ways through our wood-focused operations, drawing support from the Sumitomo Spirit inherited from our predecessors, who overcame numerous hardships.

FY2011 Highlights

(Year ended March 31, 2012)



*1. The volume of CO₂ in timber used in new detached houses constructed by the Group retaining CO₂ as carbon.
A Sumitomo Forestry Home house has a carbon stock of about 22.6t-CO₂.

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

*3. Land area under plantation forestry management for each fiscal year.

*4. As of April 1, 2012.



We Believe in Wood

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Photo: The Company-owned forest located in Besshiyama in Niihama, Ehime Prefecture, birthplace of the Sumitomo Forestry Group.
"Kikoriin" is the mascot of the Sumitomo Forestry Group.

Message from the Chairman

Our Vision



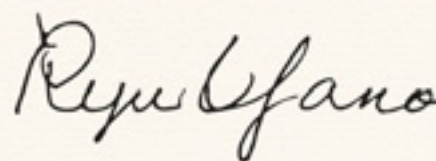
Believing in the Possibilities of Wood and Creating the Future

Over a year has passed since the Great East Japan Earthquake. In the process of recovering from this disaster we have again witnessed the great strength derived from people's conviction and courage as they confront hardship, even amid the enormous sense of loss and anger that remain. With regard to Sumitomo Forestry's support for the recovery effort, we build on the strengths of our business, focused on wood, as we support people's efforts in all aspects of their lives to overcome the difficulties they face.

The world now faces many issues as a result of the confusion that has engulfed politics and economics globally. In recent years, there has also been a spate of natural disasters, not just in Japan but also around the world, and some believe that rainstorms and flooding are becoming more frequent as a result of global warming. But we sense opportunity, drawing on our strength as a group, in the welter of calls for new values in a chaotic world. Whatever adversity we face, we will aggressively seek out businesses to serve as new earnings drivers, and build them into viable concerns.

The Sumitomo Forestry Group's business is closely linked to wood through the extensive forests we manage in and outside Japan, as well as through our operations including timber and construction materials, and wooden housing. Wood, a form of sustainable natural capital for the Earth and humans, is an essential resource: as well as its excellence as a material, forests serve the public good and make an important environmental contribution in the way that they absorb and sequester carbon dioxide. The Sumitomo Forestry Group intends to make even greater efforts to contribute to the environment through its businesses, including the promotion of sustainable forestry, the preservation of biodiversity, and carbon offsetting.

Through our company's history, which spans more than 300 years, we have come to fully realize the intrinsic strength of wood, and our belief in this has underpinned our business activities. Looking to the future, we will continue to implement our corporate philosophy of utilizing timber—a material that is both renewable and kind to people and the environment—while contributing to the realization of a prosperous society through all types of housing-related services. In doing this, our goal is to achieve sustainable growth as we further evolve our timber operations, both growing as a company and contributing to society.



Ryu Yano
Chairman / Representative Director

Message from the President

Growth



Continuing to Grow, with an Unshakable Vision

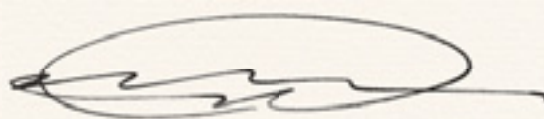
In fiscal 2011, the domestic housing market was buoyant despite concerns about the impact of the Great East Japan Earthquake, in part boosted by government incentives to promote house purchases, including a year-on-year increase in the number of new housing starts. Against this backdrop, the Group's performance was driven by our core operations – the construction of new custom-built detached housing and timber and building materials – leading to an increase in recurring income for the second consecutive year. We will continue to implement steady cost reductions as we work to enhance profitability across all of our operations and build a robust business base.

The business environment in which we find ourselves is set to see significant changes in the future. We envisage a slowdown in the number of new housing starts in the domestic market in the long run due to the fall in population with the declining birth rate and rising numbers of aged, but we expect the renovation and leasing housing market to expand further. Turning to the overseas market, the importance of developing countries, which continue to grow, will only increase. The key to future growth lies in accurately identifying such changes in the times so as to address the needs of people and society.

As a Group with proven expertise in wood, the Sumitomo Forestry Group has consistently pursued the possibilities offered by wood and maximized wood in its operations. In Japan, we have focused our efforts on the evolution of wooden houses, including the use of engineered wood and the development of new housing construction techniques. In addition, we draw on the technology and know-how in wood applications we have cultivated over the course of our long history, to provide people with the optimum homes in which to live; for example, to rejuvenate traditional houses built more than 100 years ago by deploying anti-seismic reinforcement and other state-of-the-art renovation technologies. Overseas, we have expanded the business fields in which we operate from the import of timber and building materials to the manufacturing of building materials, the plantation forestry business, and the housing business, while maintaining our focus on wood.

In developing our business activities, we have always been mindful of the values of different countries and regions, and of the need to respect people's way of living. Our business operations always exist among people's daily lives. In future, we will continue to utilize our experience and technologies to the full as we consistently invest management resources in fields including the growing domestic renovation and leasing housing market and overseas market, focused on developing countries.

The Sumitomo Forestry Group thus aims to achieve further growth by developing high value-added operations that win the approval of people and society, in any business environment.



Akira Ichikawa

President / Representative Director

Interview with the President



We are focused on expanding in growth fields such as the renovation business, while maintaining strong profitability in our core businesses.

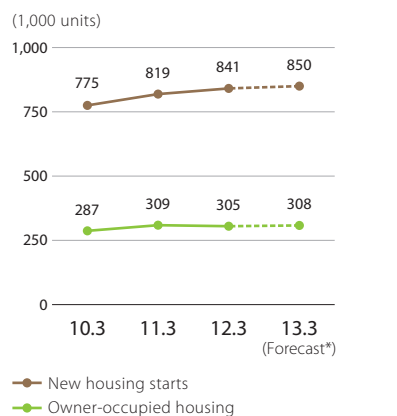
Akira Ichikawa,
President / Representative Director

■ Fiscal 2011 (fiscal year ended March 31, 2012) consolidated results

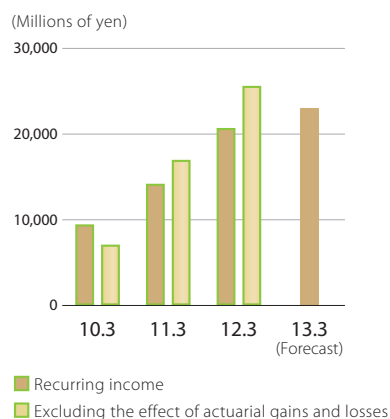


Supported by robust conditions in the domestic housing market and measures to bolster earnings, the Group's performance was driven by our core businesses—new custom-built housing and timber and building materials—leading to an increase in both sales and profits.

Number of New Housing Starts in Japan



Recurring Income



Despite concerns about the impact of the Great East Japan Earthquake on our business results, the domestic housing market remains buoyant and new housing starts in Japan increased 2.7% year on year to 841,000 units, which closely correlate with the performance of the Group's businesses. The growth was in part supported by a reduced-tax housing loan scheme, expansion of the tax-exemption scope of gift tax, and other government incentives to promote house purchases. Against this backdrop, and also reflecting the measures we have implemented to date to strengthen earnings, in fiscal 2011 consolidated sales increased 4.3% year on year to ¥831.9 billion, and consolidated recurring income rose 45.8% to ¥20.7 billion. There was an increase in personnel expenses, due to an actuarial difference in accounting for retirement benefit obligations, but excluding this factor recurring income increased 50.8% year on year to ¥25.6 billion, demonstrating the sharp improvement in profitability in our core business for the second consecutive year, which has been one of our top management priorities. While we recorded approximately ¥3.0 billion extraordinary loss due to impairment of fixed assets at overseas subsidiaries and other factors, overall performance was solid, including a 79.1% year-on-year increase in net income to ¥9.3 billion.

Within the housing business, there was a year-on-year increase in the number of houses sold in our core new custom-built housing business. In addition, increase in the unit price per house drove consolidated performance amid factors including a higher ratio of houses fitted with solar power systems and other types of environmentally sound equipment as awareness of energy conservation grows. In the renovation business too, sales increased steadily, by 15% year on year. Conditions were thus favorable in the housing business as a whole.

In the timber and building materials business, sales volumes in the domestic logistics operation rose owing to the increase in new housing starts and strengthened cooperation with trading partners. However, profits fell marginally short of the previous fiscal year's level due to a rise in raw materials prices affecting the domestic building materials manufacturing business.

In the overseas business, a loss was recorded, owing to difficult conditions facing the building materials manufacturing business in China and Australia as well as lack of

improvement in market conditions in the overseas housing business, which remained lackluster.

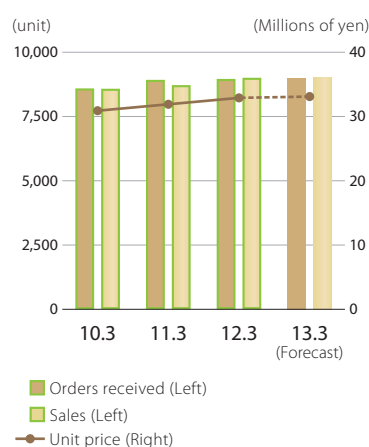
In the real estate business, the detached spec homes business was buoyant, despite difficult conditions in the real estate development business, leading to an increase in profits.

■ Business reorganization and outlook for consolidated performance in fiscal 2012 (fiscal year ending March 31, 2013)



We are aiming for recurring income of ¥20 billion for the second consecutive year, by maintaining stable income through our core businesses, expanding the renovation business, and improving profitability in the overseas business.

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



Smart Solabo



Vina Eco Board Co., Ltd., which started commercial production of particle board in Vietnam

Our start-of-year fiscal 2012 assumptions are for new housing starts of 850,000 units, in line with the previous year's level, and for owner-occupied housing starts of roughly 310,000 units. Based on these assumptions, we forecast sales will rise 1.6% year on year in fiscal 2012 to ¥845.0 billion and recurring income will fall 10.3% to ¥23.0 billion (main businesses, excluding impact of amortization of actuarial difference for retirement benefits). Our goal is recurring income above ¥20 billion for the second consecutive year, although some decline is expected due to higher expenses as we invest in future growth. These forecasts for the domestic market environment do not factor in the impact of an increase in the rate of consumption tax, which is currently uncertain.

Anticipating future changes in the business environment, starting April 2012 the Sumitomo Forestry Group implemented a reorganization of its business structure in order to streamline Group management and achieve optimal allocation of management resources, strengthen profitability in our core businesses, and accelerate growth in the overseas and renovation businesses. The Group's business segments have been reorganized into four new segments: "timber and building materials business," "housing business," "overseas business" and "other businesses."

Our basic approach to performance this fiscal year is to secure stable income in our core operations, namely the timber and building materials business and the new custom-built house business, to expand the renovation business and to improve profitability in the overseas business, both of we view as key businesses.

In the timber and building materials business, we expect a modest fall in sales, primarily in imported plywood as of which demand increased in the previous fiscal year following the earthquake. In view of the expected contraction of the domestic housing market, in future we will promote domestic regional strategies including consolidation and strengthening of our logistics functions on a region-by-region basis, and global distribution strategies incorporating the integration of timber building materials procurement and sales, and expansion of our logistics business in the Pacific Rim region.

In the new custom-built housing business, we will work to meet the need for safe, secure and energy-efficient homes by expanding sales of high value-added housing products including our proprietary Big-Frame construction method and "Smart Solabo" smart houses. As a result of the above reorganization, most of the real estate business was transferred to the housing business segment, and we newly established a "Renovation & Leasing Section" to broadly meet the needs of the residential businesses, including remodeling, renovation, real estate brokerage, and real estate management. Our policy is to proactively expand our operations by taking the technologies and other expertise we have developed in the custom-built housing business and maximizing these in the detached spec homes business and the MOCCA (wood-use integration)* business.

In the overseas business, we will work to urgently improve margins in unprofitable operations and accelerate growth in newly launched businesses, such as the particle board business in Vietnam.

* MOCCA business:

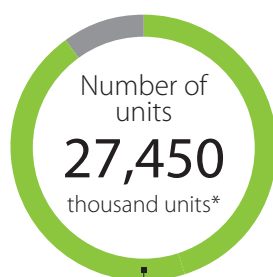
The collective name for our efforts in each business to increase applications for timber through greater use of wood construction and wood materials.

■ Growth strategy



In order to meet the wide range of home-related requirements, we are strengthening our initiatives in the established housing market, which has significant growth potential.

Detached Housing: Stock in Japan



Wooden housing
more than **90%**

Approximately 10 million units of detached houses were built before the 1981 revision of the earthquake-resistance standards.

* Source: Ministry of Internal Affairs and Communications, Housing & Land Survey (2008)

Currently, we are particularly focused on tackling the established housing market, where we envisage future growth. The stock of detached houses in Japan amounts to approximately 27 million units*, at least 90% of which are constructed from wood. It is estimated that 10 million of these detached houses were built before the 1981 revision of the Building Standards Act, which tightened anti-seismic standards. In its “New Growth Strategy” formulated in 2010, the Japanese government set out its goal of expanding the size of the renovation market from the previous ¥6 trillion to ¥12 trillion by 2020. Since the Great East Japan Earthquake in 2011, the need for safe, earthquake-resistant, energy-efficient housing has been felt throughout society, and is rapidly increasing.

* Source: Ministry of Internal Affairs and Communications, Housing & Land Survey (2008)

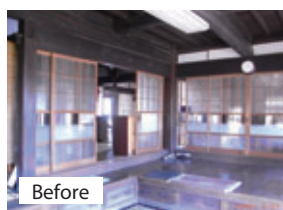
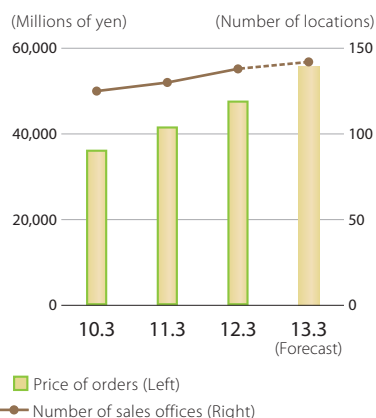
Under our *Reforest* renovation brand, the Sumitomo Forestry Group is developing operations to meet the wide-ranging demand for renovation of detached homes, condominiums and other buildings. We are particularly specialized in the renovation of traditional Japanese-style family homes, and we have built an extensive track record in this field. Recently, we have launched renovation package products and fixed-price products, and are working hard to offer our customers simple and clear renovation products with straightforward service content and pricing. In future, we aim to increase sales from the current ¥50 billion level to ¥100 billion and higher by enhancing our product and service offering and increasing the number of personnel, as well as through sales area expansion.

Most of the stock of domestic wooden housing was built using wooden post-and-beam construction method, and the Sumitomo Forestry Group boasts industry-leading technological capability and expertise in its construction methods. Utilizing the design capabilities, construction renovation technologies and brand strength we have cultivated in our custom-built detached housing business, we are well positioned to tap the wide-ranging demand potential in the established wooden housing market, including the renovation of used housing.

Renovation Business

— Orders and Sales Offices

(Sumitomo Forestry Home Tech Co., Ltd.)



Renovation of a traditional Japanese-style house

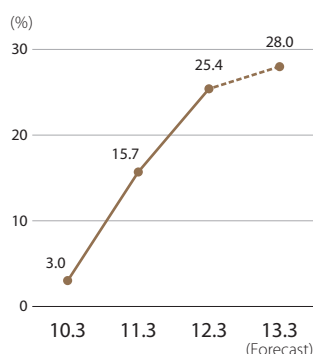


■ The Sumitomo Forestry Group's Technology



We will expand our operations and contribute to society by maximizing the strengths of our proprietary technology.

Big-Frame Construction Method by Orders Received



* Figures are based on the sum of units in orders received each fiscal year, less the amount of orders that were cancelled during the fiscal years.



3D vibration test at Tsukuba Research Institute



Seedlings cultivated from the DNA of the "Pine Tree of Hope"

Technology is essential to business growth. In the Sumitomo Forestry Group's broad array of research and technological development capabilities, one important example is the Big-Frame construction method. With the rise of consumer interest in earthquake resistance and safety, in fiscal 2011 sales of our housing products using the Big-Frame construction method grew dramatically. The Big-Frame construction method has outstanding earthquake resistance and durability, while also enabling open-plan spaces and design flexibility, allowing the house to be lived in for many years and passed on to future generations. We believe that the Group's product development, focused on advanced technology and the customer's needs, has won the approval of our customers. This technological advantage is difficult to discern, as the building's structural elements are hidden in the walls and ceiling, but our marketing activities have included "Construction Site Tours" to showcase the unseen details of technological competence in our construction that make the difference. We believe this has also been well received by our customers.

In the renovation business, we have also developed numerous proprietary technologies to ensure earthquake resistance and safety in houses. These technologies contribute to home safety and security in the established housing market, and are a significant strength driving the Group's growth. We will continue working to develop proprietary technologies in the renovation business, which we think will both have enormous appeal and lead to business expansion.

The Sumitomo Forestry Group carries out technological research and development related to housing and wood, primarily at the Tsukuba Research Institute located in the outskirts of Tokyo. We conduct ongoing research to explore the possibilities of wood, including the development of high value-added timber materials and research into biotechnology involving a wide range of tree species. In fiscal 2011, we cultivated and nurtured rare species of trees registered as natural treasures or in the World Cultural Heritage sites, including successful cultivation of seedlings from the "Pine Tree of Hope," the single surviving tree of the well-known *Takata-Matsubara* pine forest in the city of Rikuzentakata, Iwate Prefecture, which was devastated by the 2011 tsunami.

The Sumitomo Forestry Group will continue to conduct wide-ranging research and development activities, from forests through to housing and landscaping, in order to contribute to people's lives, society and forests. We believe this is our mission as we strive to be the world's leading forestry company.

Big-Frame construction method

A proprietary approach that offers earthquake resistance and floor plan flexibility.

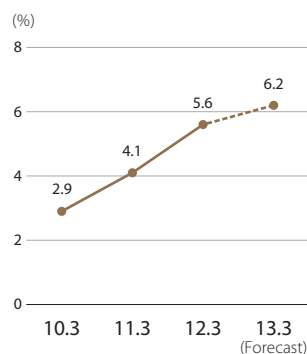


■ Dividends and Retained Earnings



While maintaining a policy of stable, continuous dividend payment to our shareholders, we invest in growth fields and conduct R&D activities based on our long-term management plan.

Return on capital employed (ROCE)



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

The payment of returns to shareholders is one of our principal concerns and our basic policy is to pay a stable, continuous return. For fiscal 2011, we maintained the full-year dividend at ¥15 per share. We intend to use retained earnings to carry out effective investments and R&D activities in order to enhance corporate value. Going forward, we will continue working to improve our ability to generate earnings as reflected in rising return on capital employed (ROCE)—a key management indicator—as we pay appropriate shareholder returns that are in line with our earnings and reflect a balanced consideration of factors such as our business fundamentals, financial condition, and investment plans.

In the aftermath of the Great East Japan Earthquake, I feel that corporate social responsibility and the approach to business has never been so questioned. Our stance on contributing to society and the global environment, which we have maintained for more than 300 years, remains unchanged. In March 2012, we enacted “the Sumitomo Forestry Group Declaration of Biodiversity” to address the goals set out by the Tenth Conference of the Parties (COP10) to the Convention on Biological Diversity.

Wood is an essential resource for the Earth and humans: as well as its excellence as a material, forests serve the public good and make an important environmental contribution in the way that they absorb and sequester carbon dioxide. I believe that the Sumitomo Forestry Group, which has developed a wide range of housing-related businesses focused on wood, is uniquely positioned in being able to aim simultaneously to contribute to society and the global environment, and grow as a company. Moving forward, we intend to meet the expectations of all stakeholders as a company with high value-added businesses that win the approval of people and society, by maximizing our unique strengths and never fearing change.





Special Feature

Sumitomo Forestry, Growing with Wood

Following the Great East Japan Earthquake, many people in Japan once again came to realize the importance of maintaining family bonds, living in a safe environment that provides peace of mind, and securing energy, and out of this realization a new sense of values and way of thinking about society is emerging.

As a professional in the fields of 'wood' and 'housing,' the goal of the Sumitomo Forestry Group is to continue to grow at the same time as being a leader for the age by considering the question of what direction society should move in and then providing proposals based on the answer.

Smart + Wood Sumitomo Forestry's Smart Houses

Sumitomo Forestry is integrating its Smart House technologies with its wooden-home technologies that offer the latest environmental functions to create living environments that keep down electricity consumption and CO₂ emissions, thereby realizing economic benefits at the same time as reducing the impact on the environment.



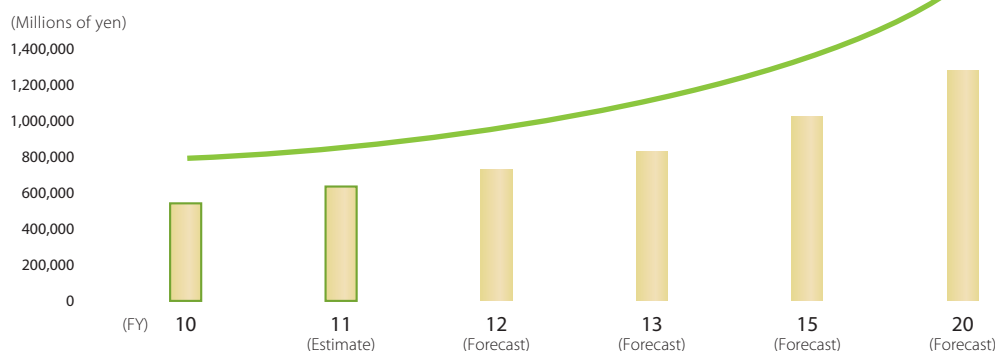
The Smart House market is expected to grow in the medium-to-long term

Following the Great East Japan Earthquake and the consequent concern about ability to maintain a stable supply of electricity, interest has grown in the smart house, which is able to effectively use energy and maintain a pleasant living environment while also being considerate to the environment and efficiently using electricity. According to a recent survey*, the market for major systems for such homes is forecast to grow significantly in the next few years and to exceed 700 billion yen in fiscal 2012, and 1 trillion yen in fiscal 2015.

In a situation of fluctuating household electricity charges, from 2012 a subsidy scheme has been launched for the installation of home energy management systems (HEMS) and household power storage battery systems. Going forward, demand for products that enable energy to be used more efficiently is forecast to continuously increase.

* From "Results of a study into principal equipment and devices used in smart homes 2012," published by the Yano Economic Research Institute in May 2012

Market Scale Analysis and Forecast for Principal Smart House-related Equipment and Devices



* The survey targeted the eight main smart house-related equipment categories of the home energy management system (HEMS), smart meters, solar power systems, fuel cell systems, gas engine cogeneration systems, small-scale wind power generation systems, household power storage battery systems, and V2H (Vehicle to Home) systems (all for household use). The installation costs are not included in the survey. (Source: Yano Economic Research Institute)



Smart House

In general, a smart house refers to a home that is installed with technologies such as a solar power system, household fuel cell system, and home-use household power storage batteries, and that uses a home energy management system (HEMS) to make visible the energy used by these devices within the home.

What is the Sumitomo Forestry's Smart House?

The Group's Smart House is a wooden structure, equipped with a wide range of environmentally sound systems to cater to diversified lifestyles. In addition to its heat insulation performance, surpassing 1999 energy conservation standards*1 and its use of *Ryouonbou* design concept that skillfully taps natural energy to achieve high levels of energy conservation, such as by calculating how air flows through the house, how sunlight enters it, and how trees in the garden are distributed, it features a wide range of optional environmentally sound systems tailored to different lifestyles, enabling more efficient use of energy.

Environmentally sound systems that can be installed in our Smart House include solar power systems, the *ENE FARM* household fuel cell system, and the home energy management system (HEMS), as well as 12 kWh- and 4.8 kWh-capacity household power storage

batteries and the vehicle-to-home system (V2H)*2, a technology in which this division is a pioneer in the Japanese home construction industry. Systems such as these meet homebuyer preferences, and provide comfortable, economically and environmentally sound homes.

Compared with steel frame and RC frame homes, wooden housing emits less CO₂ from the material procurement to construction stages, and enables capture and storage of CO₂ as a raw material, contributing to global environment protection by curbing emissions of CO₂.

*1. The original standards were established in 1980, in combination with energy conservation legislation enacted in 1979. The latest standards were amended in 1999, and these are important benchmarks for energy-saving and heat insulation efficiency in home construction.

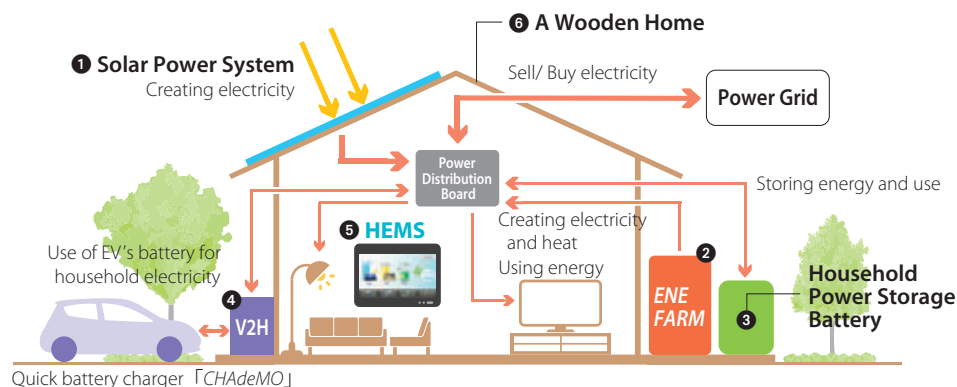
*2. The system enables use of an electric vehicle's large-capacity battery as a household power supply via the power distribution board.

Future developments

At the Sumitomo Forestry Group, we are responding to the needs of the time and working to increase sales of our safe and secure smart houses, at the same time as further developing and evolving our smart house technologies. In particular, we are pushing ahead with the development of lifecycle carbon minus (LCCM) homes by utilizing a basic feature of wood-constructed homes, which is that they emit a low volume of CO₂ emissions throughout their lives. LCCM homes achieve a negative carbon footprint over their lifecycle

by offsetting the CO₂ generated during the construction, occupancy, and dismantling stages with forms of renewable energy used during occupancy. We are currently carrying out a testing program in a trial LCCM home and analyzing the data collected on energy usage. In addition to aiming to achieve the optimal performance of the devices linked to HEMS and control systems, in developing our proprietary Smart House technology our goal is to create LCCM homes that will contribute to the realization of a low-carbon society.

The Six Features of Sumitomo Forestry's Smart Houses



Being mainly made of wood, they have a small environmental footprint, and can incorporate a wide range of environmentally sound systems that can be adapted to meet residents' lifestyle requirements.

1 Solar Power System

Solar panels generate electricity and unused electricity is sold to power companies. The panels are sophisticatedly designed in harmony with their surrounding environment.

2 ENE FARM Household Fuel Cell System

CO₂ emission volumes can be curbed by using gas to generate power, and waste heat from power generation for heating water and rooms.

3 Household Power Storage Battery System

Adopting high-capacity lithium-ion batteries, the system contributes to cutting peak electricity demand by using stored energy, and it can be utilized as an emergency power source during power cuts.

4 Vehicle-to-Home System (V2H)

The system enables use of EV's storage battery as daily household power supplies, and as a reserve power supply in emergencies.

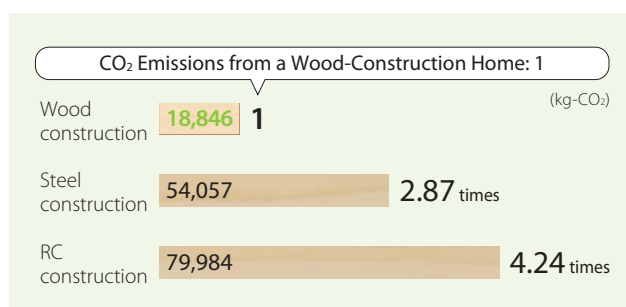
5 Home Energy Management System

By monitoring the household usage of electricity from power grid, solar power system, power storage battery and other devices daily and in real time, it promotes saving and controlling of electricity consumption.

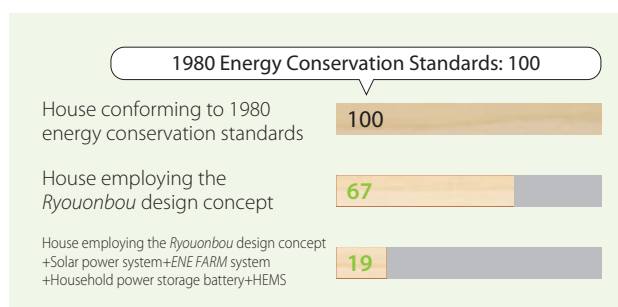
6 Wooden Homes for Conserving Energy

Lifecycle emission of CO₂ associated with a wooden home is naturally at a low level. Insulation efficiency that surpasses the latest 1999 energy conservation standards, and our *Ryouonbou* design concept, which utilizes natural energy to reduce the use of heating and cooling equipment, can greatly reduce CO₂ emissions.

CO₂ Emissions per Home According to the Building Material Used *1



Comparison of Annual CO₂ Emissions *2



*1. CO₂ emissions per home (with a floor space of 136m²) refers to CO₂ emitted when the main construction materials are manufactured (Source: Okazaki *et al.* (1988), Wood Industry No.53-3)

*2. Assumptions for calculations

- Comparison between a home conforming to the 1980 energy conservation standards (using both electricity and gas, hot-water system; ordinary gas water heater) and a home employing the Company's *Ryouonbou* design concept and using solar power system (4.00kW), ENE FARM system, household power storage battery (12kWh), and HEMS (using both electricity and gas). Heating and cooling systems employed are air conditioning units and underfloor 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 130.83m², accommodating a family of four.
- CO₂ emissions per unit of electricity: 0.555kg-CO₂/kWh; CO₂ emissions per unit of gas (processed natural gas): 2.29kg-CO₂/m³.
- 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.



Smart Reforest

Currently, our smart house initiatives are mainly focused on new housing customers. But there is a growing sense of crisis in emergency power saving and supply from customers who are already resident in detached homes, and requests for the realization of smart house functions, such as energy creation, energy conservation and energy storage are increasing. To respond these demands, Sumitomo Forestry Home Tech Co., Ltd., our Group company of the renovation business, launched the *Smart Reforest*, a new renovation product that realizes smart house functions for existing homes, in April 2012.

In *Smart Reforest*, we utilize our proprietary renovation technologies for earthquake resistance, and heat insulation to create homes that are secure and comfortable. Firstly,

we improve the basic performance of existing home, and then install the latest equipment for systems to generate, conserve, and store electricity. Our proposals are targeted to eliminate lighting and heating expenses. We utilize wood, which is a renewable natural resources, as the structural material for building foundation, and also as the interior material to create a pleasant living environment. We propose an optimized plan to each of our customer and renovate, so that they can live securely and comfortably for the indefinite future.



The Sumitomo Forestry Group's Proprietary Earthquake Resistance Renovation Technologies



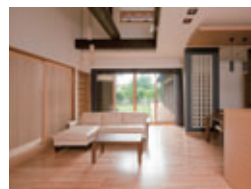
Sumirin ARC Construction Method

Enhances and secures the strength of an unreinforced concrete building foundation, the same as or stronger than a reinforced concrete building foundation, by using an epoxy resin adhesive to affix band steel and aramid fibers to the surface of the foundation.



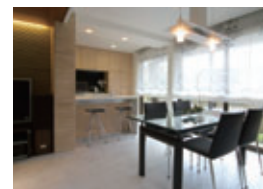
Sumirin JEM Construction Method

Combines and reinforces the building's posts and foundation by using epoxy resin adhesive to affix specially designed hardware to the surface of the existing foundation.



Glass Block Shear Wall

Simultaneously achieves structural strength and brightness of room space.



Portal Frame Shear Wall

Realizes an expansive space while also increasing strength.



Hope **+** Wood

Sumitomo Forestry's Social Contributions and Research & Development

We are pursuing new possibilities for wood in order that may contribute to people and society through our businesses.

Providing technology as well as hope in disaster areas

At the Sumitomo Forestry Group's Tsukuba Research Institute, we conduct broad-ranging R&D into using wood as a resource and material and into the housing sector in general and then return the results of this research back to society in the form of better homes. In this section, we introduce some of the wood-based social contribution activities that only we at the Sumitomo Forestry Group are capable of carrying out.

Takata-Matsubara was a place of scenic beauty that was said to boast 70,000 pine trees, but this forest was destroyed by the tsunami generated by the Great East Japan Earthquake so that only a single tree remained. This single pine tree became a symbol of hope not just for the residents of nearby Rikuzentakata City, but also to the many who had suffered due to this natural disaster and it came to be known as the "Pine Tree of Hope." However, this solitary surviving tree was in an extremely weakened state, having been submerged in sea water and having suffered damage to its trunk. In April 2011, we responded to a request for assistance from the residents of Rikuzentakata City and sent a team of specialists from the Tsukuba Research Institute and our

subsidiary, Sumitomo Forestry Landscaping Co., Ltd., to team up with local landscape engineers, greening groups, universities and national research institutes to not only save the Pine Tree of Hope, but also to form a project team to create saplings toward reforesting the area.



The Pine Tree of Hope



Tsukuba Research Institute

Using the genetic material from the "Pine Tree of Hope" for saplings for the future

Analysis revealed that the Pine Tree of Hope's roots were rotten because they had been submerged for such a long period of time and it was regrettably determined that the damage was so severe that the tree could not be saved. However, the Sumitomo Forestry Group's technology was put to work to cultivate saplings from the Pine Tree of Hope. Our researchers came up with two promising methods to cultivate the saplings: a cloning and grafting technique using genetic material collected from the pine, and a technique for cultivating saplings from some of the Pine Tree of Hope's few surviving seeds.

After continued trial and error, researchers were only able to succeed in using the cloning cultivation method after utilizing a grafting technique* and the resulting saplings are now growing healthily. For the second method, they were able to collect just 25 seeds from within the tree's few remaining pine cones to

grow the saplings. Initially, only a few seeds were planted under experimental conditions, but none of them sprouted. The researchers then decided to use an artificial environment to encourage the seeds' sprouting and for the next six months the remaining seeds were planted in low-temperature conditions, and two weeks after they were transferred to a controlled growing environment they were able to confirm that the seeds had taken root and were sprouting. The researchers were ultimately able to grow 21 seedlings, 3 from the clone seeds using the grafting method and 18 from the pine tree's actual seeds.

Going forward, it is hoped that these saplings will be symbols of hope for Rikuzentakata City and play a part in its restoration. We will take special care of them as they grow and moreover we will cultivate many more saplings.

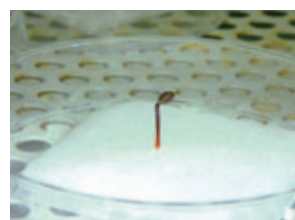
* Grafting is a cultivation method whereby tissue removed from one plant is inserted into the same or related species of plant.



A sample of the pine tree collected by researchers



Some of the collected pine cones



Growing one of the few remaining seeds in temperature-controlled conditions



We succeeded in creating saplings from the Pine Tree of Hope's genetic material; the seeds sprouted and are growing healthily

Tsukuba Research Institute

The Tsukuba Research Institute has also focused on the three fields of “resources,” “materials,” and “housing,” as it seeks out the possibilities of wood as a material. It has been conducting R&D into wood as a material for constructing attractive homes, for effectively utilizing resources, for creating pleasant living environments, and for a host of other research themes toward achieving the ultimate goal of contributing to the creation of a recycling-oriented society

In the fields of “resources” and “materials,” researchers have focused on trees, an environmentally sound sustainable natural resource, and the potential of wood as a material. They continue to carry out research into afforestation technologies in Japan and overseas, landscaping technologies, and new applications for wooden

boarding using leftover plantation timber, as well as new uses for wood generally.

In the “housing” field, the institute is conducting broad ranging research into new types of wooden homes and more comfortable living environments. This includes not only into the key functions of homes but also R&D that ranges from proposals for housing that can effectively use natural energy and that can be changed in response to their life stage through to the psychological effects that living in wooden homes has on the emotions of their occupants.

R&D Activities at the Tsukuba Research Institute



The Resources Field

The cultivation of heritage and precious trees through biotechnology techniques (cherry blossoms of *Togyu no Sakura*, at Daigo-ji Temple in Kyoto)



Materials

A facility for the test manufacture of wooden boards



MIZDAS high-temperature timber drying system



Earthquake-resistance testing



Housing

Experimental environmentally symbiotic house

The Sumitomo Forestry Group's technological capabilities

The scope of the research and technological development focusing on wood at the Sumitomo Forestry Group is extremely broad. One recent and important example of this is our development of the Big-Frame (BF) construction method. Up to the present time, housing in Japan followed a repeated scrap and rebuild cycle, with a home having to be rebuilt every 20 to 25 years. But we decided to leave behind this concept and after approximately four years of intensive R&D and testing, we have launched a housing product that is a high quality asset in which the occupants can live indefinitely.

The BF construction method, the only such method in Japan, uses wooden beams supported by a Rahmen structure, creating a strong building frame by linking big columns to beams. As a result, there is no need for shear walls and it creates an open living space while also allowing for greater freedom at the home planning stage and the possibility to change the layout in the future.

In addition, the Sumitomo Forestry Group is not only evolving the construction of wooden homes in Japan—including by developing pre-cutting technologies for housing building materials, constructing systems for CAD and CAM, and launching engineered wood materials—it is also providing wood-construction homes using the Group's proprietary building methods that in turn utilize its cutting-edge technologies. Going forward, we will continue with R&D that will expand the possibilities of wood.



Structural framework of Big-Frame construction method



Pre-cut housing building materials

Business Strategies by Segment



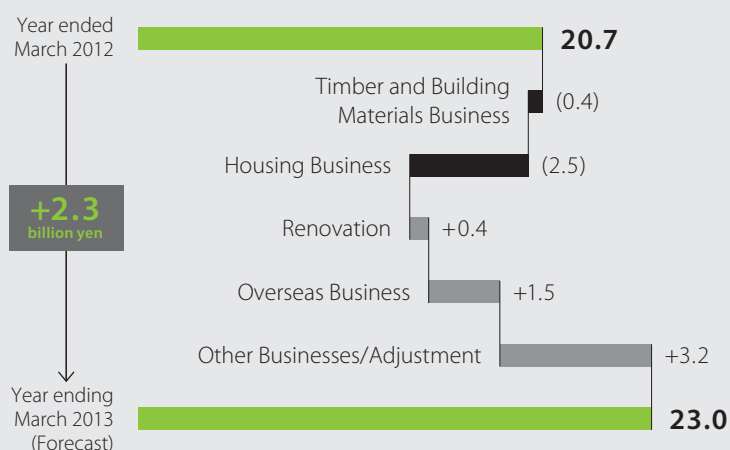
At a Glance

Changes in the Reporting Segments The scope of the reporting segments has been changed as of April 1, 2012

Previous Segments		New Segments
Timber and Building Materials Business <ul style="list-style-type: none"> Domestic Distribution of Timber and Building Materials and Manufacturing of Building Materials 		Timber and Building Materials Business <ul style="list-style-type: none"> Domestic Distribution of Timber and Building Materials and Manufacturing of Building Materials Overseas Distribution
Overseas Business <ul style="list-style-type: none"> Overseas Distribution of Timber and Building Materials and Manufacturing of Building Materials Overseas Housing 		Housing Business <ul style="list-style-type: none"> Custom-Built Detached Housing and Apartments Stock Housing Business <ul style="list-style-type: none"> Renovation Existing Home Renovation Real Estate Brokerage and Management New Spec Homes
Housing Business <ul style="list-style-type: none"> Custom-Built Detached Housing and Apartments Renovation 		Overseas Business <ul style="list-style-type: none"> Overseas Resource and Manufacturing Overseas Housing and Real Estate
Real Estate Business <ul style="list-style-type: none"> Real Estate Development, Brokerage and Management Detached Spec Homes, etc. 		Other Businesses <ul style="list-style-type: none"> Manufacture and Sale of Farming and Gardening Materials, Insurance Agency Services, etc.
Adjustment <ul style="list-style-type: none"> Forestry Management, Environmental Businesses Head Office Departments 		Adjustment <ul style="list-style-type: none"> Forestry Management and Environmental Business Head Office Departments



Forecasts for Recurring Income by Segment (Billions of yen)



Housing Business

Earnings set to decline due to increased expenses despite measures to increase profitability by adding value in the custom-built detached housing business

Overseas Business

Losses set to narrow on improved profitability of housing businesses in America and the MDF manufacturing business in Australia

Other Businesses and Adjustments

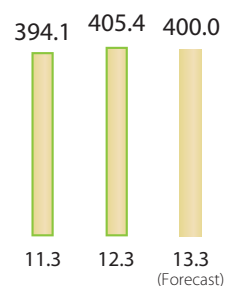
Earnings set to improve, due to exclusion of impact from actuarial difference relating to retirement benefits in year ended March 2012 (-4.9 billion yen)

Timber and Building Materials Business

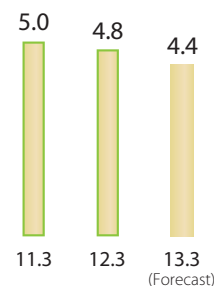


We operate a distribution business, which sources high quality timber and building materials from Japan and overseas for marketing to domestic and overseas customers, and a manufacturing business which makes materials for wooden buildings in Japan.

Sales (Billions of yen)



Recurring Income (Billions of yen)

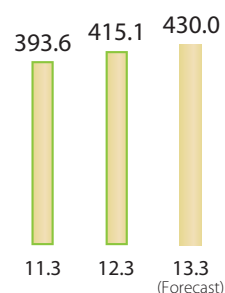


Housing Business

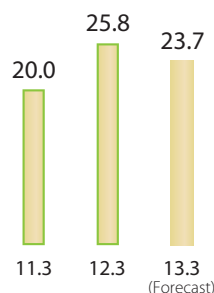


Centered on custom-built detached homes, we operate a wide range of lifestyle-related businesses, including stock housing business such as renovation, real estate brokerage and management, and new detached spec home businesses.

Sales (Billions of yen)



Recurring Income (Billions of yen)

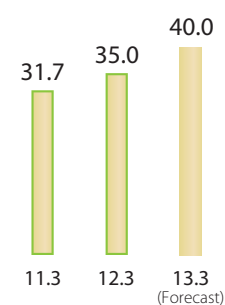


Overseas Business

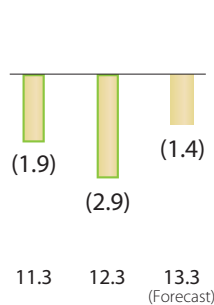


We engage in plantation forestry and building materials manufacturing, and also offer housing products mainly in the United States and other Pacific Rim countries.

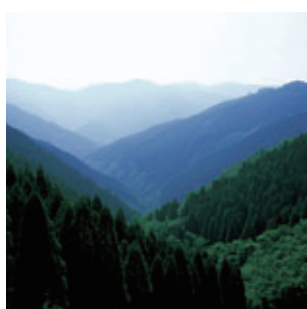
Sales (Billions of yen)



Recurring Income (Billions of yen)

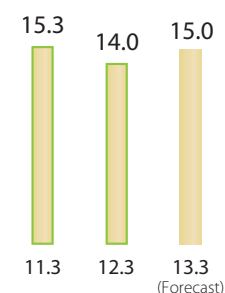


Other Businesses

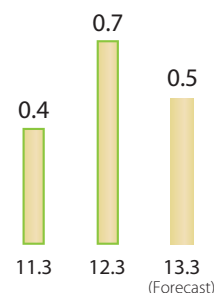


We conduct businesses including manufacture and sale of farming and gardening materials, property insurance agency services for home-buyers, as well as management of residential care facilities for the elderly.

Sales (Billions of yen)



Recurring Income (Billions of yen)



*1. Figures are rounded when less than one unit.

*2. Sales and recurring income of each segment shown include inter-segment transactions. For the years ended March 2011 and March 2012, figures for new segments are calculated based on the old segments, for reference only.

Timber and Building Materials Business

Volume of timber and building materials handling in Japan

No.1

Fiscal 2011

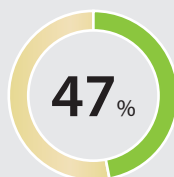
Sales

405.4 billion yen

Recurring Income

4.8 billion yen

Percentage of Total Sales



► Basic Policy

Establishing a system for stably generating earnings in the global market

Immediately after the Great East Japan Earthquake, there was a temporary tight supply and demand situation for panels and other imported wood building materials. However, as the leading company in handled volumes for timber and building materials in Japan, we worked to normalize the situation by drawing on our international network to boost supplies. The Group remains committed to ensuring stable supplies of building materials, and managing optimal supplies to meet market demand. As the Japanese new housing market will gradually shrink in the future, we are pursuing domestic regional strategies to reinforce distribution functions optimized to meet the needs of each region. Also, we are implementing global distribution strategies to expand our distribution operations in the Pacific Rim region via strategic integration of purchasing from overseas and sales to both Japan and overseas customers. Moreover, we are streamlining the domestic distribution organization to improve efficiency and are introducing a lean personnel system to maintain and increase our market share. To create a new revenue base for the future, we will focus our management resources on overseas distribution businesses and address the renovation and environmental-equipment markets.

Through these strategies, we will maintain and increase stable earnings from the timber and building materials business, one of our core operations, as a longer-term measure. We will accelerate the development of overseas markets to establish a stable earnings structure in the global and domestic market.

► Domestic Distribution Business

Improving efficiencies, increasing current market share, and tapping growth markets

In the domestic distribution business, by leveraging our leading market share in Japan and our expertise, we will pursue area strategies to address the problems business partners are facing, such as improvement of distribution efficiency, while also reinforcing our region-based sales channels. Moreover, we will increase our per-capita earning capabilities by rebuilding our organizational structure to optimize our human resources system and improve efficiencies.

To meet the opportunities presented by the promising renovation market in Japan, we will enhance the sales of environmentally sound equipment for which demand is set to grow in the future, such as solar power systems, home energy management system (HEMS) equipment and storage batteries, etc.



Japan Housing Open Platform, a cloud-based service for the house building industry



Environmentally sound product
"KIKORIN-PLYWOOD"



We will continue to expand sales by increasing users and upgrading the services of Japan Housing Open Platform cloud service, which we have already launched for the house-building industry. Also, we will develop the distribution system business for home-building materials. Furthermore, we are expanding sales of our lineup of environmentally sound products, such as the Group's proprietary *KIKORIN-PLYWOOD* panels.

► Overseas Distribution Business

Leveraging the Group's network to accelerate our global development

With an eye to medium-to-long-term growth in the world economy, chiefly in emerging markets, we reviewed our system of running overseas distribution businesses. We are setting up a platform for an integrated global strategy for our overseas products, and are working to increase trading of our timber and building materials from our units in other countries. Based on sales from Group manufacturing sites, up until the present time we have distributed our overseas products in countries such as Indonesia, and we will utilize the expertise acquired in these operations in the investment of management resources for the acceleration of the development of our businesses in China, Vietnam, and other countries in the Pacific Rim region where demand for timber is rapidly increasing.

In June 2012, we established Sumitomo Forestry (Shanghai) Ltd. in Shanghai as our second timber and building materials distribution site in China, following our first site in Dalian. In July, we also established a subsidiary in Ho Chi Minh City, Vietnam. Our subsidiary in Shanghai will develop our business in the Yangtze Delta region and other areas where growth potential is expected, and it will support the growth of our overall business in China, such as housing businesses and consulting services for Group companies. Our subsidiary in Vietnam will distribute Vietnamese building materials to customers in Vietnam, and also handle products of other manufacturers, aiming to expand the sales volume of timber and building materials in the Vietnam market.

The Group will work to establish a global sales system that is optimized to the markets in each country and region, also further bolster our procurement capabilities, by fully utilizing our overseas network in over twenty countries that we have created over many years.

Establishing distribution subsidiaries in Vietnam and Shanghai

In 2012, the Group established a subsidiary in Shanghai in June, and also a distribution subsidiary (Sumitomo Forestry (Vietnam) Ltd.) in Ho Chi Minh City of Vietnam in July, aiming to strengthen its business foundation in the Pacific Rim region.

In China, we have developed businesses such as plywood manufacturing, distribution (Dalian) and wooden housing. Moreover, we are reinforcing the business foundations for housing, distribution of timber and building materials, and manufacturing of building materials in China. For example, we have established a subsidiary that supports the Group's operations such as CAD drafting. In the distribution business for timber and building materials, an established distribution subsidiary in Dalian, Sumitomo Forestry (Dalian) Ltd., together with our new business site in Shanghai, Sumitomo Forestry (Shanghai) Ltd., enable us to expand our sales network in China nationwide. We also bolstered sales networks in the Yangtze Delta region

(Shanghai City, Zhejiang Province, and Jiangsu Province), which is China's largest economic zone.

In Vietnam in 2010, we established Vina Eco Board Co., Ltd. (VECO) to manufacture particle boards (PB) in Vietnam, and commercial production started in May 2012. Sumitomo Forestry (Vietnam) Ltd. enhances the distribution of VECO's PB within Vietnam, as well as handling other manufacturers' products to expand the Group's sales volumes for timber and building materials in the Vietnam market.



Staff of Sumitomo Forestry (Shanghai) and Sumitomo Forestry (Dalian)



Products of Vina Eco Board Co., Ltd. (VECO)

Housing Business

Total number of custom-built wooden homes sold Approximately **250,000** units

Fiscal 2011

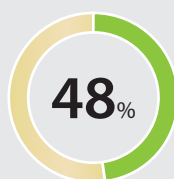
Sales

415.1 billion yen

Recurring Income

25.8 billion yen

Percentage of Total Sales



Earthquake Energy-Absorbing Panels (GS Panels)

These panels significantly reduce damage to the building by converting earthquake energy into heat energy through special rubber. Panels are able to maintain their earthquake resistance for a long period.

(winner of the FY 2011 Good Design Awards)



mamato

In designing this home, we listened to the voices of mothers wishing for homes that reduce housework and create an environment conducive to bringing up children.

► Basic Policy

Focusing on new housing construction and the stock housing market, responding to overall housing needs

Our forecast is that the housing market in Japan in fiscal 2012 will remain strong, continuing from fiscal 2011, due to ongoing measures such as facilitating home purchases including tax deductions for home loans, expansion of the scope of gift tax exemption for the purpose of housing acquisition, and the preferential interest rate *Flat 35S Eco* program applicable to homes with superior levels of energy conservation and earthquake resistance.

The Group will focus on the overall housing market, regardless of whether for new housing or stock housing, and actively meet social needs for housing that is safe, earthquake-resistant and energy-efficient. Also, we will strengthen our measures to meet restoration-related demand from disaster areas. Especially in our stock housing business, we restructured our organization and combined our renovation business, existing home renovation business (resale of renovated homes), rental management business, and real estate brokerage business into a single business segment. We will expand these businesses, by effectively utilizing our technological expertise in the housing business. We also transferred our detached spec home business and MOCCA (wood use integration) business to the housing business segment in order to enhance collaboration among each business and to further development.

► Custom-Built Housing Business

Providing homes offering earthquake resistance and energy conservation, meeting the diverse housing needs of each region

We continue to increase sales of our custom-built wooden homes that offer high levels of earthquake resistance and safety by utilizing our Big-Frame construction method, which has enjoyed a significant growth in sales, and *Earthquake Energy-Absorbing Panels (GS panels)*. Additionally, we work to increase the penetration of products with superior environmental performance that contribute to power saving, such as our *Ryouonbou* design concept. Furthermore, we work to expand the sales of solar power systems, household fuel cells, and other environmental equipment.

We develop a diverse range of home-building proposals, whether for residential, rental housing, or commercial use. In the three largest urban markets (Tokyo, Osaka, and Nagoya), where rebuilding demand is strong and there are good prospects for order growth, we will reinforce marketing activities by focusing on two-family homes, three-storied wooden homes,



ikiki, Two-family homes

In response to the increase in working parents, this product is designed to fulfill their needs in terms of housework, child-raising, and work responsibilities.



Sumai Haku housing fair

Potential customers can experience our earthquake resistance technologies and the appeal of wooden homes.

and rental units in our apartment business to increase the per-order unit price. Our strategy targets a widening range of customers.

We continue to hold *Sumai Haku* housing fairs where potential customers can experience our housing products and get a better understanding of our technologies and features. We hold regional-based *small Sumai Haku* housing fairs in other regions in Japan, and further strengthen *Web Sumai Haku* housing fairs on the Internet. Other methods that we intend to use to actively attract customers include sales initiatives to secure introductions from up to 250,000 owners of *Sumitomo Forestry Home* houses and from ordinary companies.

► Stock Housing Business

Expanding our stock housing business, particularly our renovation business

In the renovation business, where demand is likely to expand, we are upgrading our products and services to meet customers' diversifying needs. These are renovation services for traditional Japanese-style homes, in which we utilize our expertise and technological capabilities, and *Smart Reforest*, a renovation package product which ensures earthquake resistance and improves power saving and energy conservation, and our lineup of fixed-price renovation products. We continue to prioritize activities to increase sales in the Tokyo metropolitan area, which is the largest renovation market in Japan.

Further, we are strengthening our diversified stock housing business, which encompasses the sale of pre-owned homes, resale of renovated homes and management of rental properties to generate stable earnings while increasing inter-Group cooperation.

Wood-use integration business (MOCCA)

The Group's MOCCA business seeks to expand the possibilities of domestic timber and to develop its wider use by increasing applications through the greater use of wood construction and wood materials in non-residential building structures. Against the backdrop of the enactment in 2010 of new legislation promoting the use of timber in public buildings, we are optimistic that wood construction will increase and that more wood materials will be used for interiors in the non-housing sector. We make full use of the appeal of timber in our sales activities to promote its greater use in the construction of public and cultural facilities. For example, we have recently completed wood construction projects for elderly-care facilities, in which we were also able to use large amounts of wood in the interiors.

After the Great East Japan Earthquake, local governments in the affected area actively adopt the measures of reconstruction plans, including a wood biomass power generation business that utilizes the abundant timber resources of the Tohoku area, and promotion of use of

locally produced timber for public emergency housing and facilities as a measure to revitalize the forestry industry. We are reviewing new production and consumption channels.

Based on our track record and expertise in timber, we will continue to promote our wood-built city concept as a low-carbon settlement model, bringing people and waste-free forestry together and creating jobs.



A wooden private elderly-care facility
(two-by-four system, three stories)

Overseas Business

Forest area managed
in the overseas
forestry business

Approximately

200,000 ha

Fiscal 2011

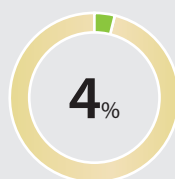
Sales

35.0 billion yen

Recurring Income

-2.9 billion yen

Percentage of Total Sales



► Basic Policy

Accelerating the growth of new businesses, rapidly rebuilding our underperforming businesses

The Group intends that overseas businesses become a main earnings driver in the future. The overseas business consists of resources, manufacturing, housing, and real estate. We are aiming to create upstream-to-downstream, vertically integrated businesses related to wood in our operating areas of Southeast Asia, Oceania, North America, China and other Pacific Rim regions. The Group is also working to create horizontal synergies by strengthening alliances between Group companies, creating a mutual backup system for manufacturing businesses, and sharing business approaches.

Currently, the building materials production business in Australia and the housing business in the United States are struggling as a result of market slumps. However, the building materials production business in Southeast Asia remains strong, earnings varying depending on region and nature of business. In fiscal 2012, a loss is expected in the overseas business overall, following that of fiscal 2011. After identifying the underlying causes for earnings headwinds, we plan to develop countermeasures as a matter of urgency and aggressively invest management resources in new businesses.

► Overseas Resources and Manufacturing Business

Fast growth at new businesses

In the overseas manufacturing business, the Group plans to turn around struggling established businesses one by one. In new businesses, commercial production of particle boards has started in Vietnam, and the Group will develop its business with a focus on sales to customers within Vietnam, whose economy has been growing steadily. The Group is also aiming to increase earnings by manufacturing and marketing products that precisely reflect market needs, particularly in the Pacific Rim region where high growth is expected the medium-to-long term.

The Group's resource business is based on forestation in countries such as Indonesia, Papua New Guinea, and New Zealand. The trees cultivated are used as the raw materials for our wood products. This business also contributes to the environment by restoring degraded forests and preserving biodiversity. To rapidly make it into a source of earnings, we are reinforcing



Plywood manufacturing process



PT. Kutai Timber Indonesia (Indonesia)



A Home built by Henley Homes* (Australia)

cooperation within the Group, enhancing information-sharing, and strengthening our sales organization. We will further expand the total area of forests we manage, which currently stands at around 200,000 hectares, to realize additional economies of scale.

► Overseas Housing and Real Estate Business

Preparing for a market recovery, continuing with earnings reforms

The Group is developing housing businesses in the United States, Australia and China. However the business environment remains harsh. In addition to the housing market slump in the United States in fiscal 2011, there has been a deceleration in the economy of previously buoyant Australia.

However, in early 2012, the US market showed moderate recovery and in the longer term we expect a steady increase in the population of Australia. Accordingly, we can expect growth in the housing market. These are two of the leading wooden housing markets in the world, and we expect to continue to develop them aggressively. In addition, in China, interest in wooden housing has risen amid environmental concerns. We intend to create a stable production system using our know-how to meet this demand.

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

Our particle board plant in Vietnam begins commercial production

—Responding to the continuing increase in demand for timber in Asia

In May 2012, the Sumitomo Forestry Group's Vietnamese unit, Vina Eco Board Co., Ltd., began commercial production of particle boards (PB). Demand has been growing in this market in conjunction with the country's economic growth. Vietnamese companies have also been increasing their production of furniture for export to the United States, Europe, and Japan, and so demand for PB is also expected to increase, as it is the main raw material. Our subsidiary's products will be sold under the VECO brand. Going forward, it will collaborate with the other companies in the Sumitomo Forestry Group to expand its product lineup and to improve its proposal and marketing capabilities for its customers in Vietnam. The plant currently has the largest production capability in Vietnam, and it is also one of the biggest production sites within the Group. It is stably procuring its raw materials of timber and wood waste from suppliers within Vietnam, manufacturing and selling high quality products that are also environmentally sound and cost-competitive.

The Group has received praise in Vietnam due to this business's contribution to creating jobs and reducing greenhouse gases. It has received funding from the International Finance Corporation* (IFC).

* Established in 1956, the IFC is an international organization that is part of the World Bank Group. In addition to providing economic development benefits to its developing country members, it supports sustainable projects that are financially and commercially sound and that also are considerate to the environment and society.



Vina Eco Board Co., Ltd.

Other Businesses

The area of forest managed in Japan

Approximately **1/900** of Japanese land area

Fiscal 2011

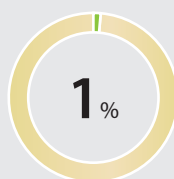
Sales

14.0 billion yen

Recurring Income

0.7 billion yen

Percentage of Total Sales



The Group's forestry management

► Forestry and Environmental Businesses

Achieving sustainable forestry management, developing an environmental business

The Group manages its Group forestry business in an environmentally sound and sustainable manner under a long-term forestry management plan. Under this plan, we currently own and manage approximately 42,900 hectares within Japan (about 1/900th of the nation's land area). We also make use of our technologies and expertise in forestry management services for forests owned by other companies. In addition, we provide forest management consulting service overseas and are involved in various other environmental businesses; for example, we have entered the wood biomass energy field. Under the Japan Verified Emission Reduction (J-VER) system, the Group also acquires and markets offset credits for the CO₂ absorbed by the forests that it owns, and is developing new businesses by acquiring new credits from this system and by other means.

* The Group's forestry business in Japan, which is included in adjustment items, is described within the 'Other Businesses' segment.



Private-pay elderly care facility
Grand Forest Mejiro

► Lifestyle Service Business

Developing a lifestyle-related business and an aging society-related business

In fiscal 2012 the Group newly established its Lifestyle Service Division, in a measure to develop and revitalize lifestyle and elderly care businesses that are independent of the housing market, drawing on core customer bases.

Responding to the needs of an aging society, we have been further improving the quality of nursing services that we provide in our management of private-pay elderly care facilities. Moreover, we continuously work to improve the profitability of this business so that we can use these funds to ensure the stable management of our facilities.

We also undertake property insurance agency services, leasing operations and the manufacture and sales of farming and gardening materials.



The manufacture and sales of farming and gardening materials



CSR Section

External Recognition

Inclusion in Socially Responsible Investment Indexes (As of June 2012)

■ DJSI World

We have been included in this index since September 2005.



■ FTSE4Good Global Index

We have been included in this index since September 2004.



■ Morningstar SRI Index

We have been included in this index since September 2008.




■ Awarded "Silver Class" in the SAM's "The Sustainability Yearbook 2012"

We were awarded the "Silver Class" in the Home Construction Sector of "The Sustainability Yearbook 2012," in a CSR rating by SAM, which researches and analyzes companies listed in DJSI World.



Acquiring the Highest Rank in the DBJ's Environmental Rating

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

For further information about Sumitomo Forestry Group's CSR activities, please refer to
"CSR Report 2012" available at  <http://sfc.jp/english/information/kankyo/>

CSR Management

CSR Management Policy

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

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.



Four Material Issues

Providing Timber Products and Materials from Sustainable Forests

Sumitomo Forestry procures timber from around the world, primarily Southeast Asia and Europe. In fiscal 2007, Sumitomo Forestry established its Timber Procurement Philosophy & Policy and Action Plan, and has promoted procurement of timber from forests that have been verified as legally compliant and appropriately managed.

In fiscal 2009, all directly imported timber was verified for compliance. In addition to legal compliance, from fiscal 2010 the Company has promoted the use of environmentally friendly timber in accordance with its Action Plan.

Providing Environmentally Friendly Homes

Sumitomo Forestry employs the *Ryounbou* design method that utilizes the power of nature, solar power systems. At the same time, the Company is developing its plantation forestry business to offset CO₂ emissions during the process from tree logging for principal structural members through to construction, while also developing Life Cycle Carbon Minus (LCCM) homes to reduce CO₂ emissions in the overall lifecycle. In addition, Sumitomo Forestry proactively uses domestic timber and advances a wide range of initiatives including extending the life of houses and expanding the renovation business.

Promoting Global Warming Countermeasures through Our Business

Sumitomo Forestry is emitting CO₂ in its offices and plants both inside and outside Japan, as well as during activities including harvesting at mountain worksites and housing construction. We promote energy-saving initiatives in offices and plants, and the use of biomass to reduce CO₂ emissions in the Company's business activities. In addition, by the absorption and storage of CO₂ through our forest management, we will help to stem global warming.

Promoting Family-Centric Employee Lifestyles

Accordingly, Sumitomo Forestry strives to create a workplace that enables a diverse range of employees to tailor their work styles to their lifestyles and aims to be an attractive company for its employees. To date, the Company has made various improvements through establishing systems and enhancing communication with its employees. The Company focused on maintaining a workplace environment that supports employees raising children and reducing overtime.

Environmental Report

Tackling Climate Change



Wood biomass boiler of PT. Rimba Partikel Indonesia



Relay center of Home Eco Logistics Co., Ltd.

The Sumitomo Forestry Group is working to reduce CO₂ emissions through its business activities at offices and plants as a countermeasure to climate change.

Climate Change and Sumitomo Forestry's Role

The Sumitomo Forestry Group will make a positive contribution to the prevention of global warming by reducing CO₂ emissions from its business activities while facilitating absorption or storage of CO₂ through proper forest management and the promotion of our wood use integration (MOCCA) business that encourages greater use of timber resources through the structural application and incorporation of wood.

Reducing CO₂ Emissions at Plants

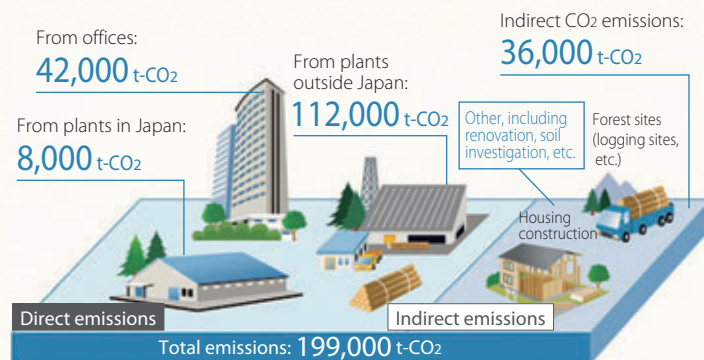
PT. Rimba Partikel Indonesia (RPI) is using wood biomass to create power and replace its conventional diesel power generation system. It is reducing its CO₂ emissions by using the waste timber and sawdust created by sawmills in the vicinity of its plant as the primary fuel in this system. The United Nations' CDM Executive Board registered this initiative as a Clean Development Mechanism (CDM) project in May 2008. In March 2011, it was issued credits (CER) for its reduction of 10,982 tons of CO₂ emissions during fiscal 2009, which was its total calculated according to CDM rules. Nelson Pine Industries Ltd. (NPIL) won the Award for Excellence in two categories at the EECA Awards 2012*1. It was highly evaluated for its achievement in reducing the amount of wood for fuel and electricity. NPIL have achieved a reduction in CO₂ emissions of approximately 19% compared to the level prior to their introduction in April 2010.

*1. These awards are held by the Energy Efficiency and Conservation Authority (EECA), which was established by the New Zealand Government for the purpose of promoting energy efficiency. It recognizes innovative technologies that achieve exceptional results in the fields of energy efficiency and renewable energy.

Reducing CO₂ Emissions from Transportation

Sumitomo Forestry is promoting efficient transportation in order to reduce CO₂ emissions produced during the transportation of homebuilding materials. In fiscal 2007, improvements were made to the distribution system for homebuilding materials. Construction materials previously shipped directly from manufacturers to construction sites are now collected first at relay centers nationwide. Mixed-load shipments containing materials from different manufacturers are then delivered to construction sites. In fiscal 2011, this reduced CO₂ emissions equivalent to the emissions of 162,591 delivery trucks (approximately 1,441t-CO₂) as compared with the previous distribution system. Since introducing the system, efforts have also been made to reduce the number of delivery trucks per house, and a year-on-year reduction has been achieved.

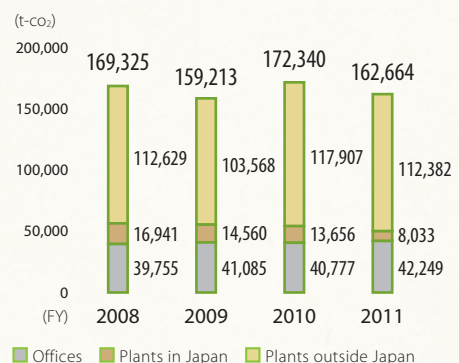
Sumitomo Forestry Group: FY2011 CO₂ Emission Volume



* CO₂ emission values are for the entire Group in each fiscal year.

* Sumitomo Forestry offset its CO₂ emissions from offices, which were 1,590 tons in FY2010 and 2,542 tons in FY2011, by utilizing the forest-absorption credits issued under the J-VER System.

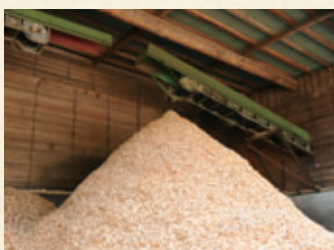
Trend in Direct Emissions of CO₂



Preserving Forests



Wood left over from logging



Wood chips



KIKORIN-PLYWOOD, an environmentally sound plywood

Sumitomo Forestry practices sustainable forest management, both in and outside Japan. The Company also strives to use Japanese timber.

Conservation and Sustainable Use of Timber Resources

Forests perform a variety of functions for the public good, including erosion control and water control, cultivating water resources, curbing global warming by absorbing CO₂, and preserving biodiversity. For these functions to work effectively, proper forest management is crucial.

The Sumitomo Forestry Group believes that sustainable forest management is necessary to ensure that timber resources are available in perpetuity, and is advancing initiatives both in and outside Japan.

The Sumitomo Forestry Group owns forests with a total area of 42,868 hectares within Japan. Outside Japan, it manages forests with a total area of approximately 200,000 hectares. The functions of forests that serve the public good can be enhanced by appropriate forestry management including weeding, pruning, and thinning. Forests absorb CO₂ then retain it as carbon – or “carbon stock.” The carbon stock of the Sumitomo Forestry Group forests in Japan was 10.74 million t-CO₂, and the carbon stock of plantation forests overseas was 3.62 million t-CO₂.

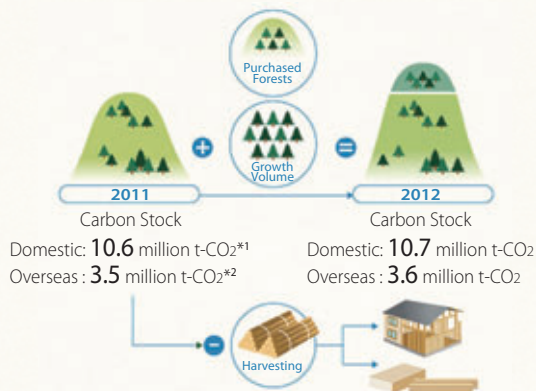
Start of Supply of Wood Left Over from Logging as Wood Biomass Fuel

The Sumitomo Forestry Group has researched the construction of a system to collect wood left over from logging and provide wood biomass fuel. Following a positive assessment of the results, the Group has been providing Sumitomo Joint Electric Power Co., Ltd. with all the necessary amount of wood left over from logging for their biomass power generation business launched in July 2010, in which a portion of the coal used to generate electric power is replaced with biomass chips. As well as cutting CO₂ emissions by 6,900 tons per year, this also contributes to the preservation of regional forests. Similar initiatives are being promoted with the Kochi plant of Sumitomo Osaka Cement Co., Ltd., involving the supply of wood left over from logging. In fiscal 2011, the Group supplied the two companies with a combined total of approximately 20,000 tons of left-over wood.

Sales of Environmentally Sound Plywood KIKORIN-PLYWOOD

In fiscal 2009, Sumitomo Forestry launched sales of the environmentally sound plywood KIKORIN-PLYWOOD. More than 50% of the raw materials used to manufacture KIKORIN-PLYWOOD are timber from forests certified by FSC® or PEFC, as well as from plantation forests that are sustainably managed. In fiscal 2011, the volume of KIKORIN-PLYWOOD sold was increased 3.1times from fiscal 2010 to 31,524 m³.

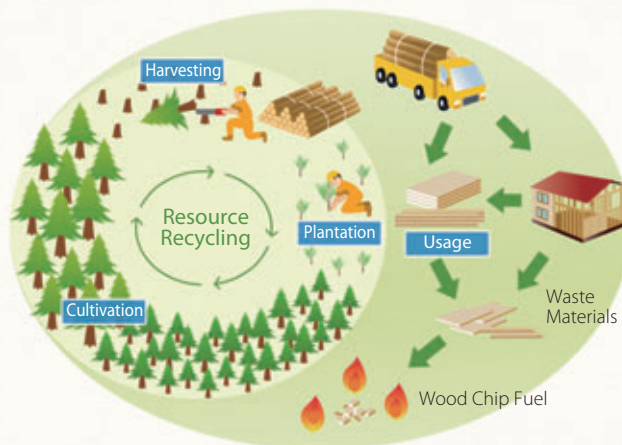
Carbon Stock of the Sumitomo Forestry Group



*1. Domestic: carbon stock as of the beginning of each fiscal year

*2. Overseas: carbon stock as of the beginning of each year

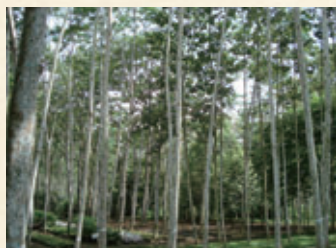
Sustainable Forest Management



Preserving Biodiversity



Sumitomo Forestry Red Data Book



Trees grown on an industrial plantation

Sumitomo Forestry is continuing its environmental conservation activities in forests based on site surveys, proposing environmentally sound planting in the landscaping business.

Biodiversity and Sumitomo Forestry's Operations

Wood has been the axis of Sumitomo Forestry's businesses since our founding centuries ago. While many companies are indirectly involved with biodiversity through their supply chains, at Sumitomo Forestry, forests that nurture trees and support biodiversity are directly and inextricably our business field—and we are acutely aware of the critical importance of, and our responsibility for, biodiversity. Moreover, the Group has named the biodiversity-friendly plants and trees to be used in landscaping, "Harmonic Plants,"TM which it is actively promoting.

Preservation Initiatives at Company-Owned Forests in Japan

The Company has created the *Sumitomo Forestry Red Data Book* to list the rare flora and fauna that might exist in Company-owned forests, and provides training to those who work in these forests. This data book was created with reference to the *Red Data Book* published by prefectural authorities, and is updated whenever necessary. Forests are subject to appropriate zoning based on criteria such as tree growth volume, and efforts are being made to protect areas around water, which are rich in biodiversity, through the creation of a Riparian Forest Management Manual.

Preservation of Overseas Plantation Forests

Indonesia has the third largest area of rainforest in the world, but it is said that around 700,000 hectares of forest are lost each year due to factors including forest fires, illegal logging and slash-and-burn farming. Sumitomo Forestry is working to curb the decline in rainforests and preserve biodiversity through reforestation.

Sumitomo Forestry is conducting a large-scale commercial forest plantation business in cooperation with ALAS Kusuma Group, a company involved in the forestry management and plywood manufacturing businesses in Indonesia. As well as realizing the stable supply of timber, this initiative not only contributes to the economic development of the local community by providing employment for local residents in commercial forest plantation operations, but also to the preservation of biodiversity.

Formulation of the Sumitomo Forestry Group Declaration of Biodiversity

The Sumitomo Forestry Group formulated its Declaration of Biodiversity, which indicates its attitude and approach toward biodiversity, and Biodiversity Action Guidelines, which establishes in-Group guidelines for its initiatives in the future, and its Biodiversity Long-term Targets. These commitments were created with reference to the Aichi Targets*, which were adopted at the Tenth Conference of Parties to the Convention on Biological Diversity (COP10), and were created after a comprehensive review of what the Group could feasibly achieve.

* Aichi Target

The Target comprises a vision, namely the realization of a world that lives in harmony with nature by the year 2050, a mission of taking effective and urgent action to halt the loss of biodiversity by 2020, and 20 headline targets.

The Sumitomo Forestry Group Declaration of Biodiversity

The forefather to the Sumitomo Forestry Group was founded more than three centuries ago and since then, we have developed our businesses while conserving forests, whose clear water, air, and soil are the source of life for many living creatures. Going forward, we at Sumitomo Forestry will continue to place the greatest importance on preserving biodiversity through our forestry business for providing timber, which is a renewable and natural material, and for managing forests, which support diverse ecosystems. We shall also strive to help realize a sustainable society that exists in harmony with nature.

Social Report

Sumitomo Forestry Stakeholders

Sumitomo Forestry Group's businesses are founded on its relations with its customers, business partners, local communities, employees, and other stakeholders. The Group adopts a wide range of perspectives in its communications with stakeholders while striving to carry out business activities that meet the expectations of society.



Communication with Customers



clubforest, the special website for owners of Sumitomo Forestry Home houses

Putting Customers First

Sumitomo Forestry's action guideline is "putting customers first." The core of the Company's business is providing high-quality housing and services. Once a house has been built, the relationship between Sumitomo Forestry and the house owner continues for a long period of time. The Company provides a 24-Hour, 365-Day support service and implements regular surveys after the customer has moved in. In addition, through *clubforest*, a special website for owners, information publications and other means, the Company continuously provides customers with useful information from the moment they start considering a new home to the time it is handed over to them and after. This is part of the Company's commitment to maintaining close communication with its customers and supporting their lifestyles.

Responding to Customers Immediately following the Great East Japan Earthquake

The Company worked to confirm the safety of each and every one of its customers. Moreover, it provided guidance on its website for its customers in the earthquake-hit region, including a helpline number and information on how to use equipment during a power cut or other emergency conditions. Further, it established and dispatched a support task force of carpenters and other professionals to the disaster area in order to meet customer requests for assistance.

Enhancing our 24-Hour, 365-Day Support Service

The Company accepts requests for consultation after delivery and for repairs and maintenance, separately within branches nationwide and at the Sumitomo Forestry Call Center, a 24-Hour 365-Day Free Call Center, dedicated to accepting repairs and maintenance requests nationwide. The Company has clarified the roles of each support system, and widely communicated this to its customers. The Free Call Center for repair and maintenance started in July 2010, and the number of requests has increased dramatically as a result of publicity activities through the distribution of direct mail and cards, using *clubforest*, a special website for owners, information publications and other means. Customer Centers in different areas are even responding to enquiries from customers in disaster-hit regions following the Great East Japan Earthquake.

Procuring Sustainable Raw Materials through the Supply Chain

The Company gives preference in its purchases of goods and services to business partners that have established their own green procurement guidelines and timber procurement standards, and that work to reduce their environmental impact. In June 2007, the Company finalized and announced its Timber Procurement Philosophy and Policy, formulated to help the Company verify the legal compliance of the timber it handles and improve traceability.

Ensuring Traceability of Timber

Sumitomo Forestry procures timber and timber products from around the world. During the three years from 2007 to 2009, the Company conducted investigations of all of its overseas suppliers of directly imported timber based on its Timber Procurement Standards. The results confirmed that

Together with Our Business Partners

Together with Our Shareholders and Investors

all of these suppliers of timber and timber products were in compliance. Since fiscal 2010, in line with the New Action Plan based on Timber Procurement Philosophy and Policy, the Company has continued to conduct a study of all its suppliers, including new suppliers, into their methods of confirming legal compliance, to ensure that 100% of the directly imported timber and timber products handled by the Group is legally compliant. In addition, in fiscal 2011, the Company confirmed the legality not only of its directly imported timber, but also domestic timber sold to the market and domestic and imported timber used for properties constructed by the Housing Division.

Proactive Approach to Information Disclosure and Investor Relations

Sumitomo Forestry carries out appropriate and timely information disclosure to its shareholders and investors, on an ongoing basis, in order to ensure accountability and enhance management transparency.

(Key IR activities)

- **General meeting of shareholders (held every June)**
- **Explanation of business performance**
 - Earnings briefings (2Q and 4Q) · Conference call (1Q and 3Q)
- **Individual meetings for institutional investors (held each quarter)**
 - Number of meetings in fiscal 2011: 145
- **IR meetings for individual investors**
 - In fiscal 2011, meetings were hosted in Tokyo and Osaka, which were attended by about 360 investors.
- **Information disclosure through website and publications**
 - IR website (regularly updated) · Annual Report (in Japanese and English)
 - Booklet for shareholders (report of business activities; twice a year)

Together with Society

Social Contribution Activities

Sumitomo Forestry believes that it is important to contribute to the sustainable utilization of timber resources and local community development, as well as protect our abundant forests into the future. With these aims, the Company is engaged in a wide variety of social contribution activities. Sumitomo Forestry dedicates its resources to environmental education such as lectures for elementary and middle school students, as well as on-site training at forests. The Company is also actively involved in restoring forests damaged by disaster. Sumitomo Forestry also supports volunteer activities undertaken by individual employees in local communities to create a workplace environment that encourages people to contribute to their local communities.

Employment Scheme in Cooperation with Chinese Universities

In March 2012, an internship-employment initiative was launched in cooperation with local universities. University students attend lectures about the Company's business activities, and are employed after a period of internship. The local universities also have high hopes for this project, which provides opportunities for education and employment, thereby helping to tackle the social problem of new graduates experiencing difficulty in finding work.

Social Contribution Activities for Disaster Support

Sumitomo Forestry is carrying out support activities to help restore the region devastated by the Great East Japan Earthquake of March 2011.

- Constructing and Providing Temporary Housing ■ Introducing a Volunteer Leave Program
- Delivering Donations and Goods ■ Supporting the Supply of Electricity



We became a participant in the United Nations Global Compact in December 2008.

Together with Our Employees

Employment Breakdown

Management level	2,285
Non-management level	2,423
Contract employees (interior coordinators)	17
Contract employees (non-interior coordinators)	128
Hosted from other companies	22
Average years of service	13years 6months
Ratio of disabled employees	1.93%

(Non-consolidated, as of March 31, 2012)

Rate of Local Employment in Group Companies Outside of Japan

Australia	100.0%
Papua New Guinea	99.5%
Indonesia	99.9%
New Zealand	99.0%
China	95.8%
The United States	94.8%
South Korea	94.1%
Vietnam	99.9%
Total*	99.9%

* The principal 14 companies from within the 19
Group companies outside of Japan.
(As of December 31, 2011)



The Kurumin Mark of certification for
companies that have met Government
requirements for supporting their
employees in raising families.

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.

Promoting Employee Diversity

Sumitomo Forestry is committed to a workplace environment in which people can fulfill their ambitions and exercise their skills irrespective of gender. To encourage the success of female employees, the Company is working to expand the presence of women in all job positions and to support working while raising children. As of April 1, 2012, the percentage of female employees including contract and temporary employees was 17.2%, the percentage of female employees in management positions was 1.5%, and the percentage of newly hired female university graduates was 24.1%.

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.

Helping Employees Achieve a Work-Life Balance

Sumitomo Forestry, as a company involved with housing and lifestyles, strives to create a workplace employees find worthwhile, 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 2011, 12 people made use of this program.

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. As of fiscal 2011, 911 craftspeople have graduated from the school since its founding. The skill of these graduates is demonstrated by the superb results recorded every year at the annual National Skills Competition.

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.

Governance

Corporate Governance and Internal Control

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.

Sumitomo Forestry has a Board of Directors and a Board of Statutory Auditors. The Company has strengthened its statutory auditors' monitoring function. It has introduced an executive officer system to separate decision making and supervisory from executive functions and has clarified where the executive responsibility lies. As of April 1, 2012, there were seven directors, 15 executive officers, and five statutory auditors (of which, three are external auditors). The total amount of compensation for directors and internal and external auditors for each fiscal year is disclosed in business reports, in accordance with relevant laws.

Board of Directors and Executive Committee

In principle, the Board of Directors meets once a month, making decisions on important issues and carrying out its supervisory function. The Executive Committee meeting is held twice a month, before the Board of Directors meeting to ensure that there is sufficient prior discussion on important issues. It is attended by those directors who also serve as executive officers, as well as the full-time statutory auditors. In fiscal 2011, the Board of Directors met 18 times and the Executive Committee 27 times.

Board of Auditors

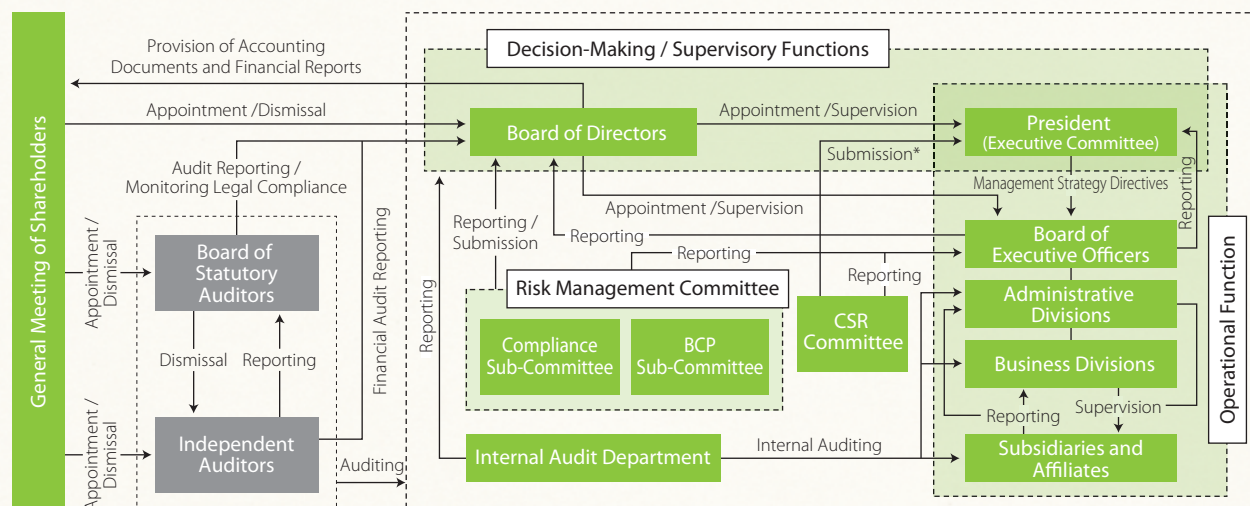
The statutory auditors, including the external auditors, utilize the deep insights and diverse perspectives they have acquired from their various business backgrounds to provide oversight for the directors' execution of duties. The Board of Statutory Auditors met 14 times during fiscal 2011. The Board of Statutory Auditors' meeting for the Group is held once every two months.

Risk Management Committee

Compliance risk and disaster risk are the risks that the Company considers must be addressed as a priority across the entire Group. Through the activities of the Compliance Sub-Committee and the BCP Sub-Committee, which are under the umbrella of the Risk Management Committee, problems are identified and specific measures are taken within a fixed timeframe. The Risk Management Committee regularly submits reports on progress in these areas to the Board of Directors and to the auditors.

During fiscal 2011, the Risk Management Committee met twice, the Compliance Sub-Committee four times, and the BCP Sub-Committee three times.

Business Execution and Management Supervision Mechanism



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

Remuneration, etc.

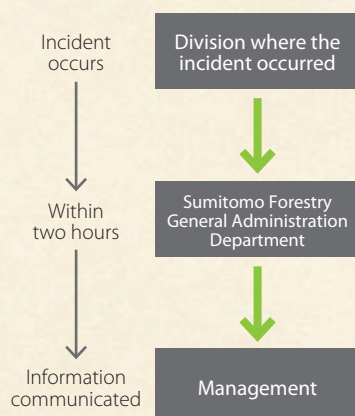
(Year ended March 31, 2012)

Directors (9)*	¥394 million
Corporate Auditors (6)* (including ¥25 million in remuneration for three external auditors)	¥74 million

* Including remunerations for two directors and one auditor who retired as of the 71st regular shareholders' meeting held on June 24, 2011, at the end of their respective terms.

Compliance and Risk Management

Sequence of Events for the Two-Hour Rule



CSR Committee

In April 2009, the CSR Strategy Committee was reorganized as the CSR Committee to strengthen cooperation between divisions and enhance activities at job sites.

External Auditors

The Company appointed three external auditors, Mr. Satoshi Teramoto, Mr. Shin Nagata and Ms. Junko Hirakawa.

Mr. 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. Mr. Nagata has an extremely good knowledge of forestry management in general, and has been judged capable of conducting audits of the Company's environmental business and overseas business development from an objective perspective. Ms. Hirakawa possesses excellent knowledge as a legal expert, and has been judged capable of conducting audits of the Company's business execution 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 (FY2011)

Position and Name	Board of Directors Meetings (convened 18 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*	17	94%	13	93%
Corporate Auditor: Satohiko Sasaki*	16	89%	12	86%
Corporate Auditor: Satoshi Teramoto	18	100%	14	100%

* At the 72nd ordinary shareholders' meeting held on June 22, 2012, Mr. Hiroshi Miki retired at the end of his term, and Mr. Satohiko Sasaki resigned.

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.

Rapidly Comprehending and Dealing with Risks

Since 2002, the Group has adopted a two-hour rule system designed to rapidly and accurately communicate information to management in the event of an emergency situation that may have a serious impact on company management. By communicating information at an early stage, the goal is to enable management to make a rapid and precise first response to the situation. Also, by gathering and analyzing data, the Company can disclose information to its stakeholders in a timely and appropriate manner. Moreover, it can take measures to prevent incidents from occurring throughout the Group by accumulating case studies.

Disaster Risk

As the organization primarily accountable for disaster risk, the Business Continuity Plan (BCP) Sub-Committee has developed business continuity plans for risks that are beyond the control of the Company and could significantly impact the headquarters' functions, and acts based on these plans.



Training for employees unable to return home after a disaster

Reviewing Systems for Preventing and Responding to Disasters and Emergencies

We reflected in the report titled Disaster Countermeasures and Verification of and Issues in the Business Continuity Plan (BCP), the hopes and concerns that we discovered in our efforts to verify conditions on the ground immediately after the Great East Japan Earthquake in March 2011. And also in the results of survey we conducted for all employees in the Tohoku and Kanto areas. Based on this document, we instructed the Risk Management Committee (the Great East Japan Earthquake Disaster Restoration Countermeasures Division) to examine possible response measures, and as a result of their recommendations we formulated our disaster countermeasures, whose main goals are to strengthening our ability to prevent and respond to disasters in order to protect lives and our assets. They constitute those measures to be carried out as standard throughout the Group and include checking the levels of safety at all of the Group's business sites within Japan; implementing measures to ensure safety within work sites, such as to prevent work equipment falling over, and selecting standardized disaster-preparation goods and ensuring that at least the minimal necessary levels of these goods are stored at all sites.

Training in Chiyoda Ward for Employees unable to Return Home after a Disaster

In addition to the members of the fire-safety team in our Head Office, 19 members of BCP subcommittees from 4 companies participated in this training, including those from an affiliated company with a business site in Chiyoda Ward, Tokyo. We also carried out rescue and first-aid training for the injured. Participants practiced using a bar to rescue trapped victims, transporting them on a stretcher, and carrying out emergency first-aid and artificial respiration using an AED device.

■ Responding to the Great East Japan Earthquake

Based on the Risk Management Basic Regulations and the Crisis Management Rules*, on March 11, 2011, the day the earthquake occurred, the Company established an Earthquake Response Team, headed by the President. The Earthquake Response Team worked to understand the conditions on the ground following the Company's initial response to the earthquake, such as confirming the safety of stakeholders and dispatching officers to the area, and communicated information both to employees and non-Group stakeholders. In addition, each day members of the Earthquake Response Team continued to confirm what the conditions actually were and held discussions on the measures to be taken.

* The Risk Management Basic Regulations and the Crisis Management Rules were formulated in March 2009.

■ 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. In the system, emails are automatically sent to employees and they are required to reply to the emails confirming their status. To check whether the system was functioning properly, the Company conducted a training exercise involving approximately 12,100 Group employees. As a result, the Company has established an emergency contact network for each division 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.

■ 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.

■ 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.

■ 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.



Disaster Prevention Cards

Board of Directors and Corporate Auditors

(As of June 22, 2012)

Directors



Ryu Yano

* Chairman / Director



Akira Ichikawa

* President / Director



Hideyuki Kamiyama

* Director



Hitoshi Hayano

* Director



Shigeru Sasabe

Director



Hideo Watabe

Director



Ken Wada

Director

* Representative Director

Statutory Auditors

Shigehiko Shiozaki

Senior Statutory Auditor

Hidekazu Tanaka

Statutory Auditor

Satoshi Teramoto

* Statutory Auditor

Shin Nagata

* Statutory Auditor

Junko Hirakawa

* Statutory Auditor

* External Corporate Auditors as stipulated by the Companies Act

Executive Officers

Akira Ichikawa

* President and Executive Officer

Hideyuki Kamiyama

* Executive Vice President and Executive Officer

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

Hitoshi Hayano

* Senior Managing Executive Officer

Divisional Manager of Housing Division

Shigeru Sasabe

* Managing Executive Officer

In charge of General Administration, Personnel, Corporate Communications, Internal Audit, Intellectual Property and Environmental Management, Divisional Manager of Lifestyle Service Division and General Manager of Lifestyle Service Department, Lifestyle Service Division (also oversees Corporate Planning, Finance, and Information System and Tsukuba Research Institute)

Hideo Watabe

* Managing Executive Officer

Deputy Divisional Manager of Housing Division and General Manager of Renovation & Leasing Section, Housing Division

Ken Wada

* Managing Executive Officer

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

Akihisa Fukuda

Managing Executive Officer

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

Toshiro Mitsuyoshi

Managing Executive Officer

Divisional Manager of Overseas Business Division

Seiichi Takano

Managing Executive Officer

Deputy Divisional Manager of Housing Division (in charge of Technology, Construction Management, Building Materials Procurement & Logistics, Quality Control & Customer Information, Environment & Safety, Overseas Housing Business Supporting)

Takanori Umeki

Managing Executive Officer

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

Toshio Yasuda

Executive Officer

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

Akito Kataoka

Executive Officer

Divisional Manager of Forestry & Environment Division and General Manager of Forestry & Environmental Business Department, Forestry & Environment Division

Kunihiko Takagiri

Executive Officer

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

Tatsuru Sato

Executive Officer

General Manager of General Administration Department

* Doubles as Director and Executive Officer



Financial Section

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* Sumitomo Forestry changed the accounting classification of its reporting segments from fiscal 2012. In this section, the results of reporting segments in fiscal 2011 are introduced by using the old classification.

Eleven-Year Summary

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

	Millions of yen			
	2012	2011	2010	2009
Operating Results:				
Net sales	¥831,870	¥797,493	¥723,923	¥823,810
Gross profit	136,873	132,568	124,269	133,493
Selling, general and administrative expenses	117,682	118,330	114,522	126,656
Operating income	19,191	14,238	9,747	6,837
Recurring income* ¹	20,714	14,206	9,465	6,160
Net income (loss)	9,271	5,175	2,377	1,028
Financial Position:				
Total assets	¥503,496	¥489,417	¥469,738	¥427,738
Working capital* ²	94,509	89,665	88,338	81,700
Interest-bearing debt	67,923	69,229	66,786	49,127
Total net assets	169,335	163,110	162,930	156,192
Cash Flows:				
Cash flows from operating activities	¥ 26,873	¥ 17,515	¥ 37,239	¥ (8,161)
Cash flows from investment activities	(32,903)	(13,247)	(19,117)	(29,062)
Cash flows from financing activities	(5,622)	372	11,546	24,196
Cash and cash equivalents at the end of the year	63,839	75,582	71,662	40,730
Capital Investment:				
Tangible fixed assets* ³	¥ 10,970	¥ 11,923	¥ 10,636	¥ 24,075
Intangible fixed assets	2,786	2,434	1,561	2,013
Others	194	215	395	150
Total	13,950	14,572	12,592	26,238
Depreciation and amortization	8,469	8,437	8,502	8,477
Per Share Data:				
Net income (loss)	¥ 52.34	¥ 29.2	¥ 13.4	¥ 5.8
Net assets	954.8	919.5	917.8	880.9
Cash dividends	15.0	15.0	15.0	15.0
Financial Ratios:				
Gross profit margin	16.5	16.6	17.2	16.2
Operating income margin	2.3	1.8	1.3	0.8
Recurring income margin	2.5	1.8	1.3	0.7
Return on assets (ROA)* ⁴	4.2	3.0	2.1	1.4
Return on equity (ROE)* ⁴	5.6	3.2	1.5	0.6
Equity ratio	33.6	33.3	34.6	36.5
Interest-bearing debt ratio* ⁵	28.7	29.8	29.1	23.9
Current ratio	137.1	136.8	140.3	141.6
Interest coverage ratio [times]	10.8	8.2	6.8	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						
2008	2006	2005	2004	2003	2002	2002
¥861,357	¥911,674	¥791,128	¥723,193	¥673,779	¥645,100	¥644,731
135,277	141,117	127,853	125,582	120,778	109,632	109,438
128,041	120,711	112,407	107,116	103,201	100,859	106,398
7,235	20,405	15,446	18,466	17,577	8,773	3,040
7,659	21,259	16,800	18,692	17,074	9,721	3,731
1,115	11,954	10,842	8,014	9,870	(15,440)	466
¥450,730	¥500,136	¥464,193	¥370,684	¥369,755	¥357,322	¥365,531
64,156	76,453	68,037	67,579	66,377	60,260	60,477
25,816	25,739	22,067	15,580	19,929	16,497	18,124
173,089	188,855	175,206	152,500	146,269	129,727	147,440
¥ 26,106	¥ 7,084	¥ 16,626	¥ 6,685	¥ 25,962	¥ 19,734	¥ 17,332
(17,587)	(7,102)	(8,998)	(12,895)	(7,646)	2,026	(16,439)
(4,262)	665	(14,039)	(7,087)	(735)	(8,171)	(9,716)
54,475	50,311	49,628	55,928	69,312	52,029	38,873
¥ 9,578	¥ 7,020	¥ 8,132	¥ 7,016	¥ 4,040	¥ 2,761	¥ 7,705
1,694	1,586	1,857	1,673	1,468	2,077	2,194
222	420	454	549	883	283	225
11,494	9,026	10,443	9,237	6,392	5,123	10,124
7,258	6,476	6,403	6,452	6,447	5,985	5,289
Yen						
¥ 6.3	¥ 67.4	¥ 61.3	¥ 45.3	¥ 55.8	¥ (87.5)	¥ 2.6
976.0	1,059.2	996.0	866.5	830.5	736.4	835.1
15.0	15.0	13.0	13.0	13.0	10.0	10.0
%						
15.7	15.5	16.2	17.4	17.9	17.0	17.0
0.8	2.2	2.0	2.6	2.6	1.4	0.5
0.9	2.3	2.1	2.6	2.5	1.5	0.6
1.6	4.4	4.0	5.0	4.7	2.7	1.0
0.6	6.6	6.6	5.4	7.2	(11.1)	0.3
38.4	37.5	37.7	41.1	39.6	36.3	40.3
13.0	12.1	11.2	9.3	12.0	11.3	10.9
127.6	129.3	129.3	137.4	135.7	132.6	131.8
4.5	11.2	10.8	18.6	21.9	18.3	7.8

*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

The tough conditions in the Japanese economy continued in fiscal 2011, ended March 31, 2012, due to the on-going effects of the Great East Japan Earthquake. However, within this environment signs of recovery could be seen in production activity and individual consumption, due mainly to demand relating to the post-earthquake recovery and also to various government policies. On the other hand, the effects of the financial crisis in Europe, the slow economic recovery in the United States, and the unprecedented strength of the yen, meant that in Japan corporate profits declined and the employment situation worsened and so the sense of uncertainty about the direction the economy is headed lingers on.

In the housing industry, new housing starts increased 2.7% year on year, to 841,000 units, partly due to support from government initiatives to promote house purchases, such as the re-launch of the Home Eco-point System and the strengthening of the Flat 35S system for home loans with preferential interest rates. Owner-occupied housing starts, which are closely correlated with the performance of the Group's housing business, declined 1.2% year on year, to 305,000 units. In the timber and building materials industry, the supply of home building materials was temporarily disrupted in the aftermath of the Great East Japan Earthquake, but market conditions recovered and it subsequently performed strongly, thanks to demand from the increase in new housing starts.

Consolidated Operating Results

① Net Sales and Orders Received

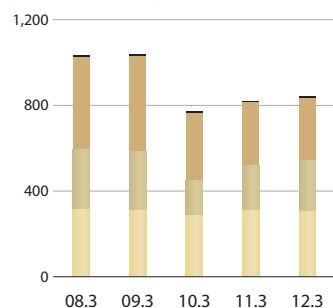
Net sales increased 4.3% year on year, to ¥831,870 million, primarily due to the strong performances of the timber and building materials business and the housing business, which are the Group's core businesses. The value of orders received for custom-built detached housing totaled ¥295,194 million, up 3.8% year on year, while the number of orders received came to 8,962 units, up 0.4%. Sales of custom-built detached housing totaled ¥294,081 million, up 8.6% year on year, while unit sales came in at 9,007 units, an increase of 3.3%.

② Selling, General and Administrative Expenses

Selling, general and administrative expenses totaled ¥117,682 million, a decrease of 0.5% compared with the previous fiscal year. As in the previous fiscal year, personnel expenses increased due to 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. However, thanks to comprehensive Group-wide expense reduction efforts, selling, general and administrative expenses decreased ¥648 million year on year.

Number of New Housing Starts in Japan

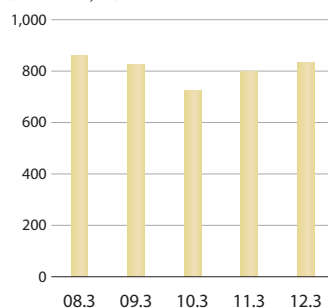
(Thousands of units)



Owner-occupied housing
Built-for-sale housing
Rental housing
Corporate housing
Source: Ministry of Land, Infrastructure, Transport and Tourism

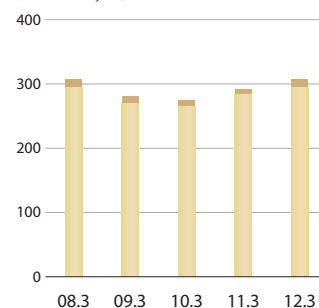
Net Sales

(Billions of yen)



Amount of Orders Received

(Billions of yen)



Custom-built detached housing
Collective housing (wooden apartment)

③ Operating Income, Recurring Income

Although personnel expenses rose due to the actuarial difference in accounting for retirement benefit obligations, operating income increased by ¥4,952 million, to ¥19,191 million, an improvement of 34.8% year on year. This improvement was attributable to the increase in sales volume for timber and building materials, an increase in unit sales of custom-built detached housing, and an improvement in the price per unit. Recurring income was ¥20,714 million yen, a rise of 45.8%. Excluding the impact of the above-mentioned actuarial difference, operating profit would have been ¥24,107 million, an increase of 41.6% year on year, and recurring income ¥25,631 million, an increase of 50.8%.

④ Net Income

Net income increased by ¥4,095 million, to ¥9,271 million, an improvement of 79.1% year on year, despite the booking of extraordinary losses of ¥3,038 million, including the recording of an impairment loss on construction materials manufacturing equipment at some overseas subsidiaries.

Net income per share came to ¥52.34, an increase of ¥23.13 from the previous fiscal year.

Segment Results

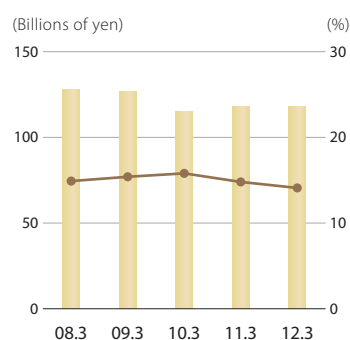
* Sales and recurring income figures given below include intersegment sales and transfers. Recurring income figures have been used for the segment results section.

① Timber and Building Materials Business

Net sales in the timber and building materials business rose 2.5% year on year, to ¥399,794 million, and recurring income decreased 3.7% to ¥4,667 million.

In Japan, the timber and building materials distribution business performed strongly on the back of the increase in the new housing starts and also in the volume of products handled, which was the result of a strengthening of collaborations with business partners. In addition, within the situation of a materials shortage due to the effects of the Great East Japan Earthquake, the Sumitomo Forestry Group leveraged its material procurement capabilities to minimize to the greatest possible extent the impact of the earthquake and provided its business partners with alternative materials. In the domestic timber distribution business, the Company worked to increase orders for high-quality domestic-timber products, but due to the overall slump in sales, the results did not reach the hoped for level. The Group is implementing various measures that help to protect forests, including by providing branches extracted from forest thinning and left over materials from logged forest land, such as stumps and roots, as fuel for use in wood biomass power generation. Results were down in the building materials manufacturing business in Japan, primarily due to higher raw materials costs.

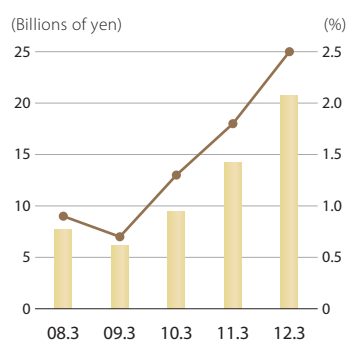
SG&A Expenses and
SG&A Expenses Ratio



■ SG&A expenses (Left)
— SG&A expenses ratio* (Right)

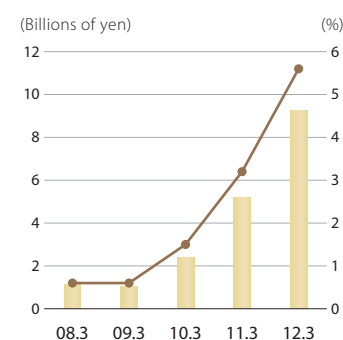
*SG&A expenses ratio = SG&A expenses / Net sales

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 13.1% year on year, to ¥37,595 million. The business reported a recurring loss of ¥2,853 million, compared with a recurring loss of ¥1,829 million in the previous fiscal year.

In the overseas distribution of timber and building materials, the Group worked to increase orders for its line-up of products in expanding markets, like China and South East Asia. In the overseas building materials manufacturing business, results were sluggish in Australia due to strength of the Australian dollar, which resulted in a decline in exports, and an intensification of competition within this country's domestic market. The tough conditions also continued in China, where the production volume at the Group's manufacturing company remained at a low level. Conversely, the recovery trend continued at manufacturing companies in Indonesia and New Zealand, which once again recorded increases in sales volumes. In the Company's housing business, the housing markets in the US and Australia were sluggish and this was reflected in the weak results in these regions. In China, consumers are placing increasing importance on environmental protection and energy conservation and the Sumitomo Forestry Group has been focusing its resources on increasing orders for wooden homes by utilizing the expertise it has accumulated over many years in these areas. Also, the Group continues to develop its plantation forest operations in Papua New

Guinea, New Zealand, and Indonesia, and now has in place a system for providing customers with environmentally sound timber products; for example, in September 2011 it acquired FSC-FM/CoC* certification.

* FSC-FM/CoC certification

The Forest Stewardship Council (FSC) is an international third-party organization that provides two types of certification on the management of forests and timber. The Forest Management (FM) Certification certifies that a forest is being managed in a responsible manner, while the Chain of Custody (CoC) Certification certifies that the management of the processing and distribution of timber from certified forests is being carried out responsibly.

③ Housing Business

Net sales in the housing business rose 8.2% year on year, to ¥374,719 million, and recurring income increased 29.7% to ¥24,621 million.

In its custom-built detached housing business, the Company increased its market share in Japan's three major urban centers at the same time as implementing a highly targeted area strategy that tailors sales activities to the characteristics of each region. Thanks to these initiatives, and also to continuous measures to reduce production costs, the custom-built detached housing business performed strongly. Sales promotion initiatives included holding *Sumai Haku* housing fairs in Japan's three major urban centers of Tokyo, Osaka, and Nagoya, as well as region-based *Small Sumai Haku* at branches nationwide. It also held promotional events throughout the country to showcase the appeal of its environmentally sound housing that is fitted with solar power generation systems and the *ENE FARM*

Housing Business / Real Estate Business

(Years ended March 31)		2009	2010	2011	2012
Orders					
Custom-Built Detached Housing	(¥million)	¥268,889	¥265,203	¥284,420	¥295,194
	(Units)	8,703	8,593	8,926	8,962
Sales					
Custom-Built Detached Housing	(¥million)	¥294,551	¥264,215	¥270,903	¥294,081
	(Units)	9,297	8,580	8,721	9,007
Detached Spec Homes*2	(¥million)	¥ 3,253	¥ 7,851	¥ 9,567	¥ 9,862
	(Units)	144	183	226	225
Total Detached Homes	(¥million)	¥297,805	¥272,066	¥280,470	¥303,943

*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.

household fuel cell. In terms of product strategy, the Company has responded to the diversification of consumer lifestyles to develop and launch the *mamato* home as a lifestyle proposal-type product. It reflects the Company's goal of strengthening family bonds as it is designed to reduce the burden of housework and to create an environment that makes it easier to bring up children. In addition, it also launched the *ikiki* two-family home that helps to realize a stress-free living environment, through such features as specially constructed noise insulating floors. Moreover, in addition to the usual energy conservation and carbon-storage features possessed by all *Sumitomo Forestry Home* houses, the newly launched *Smart Solabo* home is installed with smart home technologies to further keep down electricity consumption and CO₂ emissions, providing a home that reduces both economic costs and environmental impact. Since the Great East Japan Earthquake, consumers have been increasingly concerned that their homes are safe and secure, and to capture the resulting demand the Company is working to expand sales of homes that use its proprietary Big-Frame (BF) construction method and of *Earthquake Energy-Absorbing Panels*.

The Company's apartment business performed strongly, primarily due to the fact that the Company has been adding to its sales branches, particularly in the Tokyo metropolitan area, and that sales managers in the custom-built detached housing business are now also able to sell properties in the apartment business.

In the renovation business, the renovation market is expected to grow in the future and to increase orders the Company is working to increase awareness of its *Reforest* brand of renovation products. In fiscal 2011, the renovation business recorded strong results thanks to an aggressive publicity campaign for its *Reforest* brand and the opening of new stores. In product development, in addition to measures to increase orders for fixed-price renovation products for detached housing, the Company launched *Reforest Ma:Ri* as a fixed-price renovation service for condominiums. Setting fixed prices for each item, from basic construction through to equipment specifications, not only creates a clear pricing structure, but also enables the Company to provide the kind of housing proposals, which feature the plentiful use of wood for the interiors, that only the Sumitomo Forestry Group is capable of providing.

Segment Performance Highlights

(Years ended March 31)	Millions of yen			(% of change)
	2011	2012	2011/2012 (change)	
Net sales	¥797,493	¥831,870	+34,377	+ 4.3%
Timber and Building Materials Business	390,231	399,794	+ 9,563	+ 2.5%
Overseas Business	33,234	37,595	+ 4,361	+13.1%
Housing Business	346,279	374,719	+28,440	+ 8.2%
Real Estate Business	50,881	44,240	- 6,641	-13.1%
Other Businesses	13,529	12,064	- 1,466	-10.8%
Adjustments	(36,662)	(36,542)	+ 120	—
Recurring Income	¥ 14,206	¥ 20,714	+ 6,508	+45.8%
Timber and Building Materials Business	4,848	4,667	- 181	- 3.7%
Overseas Business	(1,829)	(2,853)	- 1,024	—
Housing Business	18,988	24,621	+ 5,633	+29.7%
Real Estate Business	903	1,193	+ 290	+32.1%
Other Businesses	502	709	+ 207	+41.3%
Adjustments	(9,206)	(7,622)	+ 1,585	—

*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 declined 13.1% year on year, to ¥44,240 million, while recurring income was ¥1,193 million, an increase of 32.1%. Sales were solid in the detached spec homes business. In the real estate purchase and resale business, the Company is focusing on the market for pre-owned homes, where demand is expected to increase in the future, and is steadily purchasing these homes. In real estate sales and management, it is aiming to create a profit structure that is not controlled by market trends. In its management of private-pay elderly care facilities, it is implementing measures to improve the quality of its services at the same time as strengthening its management structure.

⑤ Other Businesses

In addition to the above businesses, the Sumitomo Forestry Group provides a range of services for Group companies, such as IT system development and leasing operations, and for its housing customers, including property insurance agency services. The Group also manufactures and sells farming and gardening materials. In fiscal 2011, net sales totaled ¥12,064 million, a decline of 10.8% year on year, and recurring income came to ¥709 million, up 41.3%.

Recurring Income of Main Subsidiaries

Timber and Building Materials Business

(Years ended March 31)	Millions of yen	
	2011	2012
Sumitomo Forestry Crest Co., Ltd.	¥ 462	¥ 173

Overseas Business

(Years ended December 31)	Millions of yen	
	2010	2011
Overseas Subsidiaries*		
PT. Kutai Timber Indonesia (Indonesia)	¥ 90	¥ 207
Alpine MDF Industries Pty Ltd. (Australia)	(100)	(457)
Nelson Pine Industries Ltd. (New Zealand)	1,378	1,152

Housing Business / Real Estate Business

(Years ended March 31)	Millions of yen	
	2011	2012
Sumitomo Forestry Residential Co., Ltd.	¥ 321	¥ 472
Sumitomo Forestry Home Engineering Co., Ltd.	1,240	932
Sumitomo Forestry Home Service Co., Ltd.	134	132
Sumitomo Forestry Landscaping Co., Ltd.	(127)	124
Sumitomo Forestry Home Tech Co., Ltd.	2,060	2,641

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

	US\$	AU\$	NZ\$
FY2010:	87.76	80.64	63.26
FY2011:	79.70	82.31	63.07

Financial Position and Cash Flow

① Financial Position

At the end of March 2012, total assets stood at ¥503,496 million, an increase of ¥14,079 million year on year, mainly as a result of an increase in trade receivables in the timber and building materials business and investment in facilities at an overseas subsidiary.

Liabilities increased by ¥7,854 million, to ¥334,161 million, as the repayment of part of the long-term debt was exceeded by the increase in trade payables in the timber and building materials business.

Interest-bearing debt decreased ¥1,306 million year on year, to ¥67,923 million, while the interest-bearing debt ratio fell from 29.8% in the previous fiscal year to 28.7%.

Despite a steep decline in foreign currency translation adjustments owing to the appreciation of the yen, net assets increased by ¥6,225 million, to ¥169,335 million, due to an increase in net income. The equity ratio increased by 0.3 percentage points, to 33.6%.

② Cash Flow

Net cash provided by operating activities was ¥26,873 million. This mainly reflected that the increases from the recording of income before income taxes and minority interests of ¥17,683 million, depreciation and amortization of ¥8,469 million yen, and also the increase in trade payables and the allowance for retirement benefits exceeded the decrease in the corporation tax payment.

Net cash used in investing activities was ¥32,903 million, due mainly to fund management of fixed deposits and investment in facilities at an overseas subsidiary.

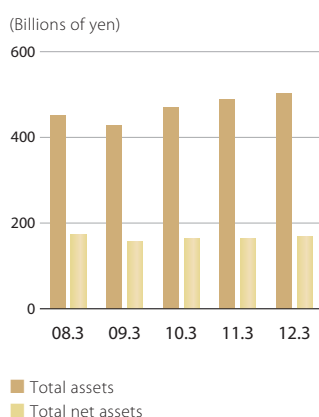
Net cash used in financing activities was ¥5,622 million. This was mainly the result of loan repayments and dividends paid.

As a result of the above, cash and cash equivalents at the end of the fiscal year stood at ¥63,839 million, a decrease of ¥11,742 million from the end of the previous fiscal year.

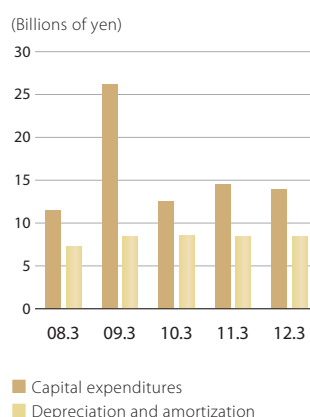
③ Capital Expenditures

Capital expenditures decreased by 4.3%, from ¥14,572 million in the previous fiscal year to ¥13,950 million in the fiscal year under review. Investment in tangible fixed assets declined 8.0% year on year, to ¥10,970 million, while investment in intangible assets increased 14.5% to ¥2,786 million. Major investments included ¥4,900 million for construction of a particle board plant in Vietnam, ¥2,500 million for IT system investment, and ¥1,500 million for investment in reconstructing model home exhibitions.

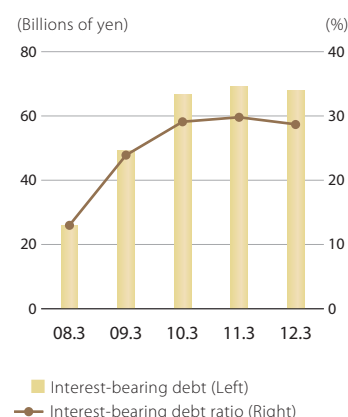
Total Assets and Total Net Assets



Capital Expenditures, Depreciation and Amortization



Interest-Bearing Debt and Interest-Bearing Debt Ratio



Business Risk

① Housing Market Trends

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

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

In the future, if the consumption tax is increased and applied as is to housing purchases, it would induce rush demand to avoid an increase in total payments and thus a temporary increase in overall housing demand. However, this could later invite a sharp reactive decline, with a possibility of the Group's results being affected.

② Statutory Changes

Laws and regulations surrounding the housing business include the Personal Information Protection Act, Building Standards Law, Construction Industry Law, Architect Act, 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 than anticipated. 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, 2012 and 2011

	Millions of yen		Thousands of U.S. dollars (Note 4)
ASSETS	2012	2011	2012
Current assets:			
Cash and time deposits (Notes 12, 16)	¥ 64,870	¥ 55,618	\$ 791,092
Marketable securities (Notes 5, 12, 16)	15,000	20,000	182,927
Receivables —			
Notes and accounts, trade (Notes 7, 16)	124,883	118,451	1,522,965
Loans and other (Note 16)	48,279	46,736	588,763
Inventories —			
Finished goods, logs and lumber (Note 7)	20,977	19,015	255,815
Developed land and housing for sale	34,880	31,492	425,364
Land and housing projects in progress	28,397	31,242	346,302
Deferred tax assets (Note 9)	7,971	7,915	97,203
Other current assets	5,004	4,241	61,020
Allowance for doubtful accounts	(1,329)	(1,272)	(16,210)
Total current assets	348,930	333,439	4,255,241
Property, plant and equipment, at cost less accumulated depreciation:			
Land (Notes 6, 7)	24,475	26,048	298,482
Buildings and structures (Notes 7, 8)	49,794	51,244	607,242
Machinery and equipment (Notes 7, 8)	57,363	61,360	699,550
Timberland (Note 6)	11,236	10,972	137,019
Construction in progress	5,973	3,062	72,844
Leased assets	8,330	6,615	101,587
	157,171	159,302	1,916,724
Less accumulated depreciation	(71,530)	(71,700)	(872,319)
Net property, plant and equipment	85,641	87,602	1,044,405
Intangible assets, net of amortization:			
Goodwill (Note 8)	924	201	11,273
Other intangible assets (Note 8)	7,466	6,867	91,048
Total intangible assets	8,390	7,068	102,321
Investments and other assets:			
Investment securities (Notes 5, 7, 16)	48,487	48,458	591,299
Long-term loans and receivables	5,342	5,739	65,149
Deferred tax assets (Note 9)	1,251	1,354	15,253
Other assets	8,666	8,903	105,679
Allowance for doubtful accounts	(3,211)	(3,146)	(39,155)
Total investments and other assets	60,534	61,309	738,225
Total assets	¥503,496	¥489,417	\$6,140,192

See accompanying notes to consolidated financial statements.

Sumitomo Forestry Annual Report 2012

Consolidated Statements of Income

Sumitomo Forestry Co., Ltd. and Consolidated Subsidiaries
For the years ended March 31, 2012 and 2011

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2012	2011	2012
Net sales	¥831,870	¥797,493	\$10,144,751
Cost of sales	694,997	664,925	8,475,570
Gross profit	136,873	132,568	1,669,181
Selling, general and administrative expenses (Note 11)	117,682	118,330	1,435,147
Operating income	19,191	14,238	234,034
Other income (expenses):			
Interest and dividends income	1,163	967	14,188
Interest expense	(1,296)	(1,318)	(15,803)
Equity in losses of affiliates	(314)	(778)	(3,831)
Loss on devaluation of investment securities	(68)	(1,024)	(829)
Gain on transition to defined contribution pension plan	156	—	1,900
Impairment loss	(3,038)	(695)	(37,050)
Gain on sales of investment securities	5	12	62
Gain on sales of subsidiary's stock	—	273	—
Gain on abolishment of retirement benefit plan	—	53	—
Loss on natural disaster	(71)	(780)	(869)
Effect of adoption of accounting standard for asset retirement obligations	—	(706)	—
Special retirement payment	—	(378)	—
Other gains (losses), net (Note 10)	1,955	1,144	23,839
Total	(1,508)	(3,229)	(18,393)
Income before income taxes and minority interests	17,683	11,010	215,641
Income taxes (Note 9):			
Current	9,709	7,926	118,405
Deferred	(1,282)	(1,998)	(15,628)
Total	8,428	5,928	102,777
Income before minority interests	9,255	5,082	112,864
Minority interests	(16)	(93)	(192)
Net income	¥ 9,271	¥ 5,175	\$ 113,056
	Yen		U.S. dollars (Note 4)
Per share of common stock:			
Net income (Note 21)	¥52.34	¥ 29.21	\$0.64
Cash dividends	15.00	15.00	0.18

See accompanying notes to consolidated financial statements.

Consolidated Statements of Comprehensive Income

Sumitomo Forestry Co., Ltd. and Consolidated Subsidiaries
For the years ended March 31, 2012 and 2011

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2012	2011	2012
Income before minority interests	¥9,255	¥5,082	\$112,864
Other comprehensive income			
Unrealized gain (loss) on available-for-sale securities	857	(718)	10,455
Deferred gain on hedges	37	130	457
Translation adjustments	(1,077)	(1,614)	(13,135)
Share of other comprehensive income of companies accounted for by the equity method	(214)	(36)	(2,612)
Total other comprehensive income	(396)	(2,238)	(4,835)
Comprehensive income	8,858	2,844	108,029
Total comprehensive income attributable to:			
Shareholders of the parent company	8,880	2,960	108,289
Minority interests	(21)	(116)	(260)

See accompanying notes to consolidated financial statements.

Consolidated Statements of Changes in Net Assets

Sumitomo Forestry Co., Ltd. and Consolidated Subsidiaries
For the years ended March 31, 2012 and 2011

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2012	2011	2012
SHAREHOLDERS' EQUITY			
Common stock			
Balance at the end of previous period	¥ 27,672	¥ 27,672	\$ 337,464
Changes during the period			
Total changes during the period	—	—	—
Balance at the end of current period	¥ 27,672	¥ 27,672	\$ 337,464
Capital surplus			
Balance at the end of previous period	¥ 26,872	¥ 26,872	\$ 327,701
Changes during the period			
Disposal of treasury stock	(0)	(0)	(0)
Total changes during the period	(0)	(0)	(0)
Balance at the end of current period	¥ 26,872	¥ 26,872	\$ 327,701
Retained earnings			
Balance at the end of previous period	¥107,584	¥105,066	\$1,312,005
Changes during the period			
Cash dividends (¥15.00 per share)	(2,657)	(2,657)	(32,404)
Net income	9,271	5,175	113,056
Change in scope of equity method	26	—	311
Total changes during the period	6,639	2,518	80,963
Balance at the end of current period	¥114,223	¥107,584	\$1,392,968
Treasury stock at cost			
Balance at the end of previous period	¥ (267)	¥ (262)	\$ (3,255)
Changes during the period			
Purchases of treasury stock	(1)	(5)	(10)
Disposal of treasury stock	0	0	1
Total changes during the period	(1)	(5)	(9)
Balance at the end of current period	¥ (268)	¥ (267)	\$ (3,264)
Total shareholders' equity			
Balance at the end of previous period	¥161,861	¥159,348	\$1,973,915
Changes during the period			
Cash dividends (¥15.00 per share)	(2,657)	(2,657)	(32,404)
Net income	9,271	5,175	113,056
Purchases of treasury stock	(1)	(5)	(10)
Disposal of treasury stock	0	0	1
Change in scope of equity method	26	—	311
Total changes during the period	6,638	2,513	80,954
Balance at the end of current period	¥168,499	¥161,861	\$2,054,869

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2012	2011	2012
ACCUMULATED OTHER COMPREHENSIVE INCOME			
Unrealized gain on available-for-sale securities			
Balance at the end of previous period	¥ 4,876	¥ 5,594	\$ 59,466
Changes during the period			
Net changes in items other than shareholders' equity	857	(718)	10,456
Total changes during the period	857	(718)	10,456
Balance at the end of current period	¥ 5,734	¥ 4,876	\$ 69,922
Deferred gain on hedges			
Balance at the end of previous period	¥ 154	¥ 24	\$ 1,879
Changes during the period			
Net changes in items other than shareholders' equity	37	130	457
Total changes during the period	37	130	457
Balance at the end of current period	¥ 192	¥ 154	\$ 2,336
Translation adjustments			
Balance at the end of previous period	¥ (4,005)	¥ (2,378)	\$ (48,844)
Changes during the period			
Net changes in items other than shareholders' equity	(1,286)	(1,627)	(15,679)
Total changes during the period	(1,286)	(1,627)	(15,679)
Balance at the end of current period	¥ (5,291)	¥ (4,005)	\$ (64,523)
Minority interests			
Balance at the end of previous period	¥ 224	¥ 342	\$ 2,732
Changes during the period			
Net changes in items other than shareholders' equity	(22)	(118)	(273)
Total changes during the period	(22)	(118)	(273)
Balance at the end of current period	¥ 202	¥ 224	\$ 2,459
Total net assets			
Balance at the end of previous period	¥163,110	¥162,930	\$1,989,148
Changes during the period			
Cash dividends (¥15.00 per share)	(2,657)	(2,657)	(32,404)
Net income	9,271	5,175	113,056
Purchases of treasury stock	(1)	(5)	(10)
Disposal of treasury stock	0	0	1
Change in scope of equity method	26	—	311
Net changes in items other than shareholders' equity	(413)	(2,334)	(5,039)
Total changes during the period	6,225	180	75,915
Balance at the end of current period	¥169,335	¥163,110	\$2,065,063

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, 2012 and 2011

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2012	2011	2012
Cash flows from operating activities:			
Income before income taxes and minority interests	¥17,683	¥11,010	\$215,641
Adjustments —			
Depreciation and amortization	8,469	8,437	103,279
Impairment loss	3,038	695	37,050
Amortization of goodwill	211	110	2,571
Provision for (reversal of) doubtful accounts	69	1,548	848
Provision for (reversal of) employees' retirement benefits, less payments	3,892	2,428	47,460
Interest and dividends income	(1,163)	(967)	(14,188)
Interest expense	1,296	1,318	15,803
Equity in losses of affiliates	314	778	3,831
Losses on devaluation of marketable securities and investment securities	68	1,024	829
Losses (gains) on sales of marketable securities and investment securities, net	94	(285)	1,149
Losses (gains) on disposal of fixed assets, net	(84)	(197)	(1,023)
Loss on natural disaster	(485)	545	(5,918)
Effect of adoption of accounting standard for asset retirement obligations	—	706	—
Change in assets and liabilities:			
Notes and accounts receivable, trade	(6,257)	(12,340)	(76,307)
Inventories	860	(1,720)	10,489
Other current assets	1,622	(3,415)	19,776
Notes and accounts payable, trade	6,073	2,026	74,065
Advances received from customers	794	7,331	9,675
Other current liabilities	1,407	1,391	17,163
Other	(516)	50	(6,288)
Total	37,384	20,471	455,905
Interest and dividends income received	1,760	1,374	21,469
Interest paid	(1,347)	(1,276)	(16,425)
Income taxes paid, net	(10,925)	(3,054)	(133,229)
Net cash provided by operating activities	26,873	17,515	327,720
Cash flows from investment activities:			
Decrease (increase) in short-term loans receivable	(3,839)	(165)	(46,814)
Payments for purchases of fixed assets	(10,454)	(11,662)	(127,482)
Proceeds from sales of fixed assets	2,578	1,743	31,442
Payments for purchases of intangible assets	(2,788)	(2,473)	(34,002)
Payments for purchases of investment securities	(716)	(1,466)	(8,734)
Proceeds from sales of investment securities	10	480	121
Payments for additional acquisition of stock of consolidated subsidiaries	(1)	(2)	(13)
Payments for purchase of stock of subsidiary newly consolidated	(1,984)	—	(24,194)
Proceeds from sales of subsidiary's stock resulting in change of scope of consolidation	—	313	—
Payments for long-term loans receivable	(260)	(386)	(3,171)
Repayments of long-term loans receivable	644	264	7,857
Other	(16,094)	105	(196,266)
Net cash used in investment activities	(32,903)	(13,247)	(401,256)
Cash flows from financing activities:			
Increase (decrease) in short-term debt	3,280	1,094	39,996
Payment of lease obligation	(1,746)	(1,264)	(21,296)
Proceeds from long-term debt	3,224	3,342	39,312
Repayments of long-term debt	(7,721)	(138)	(94,162)
Dividends paid	(2,657)	(2,657)	(32,404)
Other	(1)	(5)	(10)
Net cash provided by (used in) financing activities	(5,622)	372	(68,564)
Effect of exchange rate changes on cash and cash equivalents	(90)	(721)	(1,099)
Net increase (decrease) in cash and cash equivalents	(11,742)	3,919	(143,199)
Cash and cash equivalents at the beginning of the year	75,582	71,662	921,727
Cash and cash equivalents at the end of the year (Note 12)	¥63,839	¥75,582	\$778,528

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Sumitomo Forestry Co., Ltd. and Consolidated Subsidiaries
As of March 31, 2012 and 2011

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.

As of March 31, 2012, the numbers of consolidated subsidiaries and affiliates accounted for by the equity method were 47 and 23 (45 and 20 in 2011), respectively.

The Company initially consolidated the accounts of PT. Sumitomo Forestry Indonesia and Canyon Creek Cabinet Company for the year ended March 31, 2012.

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

3. Summary of Significant Accounting Policies

(a) Basis of consolidation and investments in affiliates

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

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

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

(b) Translation of foreign currency transactions and accounts

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

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

(c) Statement of cash flows

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

(d) Allowance for doubtful accounts

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

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

(e) 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) Accrued directors' and corporate auditors' bonuses

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

(h) 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, 2012, which was included in other current liabilities in the accompanying consolidated balance sheet, was ¥1,843 million (US\$22,470 thousand).

(i) 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.

(j) 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, 2012, which was included in other long-term liabilities in the accompanying consolidated balance sheet, was ¥81 million (US\$985 thousand).

(k) 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, 2012, which was included in other long-term liabilities in the accompanying consolidated balance sheet, was ¥1,435 million (US\$17,500 thousand).

(l) 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.

(m) Derivatives

Derivatives are stated at fair value.

(n) Inventories

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

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

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

The company recognized ¥569 million (\$ 6,940 thousand) in valuation loss on inventories in cost of sales for the year ended March 31, 2012.

(o) 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.

(p) 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.

(q) 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.

(r) 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.

(s) 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.

(t) 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.

(u) 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.

(v) 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.

(w) Consumption taxes

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

(x) 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.

(y) 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.

(z) Reclassifications

Certain accounts in the consolidated financial statements for the year ended March 31, 2011 have been reclassified to conform to presentation in 2012.

(aa) Adoption of accounting standard for accounting changes and error corrections

The Company has adopted the "Accounting Standard for Accounting Changes and Error Corrections" (Accounting Standards Board of Japan (ASBJ) Statement No.24 of December 4, 2009) and the "Guidance on Accounting Standard for Accounting Changes and Error Corrections" (ASBJ Guidance No.24 of December 4, 2009), for accounting changes and corrections of past errors made as of the beginning of the fiscal year under review.

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 ¥82 = US\$1, the approximate exchange rate prevailing in the Japanese foreign exchange market at March 31, 2012. 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, 2012 and 2011 were as follows:

	Millions of yen			
	2012			
	Carrying amounts	Unrealized gains	Unrealized losses	Estimated fair value
Securities classified as:				
Available-for-sale:				
Equity securities	¥25,866	¥9,792	¥(1,299)	¥34,360
Debt securities	—	—	—	—
Held-to-maturity:				
Debt securities	1,257	33	(0)	1,290
Other	¥15,000	¥ —	¥ —	¥15,000

	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

	Thousands of U.S. dollars			
	2012			
	Carrying amounts	Unrealized gains	Unrealized losses	Estimated fair value
Securities classified as:				
Available-for-sale:				
Equity securities	\$315,444	\$119,420	\$(15,838)	\$419,026
Debt securities	—	—	—	—
Held-to-maturity:				
Debt securities	15,327	407	(0)	15,734
Other	\$182,927	\$ —	\$ —	\$182,927

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, 2012 and 2011 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Proceeds	¥—	¥21	\$—
Gross gains	—	0	—
Gross losses	—	5	—

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

6. Timberland

The investment in timberland at March 31, 2012 and 2011 comprised the following:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Standing timber:			
Mature timber	¥11,032	¥10,786	\$134,531
Growing timber	204	186	2,490
	11,236	10,972	137,021
Land	732	727	8,923
	¥11,967	¥11,699	\$145,944

The timberland accounts at March 31, 2012 and 2011 were reduced by ¥242 million (US\$2,953 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, 2012 and 2011 generally represented short-term borrowings which bore interest of 2.33% and 2.76% per annum, respectively.

Long-term debt at March 31, 2012 and 2011 were summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Loans, principally from banks and insurance companies, due 2012 to 2035 with interest of 1.42%:			
Secured			
Loans from banks or other	¥ 538	¥ 600	\$ 6,555
Unsecured			
Bonds issued	15,000	15,000	182,927
Loans from banks or other	34,440	38,469	420,002
Lease obligation	3,878	3,540	47,294
	53,856	57,609	656,778
Portion due within one year			
Loans from banks or other	6,693	6,968	81,626
Lease obligation	1,217	1,095	14,840
	7,910	8,063	96,466
	¥45,946	¥49,546	\$560,312

The following assets were pledged to secure bank loans and long-term debt at March 31, 2012 and 2011:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Receivables — Notes and accounts, trade	¥ 389	¥ 326	\$ 4,749
Finished goods, logs and lumber	1,450	1,285	17,684
Land	14	15	170
Buildings and structures	494	539	6,024
Machinery and equipment	994	845	12,120
	¥3,341	¥3,009	\$40,747

In addition to the above, certificates of deposit as security on entering into tree-planting business agreements at March 31, 2012 and 2011 were ¥10 million (US\$119 thousand) and ¥8 million, investment securities as security for deferred payment of customs duties at March 31, 2012 and 2011 were ¥9,302 million (US\$113,443 thousand) and ¥9,589 million, and investment securities as deposit for housing warranty were ¥1,252 million (US\$15,271 thousand) and ¥1,047 million, respectively.

The aggregate annual maturities of long-term debt and lease obligation at March 31, 2012 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
2012	¥ —	\$ —	¥ 6,693	\$ 81,626	¥1,217	\$14,840
2013	—	—	10,460	127,562	1,622	19,779
2014	10,000	121,951	5,901	71,966	595	7,254
2015	—	—	6,782	82,702	301	3,667
2016	5,000	60,976	1,254	15,291	96	1,167
Thereafter	—	—	3,888	47,410	48	587
	¥15,000	\$182,927	¥34,978	\$426,557	¥3,878	\$47,294

8. Loss on Impairment of Fixed Assets

Loss on impairment of fixed assets for the years ended March 31, 2012 and 2011 consisted of the following:

Location	Major use	Asset category	Millions of yen	Thousands of U.S. dollars
			2012	2012
Fuxin, Liaoning, China	Plywood manufacturing facility	Buildings and structures	¥ 471	\$ 5,738
		Machinery and equipment	201	2,450
		Other	402	4,901
		Total	1,073	13,089
Wangaratta, Victoria, Australia	Mid-density fiber board manufacturing facility	Machinery and equipment	1,345	16,403
		Other	54	661
		Total	1,399	17,064
Bellevue, Washington, U.S.A.	Assets for residential housing sales business	Good will	53	641
		Other intangible assets	499	6,086
		Other	14	170
		Total	566	6,897
			¥3,038	\$37,050
Location	Major use	Asset category	Millions of yen	
			2011	
Komatsujima City, Tokushima Prefecture	Factory	Land	¥695	
			¥695	

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 2012 was 40.0%.

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

	2012	2011
Statutory tax rate	40.0%	40.0%
Non-deductible expense for purposes	1.8	2.7
Per capita portion of Inhabitant tax	1.7	2.9
Amortization of goodwill	0.4	0.3
Valuation allowance	2.7	5.2
Equity in losses of affiliates	0.7	2.8
Taxes on undistributed earnings of overseas subsidiaries	0.1	0.9
Effect of changes in corporate tax rates	0.2	—
Other	0.0	(0.9)
Effective tax rate	47.7%	53.8%

The significant components of deferred tax assets and liabilities at March 31, 2012 and 2011 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Deferred tax assets:			
Allowance for doubtful accounts	¥ 728	¥ 1,339	\$ 8,877
Accrued employees' bonuses	3,376	3,583	41,172
Accrued employees' retirement benefits	3,515	2,176	42,861
Payable for transition of defined-contribution pension	567	1,229	6,913
Warranty reserve for completed construction	708	803	8,639
Devaluation of real estate for sale	536	2,386	6,542
Devaluation of financial instruments	1,958	2,053	23,882
Devaluation of property	1,765	400	21,520
Provision for loss on business liquidation	511	574	6,237
Tax loss carryforwards	3,117	2,265	38,016
Impairment loss	1,265	2,230	15,422
Other	5,212	5,076	63,568
Gross deferred tax assets	23,259	24,113	283,649
Valuation allowance	(10,584)	(11,802)	(129,073)
Total deferred tax assets	12,675	12,311	154,576
Deferred tax liabilities:			
Deferred gains on sales of property	(799)	(897)	(9,749)
Gain on securities contributed to employee retirement benefit trusts	(1,417)	(1,590)	(17,281)
Unrealized gain on available-for-sale securities	(2,557)	(2,813)	(31,184)
Land revaluation differences	(1,157)	(1,309)	(14,113)
Taxes on undistributed earnings of overseas subsidiaries	(1,885)	(1,898)	(22,992)
Other	(2,953)	(3,324)	(36,017)
Gross deferred tax liabilities	(10,770)	(11,833)	(131,336)
Net deferred tax assets (liabilities)	¥ 1,906	¥ 478	\$ 23,240

Net deferred tax assets were included in the consolidated balance sheets at March 31, 2012 and 2011 as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Current assets —			
Deferred tax assets	¥7,971	¥7,915	\$97,203
Investment and other assets —			
Deferred tax assets	1,251	1,354	15,252
Current liabilities — Other	—	(10)	—
Long-term liabilities —			
Deferred tax liabilities	(7,316)	(8,782)	(89,215)
Net deferred tax assets (liabilities)	¥1,906	¥ 478	\$23,240

(Adjustment on deferred tax assets and liabilities due to tax rate change)

Following the promulgation on December 2, 2011 of the "Act for Partial Revision of the Income Tax Act, etc. for the Purpose of Creating Taxation System Responding to Changes in Economic and Social Structures" (Act No.114 of 2011) and the "Act for Special Measures for Securing Financial Resources Necessary to Implement Measures for Reconstruction following the Great East Japan Earthquake" (Act No.117 of 2011), the corporation tax rate will be reduced and a special reconstruction tax will be applied from the fiscal years beginning on or after April 1, 2012. Accordingly, the statutory tax rate to calculate deferred tax assets and liabilities will be reduced from 40.0% to 38.0% for temporary differences that are expected to be realized during the period from the fiscal year beginning on April 1, 2012 to the fiscal year beginning on April 1, 2014. Subsequently, it will be reduced to 35.6% for temporary differences that are expected to be realized from the fiscal years beginning on or after April 1, 2015.

As a result of this change, net deferred tax assets (net of deferred tax liabilities), income tax — deferred, unrealized gain on available-for sale securities, and deferred gains on hedges increased by ¥291 million (US\$3,554 thousand), ¥27 million (US\$331 thousand), ¥312 million (US\$3,808 thousand), and ¥6 million (US\$77 thousand), respectively as of and for the year ended March 31, 2012.

10. Other Gains (Losses), Net

Other gains (losses), net, for the years ended March 31, 2012 and 2011 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Gain on foreign exchange	¥ 777	¥ —	\$ 9,470
Loss on foreign exchange	—	(207)	—
Gain on sales of property, plant and equipment	295	424	3,593
Loss on disposal of property, plant and equipment	(211)	(227)	(2,570)
Other, net	1,094	1,154	13,346
	¥1,955	¥1,144	\$23,839

11. Research and Development Expenses

Research and development expenses charged to selling, general and administrative expenses for the years ended March 31, 2012 and 2011 were ¥1,261 million (US\$15,375 thousand) and ¥1,294 million, respectively.

12. Cash and Cash Equivalents

Cash and cash equivalents at March 31, 2012 and 2011 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Cash and time deposits	¥64,870	¥55,618	\$791,092
Short-term investments	15,000	20,000	182,927
Less: Cash deposits and short-term investments which mature or become due over three months after the date of acquisition	(16,030)	(36)	(195,491)
Cash and cash equivalents	¥63,839	¥75,582	\$778,528

The Company initially consolidated the accounts of a company for the year ended March 31, 2012. The assets and liabilities acquired and the relationship between acquisition cost and net cash disbursements for the year ended March 31, 2012 are summarized as follows:

	Millions of yen	Thousands of U.S. dollars
	2012	2012
Current assets	¥1,666	\$20,312
Non-current assets	1,689	20,601
Goodwill	975	11,894
Current liabilities	(939)	(11,447)
Long-term liabilities	(290)	(3,539)
Acquisition cost	3,101	37,821
Cash and cash equivalents	(1,117)	(13,627)
Net disbursement of acquisition	¥1,984	\$24,194

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 appropriate 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, 2012 and 2011, which were included in retained earnings in the accompanying consolidated balance sheet, were ¥2,857 million (US\$34,843 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
	2012	2011	2012
Buildings and structures	¥ 2	¥3,472	\$ 22
Machinery and equipment	836	1,747	10,195
Other	21	21	254
Accumulated depreciation	(639)	(4,481)	(7,790)
	¥220	¥ 760	\$ 2,681

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Depreciation	¥518	¥1,623	\$6,315
Interest expenses	9	26	105

Finance leased charges in earnings to the Companies for the years ended March 31, 2012 and 2011 were ¥526 million (US\$6,420 thousand) and ¥1,649 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, 2012 and 2011 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Current obligation	¥116	¥539	\$1,409
Long-term obligation	112	242	1,365
Present value of lease payments	¥227	781	\$2,774

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

15. Contingent Liabilities

Contingent liabilities as at March 31, 2012 and 2011, for loans guaranteed amounted to ¥25,178 million (US\$307,044 thousand) and ¥25,908 million.

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Guarantee on loans from financial institutions			
Dongwha SFC Housing Co., Ltd.	¥ —	¥ 53	\$ —
Kawasaki Biomass Electric Power Co., Ltd.	2,212	2,730	26,974
Cascadia Resort Communities LLC	39	42	474
Purchasers with housing loans applied	22,763	22,907	277,596
Other	1	1	12
Guarantee on rent payment			
Sumikyo Co., Ltd.	¥ 163	¥ 175	\$ 1,988
Total	¥25,178	¥25,908	\$307,044

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 need in relation to normal foreign currency-denominated transactions, 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		
	2012		
	Carrying amount	Fair value	Unrealized gain
Cash and time deposits	¥ 64,870	¥ 64,870	¥ —
Receivables-notes and accounts, trade	120,536	120,536	—
Marketable securities and investment securities			
Held-to-maturity	1,257	1,290	33
Available-for-sale	49,360	49,360	—
Receivables-loans and other	43,471	43,471	—
Total	¥279,494	¥279,527	¥ 33
Payables-notes and accounts, trade	¥155,425	¥155,425	¥ —
Long-term debt	34,978	35,458	(480)
Total	¥190,403	¥190,883	¥(480)
Derivatives*			
Hedge accounting not applied	¥ 50	¥ 50	¥ —
Hedge accounting applied	311	311	—
Total	¥ 360	¥ 360	¥ —

	Thousands of U.S. dollars		
	2012		
	Carrying amount	Fair value	Unrealized gain
Cash and time deposits	\$ 791,092	\$ 791,092	\$ —
Receivables-notes and accounts, trade	1,469,951	1,469,951	—
Marketable securities and investment securities			
Held-to-maturity	15,327	15,734	407
Available-for-sale	601,952	601,952	—
Receivables-loans and other	530,140	530,140	—
Total	\$3,408,462	\$3,408,869	\$ 407
Payables-notes and accounts, trade	\$1,895,427	\$1,895,427	\$ —
Long-term debt	426,557	432,415	(5,858)
Total	\$2,321,984	\$2,327,842	\$(5,858)
Derivatives*			
Hedge accounting not applied	\$ 607	\$ 607	\$ —
Hedge accounting applied	3,789	3,789	—
Total	\$ 4,396	\$ 4,396	\$ —

* 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
	2012	2011	2012
Unlisted equity securities	¥1,357	¥1,355	\$ 16,549
Preferred stock	3,000	3,000	36,585
Investment in affiliates	8,513	9,326	103,812

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

	Millions of yen			
	2012			
	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	¥ 64,432	¥ —	¥ —	¥—
Receivables-notes and accounts, trade	120,536	—	—	—
Marketable securities and investment securities				
Government bonds	—	109	1,148	—
Other	15,000	—	—	—
Receivables-loans and other	43,471	—	—	—
Total	¥243,439	¥109	¥1,148	¥—

	Thousands of U.S. dollars			
	2012			
	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	\$ 785,753	\$ —	\$ —	\$—
Receivables-notes and accounts, trade	1,469,951	—	—	—
Marketable securities and investment securities				
Government bonds	—	1,329	13,997	—
Other	182,926	—	—	—
Receivables-loans and other	530,140	—	—	—
Total	\$2,968,770	\$1,329	\$13,997	\$—

17. Derivatives and Hedging Activities

Derivative transactions to which hedge accounting is not applied at March 31, 2012

	Millions of yen			
	2012			
	Contract notional amount	Contract amount due after one year	Fair value	Unrealized gain
Currency-related				
Forward foreign currency exchange contracts:				
Sell (Yen)	¥4,334	¥1,048	¥49	¥49
Sell (U.S. dollar)	471	—	14	14
Sell (Other)	236	—	(0)	(0)
Buy (NZ dollar)	832	—	(13)	(13)
Buy (Euro)	7	—	(0)	(0)
Total	¥5,879	¥1,048	¥50	¥50

	Thousands of U.S. dollars			
	2012			
	Contract notional amount	Contract amount due after one year	Fair value	Unrealized gain
Currency-related				
Forward foreign currency exchange contracts:				
Sell (Yen)	\$52,856	\$12,778	\$594	\$594
Sell (U.S. dollar)	5,742	—	174	174
Sell (Other)	2,873	—	(2)	(2)
Buy (NZ dollar)	10,148	—	(159)	(159)
Buy (Euro)	82	—	(0)	(0)
Total	\$71,701	\$12,778	\$607	\$607

Derivative transactions to which hedge accounting is applied at March 31, 2012

		Millions of yen		
		2012		
	Hedged item	Contract amount	Contract amount due after one year	Fair value
Forward foreign currency exchange contracts:				
Accounting in principle				
Sell (U.S. dollar)	Accounts amount payable	¥ 4,757	¥ —	¥ (3)
Sell (Euro)		1,404	—	(23)
Buy (U.S. dollar)	Accounts amount payable	6,687	—	154
Buy (Euro)		3,802	—	183
Appropriated accounting for foreign currency				
Buy (U.S. dollar)	Accounts amount payable	265	—	*
Total		¥16,915	¥ —	¥311
Interest rate swaps:				
Accounted for by short-cut method				
Receive floating pay fixed	Long-term bank loans	11,000	6,600	*
Total		¥11,000	¥6,600	

		Thousands of U.S. dollars		
		2012		
	Hedged item	Contract amount	Contract amount due after one year	Fair value
Forward foreign currency exchange contracts:				
Accounting in principle				
Sell (U.S. dollar)	Accounts amount payable	\$ 58,012	\$ —	\$ (41)
Sell (Euro)		17,126	—	(277)
Buy (U.S. dollar)	Accounts amount payable	81,543	—	1,880
Buy (Euro)		46,369	—	2,227
Appropriated accounting for foreign currency				
Buy (U.S. dollar)	Accounts amount payable	3,230	—	*
Total		\$206,280	\$ —	\$3,789
Interest rate swaps:				
Accounted for by short-cut method				
Receive floating pay fixed	Long-term bank loans	134,146	80,488	*
Total		\$134,146	\$80,488	

* 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, 2011

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

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

		Millions of yen		
		2011		
	Hedged item	Contract amount	Contract amount due after one year	Fair value
Forward foreign currency exchange contracts:				
Accounting in principle				
Sell (U.S. dollar)	Accounts 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	

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.

The liability for employees' retirement benefits at March 31, 2012 and 2011 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Projected benefit obligation	¥(52,598)	¥(47,385)	\$ (641,440)
Fair value of plan assets	42,565	41,233	519,081
Unrecognized actuarial loss	—	—	—
Unrecognized prior service cost	—	—	—
Prepaid pension cost	—	—	—
Net liability for retirement benefits	¥(10,033)	¥ (6,152)	\$ (122,359)
Net liability for retirement benefits consist of:			
Prepaid pension cost	¥ —	¥ —	\$ —
Accrued employees' retirement benefits	(10,033)	(6,152)	(122,359)
	¥(10,033)	¥ (6,152)	\$ (122,359)

The components of net periodic benefit cost for the years ended March 31, 2012 and 2011 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Service cost	¥2,615	¥2,616	\$31,891
Interest cost	965	983	11,770
Expected return on plan assets	(1,474)	(1,502)	(17,980)
Recognized actuarial loss	4,916	2,792	59,957
Amortization of prior service cost	49	137	600
Expense of changing accounting method	—	—	—
Net periodic benefit cost	¥7,072	¥5,027	\$86,238
Gain on transition to defined-contribution pension plan	(156)	—	(1,900)
Gain on abolishment of retirement benefit plan	—	(53)	—
Other	687	585	8,380
Total periodic benefit cost	¥7,603	¥5,560	\$92,718

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

Assumptions used for the years ended March 31, 2012 and 2011 were set forth as follows:

	2012	2011
Discount rate	1.8%	2.1%
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, 2012 and 2011 were ¥904 million (US\$11,028 thousand) and ¥1,145 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
2011	Increase / (Decrease)	2012	2012	2012
¥15,637	¥(3,471)	¥12,166	¥12,339	\$148,362
				\$150,474

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, 2012	Timber and Building Materials	Overseas	Housing	Real Estate	Subtotal	Other	Total	Adjustments	Consolidated
Sales and contract revenues:									
Unaffiliated customers	¥381,086	¥28,977	¥372,861	¥44,020	¥826,943	¥ 4,153	¥831,095	¥ 774	¥831,870
Intersegment transfers	18,708	8,618	1,858	221	29,406	7,911	37,316	(37,316)	—
Total	399,794	37,595	374,719	44,240	856,348	12,064	868,412	(36,542)	831,870
Segment income (loss)	4,667	(2,853)	24,621	1,193	27,628	709	28,336	(7,622)	20,714
Segment assets	154,844	59,184	96,670	58,617	369,314	11,588	380,903	122,593	503,496
Other items									
Depreciation and amortization	¥ 914	¥ 2,192	¥ 3,328	¥ 538	¥ 6,972	¥ 792	¥ 7,763	¥ 706	¥ 8,469
Amortization of goodwill	(11)	169	—	53	211	—	211	—	211
Interest income	21	130	1	53	205	0	206	63	269
Interest expense	685	974	313	746	2,718	20	2,738	(1,442)	1,296
Equity in earnings of affiliates	177	(492)	—	0	(315)	—	(315)	0	(314)
Investments in affiliates	267	8,253	—	4	8,523	—	8,523	(11)	8,513
Increase in tangible and intangible fixed assets	692	6,636	4,517	566	12,410	1,072	13,483	467	13,950

	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

Thousands of U.S. dollars

Year ended March 31, 2012	Timber and Building Materials	Overseas	Housing	Real Estate	Subtotal	Other	Total	Adjustments	Consolidated
Sales and contract revenues:									
Unaffiliated customers	\$4,647,388	\$353,372	\$4,547,083	\$536,823	\$10,084,666	\$ 50,645	\$10,135,311	\$ 9,440	\$10,144,751
Intersegment transfers	228,150	105,102	22,664	2,691	358,607	96,472	455,079	(455,079)	—
Total	4,875,538	458,474	4,569,747	539,514	10,443,273	147,117	10,590,390	(445,639)	10,144,751
Segment income (loss)	56,913	(34,796)	300,261	14,546	336,924	8,641	345,565	(92,949)	252,616
Segment assets	1,888,338	721,751	1,178,905	714,838	4,503,832	141,321	4,645,153	1,495,039	6,140,192
Other items									
Depreciation and amortization	\$ 11,151	\$ 26,729	\$ 40,583	\$ 6,555	\$ 85,018	\$ 9,657	\$ 94,675	\$ 8,606	\$ 103,279
Amortization of goodwill	(134)	2,055	—	650	2,571	—	2,571	—	2,571
Interest income	256	1,587	12	651	2,506	4	2,510	769	3,277
Interest expense	8,358	11,879	3,812	9,092	33,141	249	33,390	(17,587)	15,803
Equity in earnings of affiliates	2,162	(5,999)	—	1	(3,836)	—	(3,836)	5	(3,831)
Investments in affiliates	3,251	100,650	—	43	103,944	—	103,944	(132)	103,812
Increase in tangible and intangible fixed assets	8,442	80,923	55,084	6,897	151,346	13,077	164,423	5,697	170,120

(Related information)

(1) Products and services information

Millions of yen				
Year ended March 31, 2012	Timber and Building Materials	Housing	Other	Total
Sales and contract revenues from unaffiliated customers	¥407,051	¥420,052	¥4,767	¥831,870

Millions of yen				
Year ended March 31, 2011	Timber and Building Materials	Housing	Other	Total
Sales and contract revenues from unaffiliated customers	¥395,743	¥397,549	¥4,201	¥797,493

Thousands of U.S. dollars				
Year ended March 31, 2012	Timber and Building Materials	Housing	Other	Total
Sales and contract revenues from unaffiliated customers	\$4,964,031	\$5,122,588	\$58,132	\$10,144,751

(2) Geographic area information

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

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

Millions of yen					
Year ended March 31, 2012	Japan	Oceania	Asia	Other	Total
	¥60,832	¥14,079	¥9,667	¥1,063	¥85,641

Millions of yen					
Year ended March 31, 2011	Japan	Oceania	Asia	Other	Total
	¥65,099	¥16,038	¥6,423	¥41	¥87,602

Thousands of U.S. dollars					
Year ended March 31, 2012	Japan	Oceania	Asia	Other	Total
	\$741,849	\$171,693	\$117,895	\$12,968	\$1,044,405

(3) Customer information

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

(Information of loss on impairment of fixed assets)

	Millions of yen						
Year ended March 31, 2012	Timber and Building Materials	Overseas	Housing	Real Estate	Other	Elimination and/or Corporate	Total
Loss on impairment of fixed assets	¥—	¥3,038	¥—	¥—	¥—	¥—	¥3,038

	Millions of yen						
Year ended March 31, 2011	Timber and Building Materials	Overseas	Housing	Real Estate	Other	Elimination and/or Corporate	Total
Loss on impairment of fixed assets	¥695	¥—	¥—	¥—	¥—	¥—	¥695

	Thousands of U.S. dollars						
Year ended March 31, 2012	Timber and Building Materials	Overseas	Housing	Real Estate	Other	Elimination and/or Corporate	Total
Loss on impairment of fixed assets	\$—	\$37,050	\$—	\$—	\$—	\$—	\$37,050

(Amortization and balance of goodwill)

	Millions of yen						
Year ended March 31, 2012	Timber and Building Materials	Overseas	Housing	Real Estate	Other	Elimination and/or Corporate	Total
Amortization of goodwill	¥(11)	¥169	¥—	¥53	¥—	¥—	¥211
Balance of goodwill	(11)	907	—	29	—	—	924

	Millions of yen						
Year ended March 31, 2011	Timber and Building Materials	Overseas	Housing	Real Estate	Other	Elimination and/or Corporate	Total
Amortization of goodwill	¥(18)	¥ 80	¥—	¥49	¥—	¥—	¥110
Balance of goodwill	(22)	141	—	82	—	—	201

	Thousands of U.S. dollars						
Year ended March 31, 2012	Timber and Building Materials	Overseas	Housing	Real Estate	Other	Elimination and/or Corporate	Total
Amortization of goodwill	\$ (135)	\$ 2,056	\$—	\$650	\$—	\$—	\$ 2,571
Balance of goodwill	(137)	11,056	—	354	—	—	11,273

21. Net Income per Share

The computation of net income per share for the years ended March 31, 2012 and 2011 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Numerator for net income per share:			
Net income	¥9,271	¥5,175	\$113,056
Income not available to common stockholders	—	—	—
Income available to common stockholders	9,271	5,175	113,056
Denominator for net income per share:			
Weighted average number of shares issued	177,138,651	177,142,840	

The diluted net income per share for the years ended March 31, 2012 and 2011 were not presented because there were no shares with dilutive effect.

22. Other Comprehensive Income

Reclassifications and income tax effects attributable to other comprehensive income for the year ended March 31, 2012 were as follows:

	Millions of yen	Thousands of U.S. dollars
	2012	2012
Unrealized gain on available-for-sale securities		
Amount incurred during the year	¥ 614	\$ 7,488
Reclassification adjustments for gains and losses included in net income	—	—
Amount before tax effect	614	7,488
Tax effect	243	2,967
Unrealized gain on available-for-sale securities	857	10,455
Deferred gain on hedges		
Amount incurred during the year	(2)	(21)
Reclassification adjustments for gains and losses included in net income	22	265
Amount before tax effect	20	244
Tax effect	17	213
Deferred gains on hedges	37	457
Translation adjustments		
Amount incurred during the year	(1,077)	(13,135)
Reclassification adjustments for gains and losses included in net income	—	—
Amount before tax effect	(1,077)	(13,135)
Tax effect	—	—
Translation adjustments	(1,077)	(13,135)
Share of other comprehensive income of affiliated companies accounted for by the equity method		
Amount incurred during the year	(257)	(3,130)
Reclassification adjustments for gains and losses included in net income	42	518
Share of other comprehensive income of affiliated companies accounted for by the equity method	(214)	(2,612)
Total other comprehensive income	¥ (396)	\$ (4,835)

23. Asset Retirement Obligations

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

The asset retirement obligations are determined and discounted to their present value using the discount rates ranging from 0.26% to 2.15% and the anticipated future useful lives ranging from 5 years to 29 years.

Breakdowns of the total amount of the asset retirement obligations for the years ended March 31, 2012 and 2011 are summarized as follows:

	Millions of yen	Thousands of U.S. dollars
	2012	2011
Balance at beginning of the year *	¥1,395	¥1,368
Liability incurred for assets acquired	76	121
Accretion expense	12	12
Liabilities settled	(104)	(105)
Balance at end of the year	¥1,380	¥1,395

Note: Balance at beginning of 2011 under initial application of new accounting standards "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).

24. Related Party Transactions

Principal transactions between the Company and its related parties for the years ended March 31, 2012 and 2011 are summarized as follows:

2012				
Name	Title	Transactions	Millions of yen Amounts	Thousands of U.S. dollars Amounts
Shigeru Sasabe	Director of the Company	Sales of housing	¥45	\$546
2011				
Name	Title	Transactions	Millions of yen Amounts	
Hideyuki Kamiyama	Director of the Company	Sales of housing	¥17	
Shigeru Sasabe	Director of the Company	Sales of housing	17	
Keita Nose	Relative of Director of the Company	Sales of housing	23	

Prices for sales of housing were determined based on the same terms as third party transactions.

25. Loss on disaster

Losses related to the March 11, 2011 Great East Japan Earthquake are accounted for under "Loss on natural disaster."

Breakdowns of the main components for the fiscal years ended March 31, 2012 and 2011 are as follows:

	Millions of yen	Thousands of U.S. dollars
	2012	2011
Restoration of damaged assets to their original state	¥ 8	¥ —
Loss on disappearance and disposal of inventories	21	75
Inspection charge for houses the company constructed	39	—
Loss on retirement of fixed assets	—	56
Provision for loss on natural disaster	—	545
	¥68	¥676

26. Subsequent Event

The Company has determined to revise its operating segments.

The Company's results of operations are reported in five segments: Timber and Building Materials, Overseas, Housing, Real Estate and Other during the fiscal year ended March 31, 2012. However, the Company reports its results in four segments: Timber and Building Materials, Housing, Overseas and Other from the fiscal year ending March 31, 2013.

The revision is a reflection of changes in organizational structure made in April 2012.

	Millions of yen							
Year ended March 31, 2012	Timber and Building Materials	Housing	Overseas	Subtotal	Other	Total	Adjustments	Consolidated
Sales and contract revenues:								
Unaffiliated customers	¥386,229	¥414,867	¥23,834	¥824,930	¥ 6,166	¥831,095	¥ 774	¥831,870
Intersegment transfers	19,121	231	11,138	30,490	7,884	38,373	(38,373)	—
Total	405,350	415,098	34,971	855,419	14,049	869,469	(37,599)	831,870
Segment income (loss)	¥ 4,781	¥ 25,800	¥ (2,938)	¥ 27,642	¥ 728	¥ 28,370	¥ (7,655)	¥ 20,714

Independent Auditor's Report

The Board of Directors
Sumitomo Forestry Co., Ltd.

We have audited the accompanying consolidated financial statements of Sumitomo Forestry Co., Ltd. and its consolidated subsidiaries, which comprise the consolidated balance sheet as at March 31, 2012, and the consolidated statements of income, comprehensive income, changes in net assets, and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Sumitomo Forestry Co., Ltd. and its consolidated subsidiaries as at March 31, 2012, and their consolidated financial performance and cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

Convenience Translation

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

Ernst & Young ShinNihon LLC

June 22, 2012

Sumitomo Forestry Group at a Glance

(As of July 3, 2012)

Domestic

Timber and Building Materials Business Segment	
1 Sumitomo Forestry Wood Products Co., Ltd.	Forest management; various forestry businesses; procurement and sales of Japanese timber, etc.
2 Sumitomo Forestry Crest Co., Ltd.	Manufacture and sales of various types of plywood, building components for housing, furniture, synthetic resin adhesive, etc.
3 Sumirin Sash Co., Ltd.	Secondary processing and sales of aluminum sashes; exterior finishing
4 Sumikyo Wintec Co., Ltd.	Sales of door and window sashes for housing and low- and mid-rise buildings; sales of exterior finishing materials
5 Sumikyo Co., Ltd.	Sales of door and window sashes for housing; sales and installation of sidings; sales of exterior finishing materials
6 Igeto Co., Ltd.	Sales of housing materials and fixtures
7 Daiichisansho Co., Ltd.	Sales of construction materials; interior and exterior finishing
8 Nihei Co., Ltd.	Sales of construction materials; ancillary work
9 Home Eco Logistics Co., Ltd.	Distribution services for home building materials
10 Nichiha Fuji Tec Co., Ltd.	Manufacture and sales of construction materials
11 Japan Bioenergy Holdings Co., Ltd.	Management direction and holding of shares in wood chip supply companies
12 Japan Bioenergy Co., Ltd.	Intermediate processing of industrial waste products, and supply and sales of wood chips
13 Kawasaki Biomass Electric Power Co., Ltd.	Electric power generation using wood-chip biomass; wholesale electric power
Housing Business Segment	
14 Sumitomo Forestry Home Service Co., Ltd.	Sales agent for land and housing
15 Sumitomo Forestry Residential Co., Ltd.	Management and renovation of condominiums and apartments
16 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
17 Sumitomo Forestry Landscaping Co., Ltd.	Urban greening; landscaping for private residences; plant rental, etc.
18 Sumitomo Forestry Home Engineering Co., Ltd.	Construction and construction supervision of Sumitomo Forestry's custom-built wooden homes
19 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
20 Meikan Honchosha PFI Co., Ltd.	Redevelopment of headquarters, etc. of Nagoya Port Authority
Other Business Segment	
21 Sumitomo Forestry Information Systems Co., Ltd.	Development of computer systems, etc.
22 Sumirin Enterprises Co., Ltd.	Various services for insurance agency, equipment leasing, travel agency and sales, etc.
23 Sumirin Business Service Co., Ltd.	Staffing business, training, administration outsourcing services
24 Sumirin Agro-Products Co., Ltd.	Production and sales of nursery compost, culture soil for gardening, soil conditioning materials, fertilizer, etc.
25 Kawanokita Development Co., Ltd.	Management of the Takinomiya Country Club golf course
26 Fill Care Co., Ltd.	Management of nursing care facilities for senior citizens, etc.

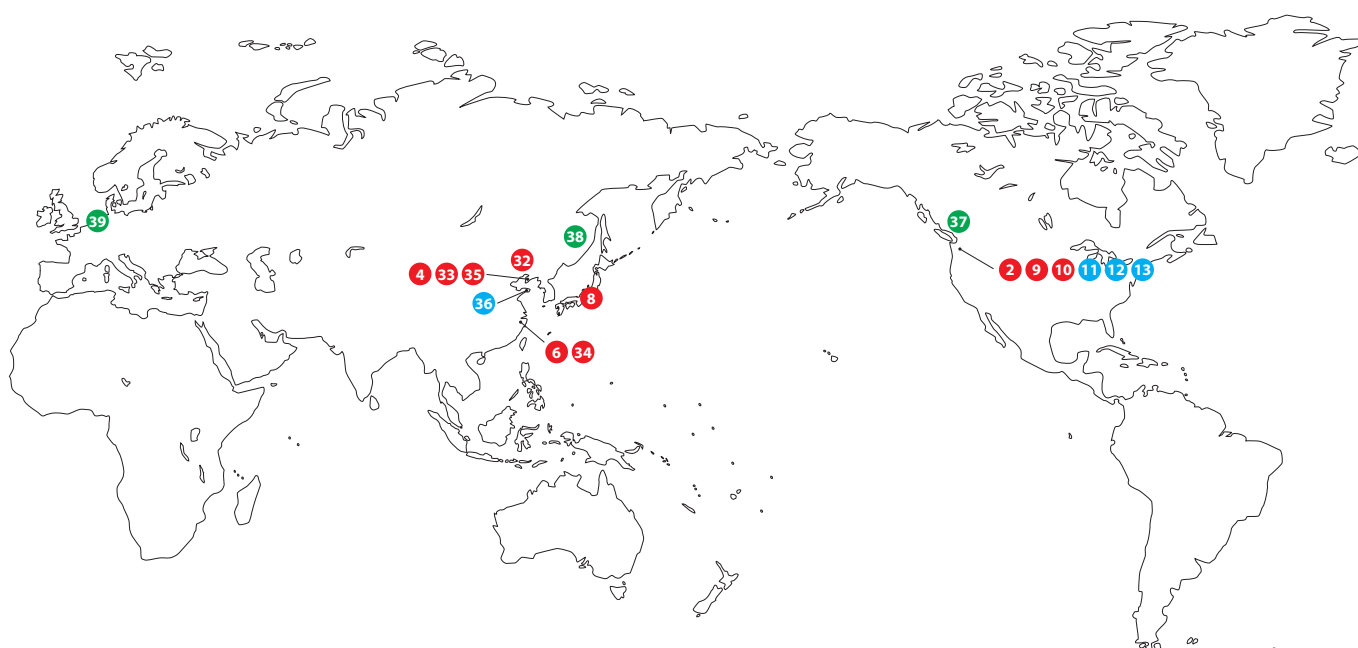
Overseas

Timber and Building Materials Business Segment

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

Overseas Business Segment

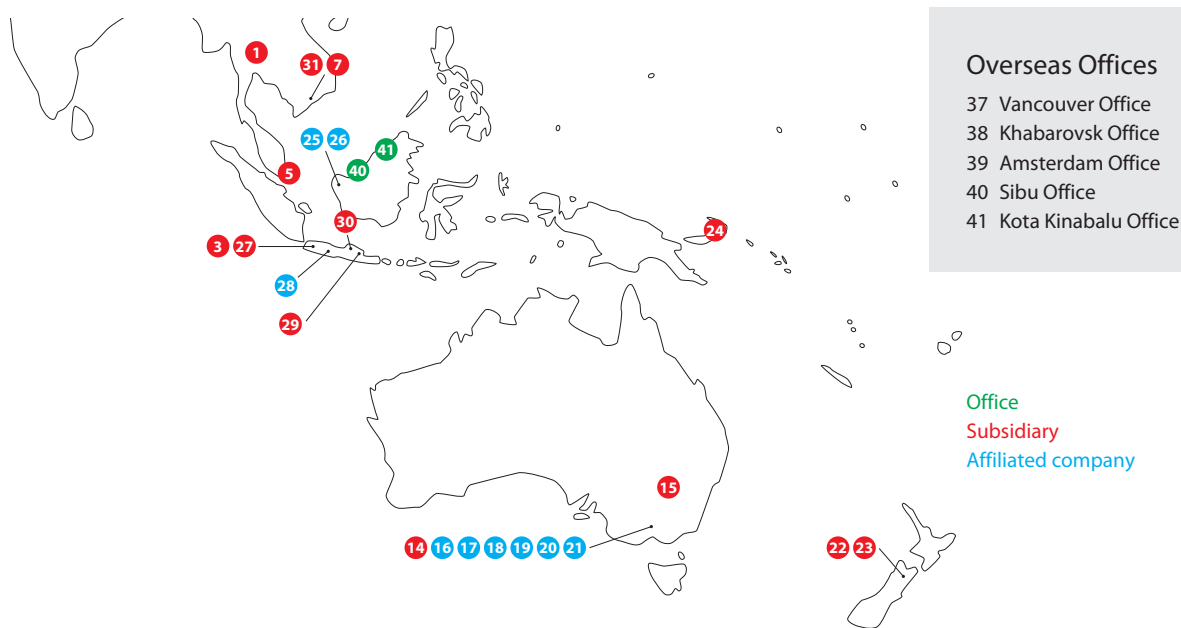
8 Kowa Lumber Co., Ltd. (Japan)	Import / export and sales of logs; export of forestry equipment and equipment parts
9 SFC Homes, LLC (U.S.A.)	Construction and sales of detached homes
10 Canyon Creek Cabinet Company (U.S.A.)	Manufacture and sales of kitchen cabinets
11 Cascadia Resort Communities, LLC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



19	Henley Properties (QLD) Pty Ltd. (Australia)	Construction and sales of detached wooden homes and collective housing
20	Henley Arch Pty Ltd. (Australia)	Construction and sales of detached wooden homes and collective housing
21	Edgewater Homes Pty Ltd. (Australia)	Sales of detached wooden homes and collective housing
22	Sumitomo Forestry NZ Ltd. (New Zealand)	Holding company
23	Nelson Pine Industries Ltd. (New Zealand)	Manufacture and sales of medium density fiberboard (MDF), veneer and laminated veneer lumber (LVL)
24	Open Bay Timber Ltd. (Papua New Guinea)	Large-scale afforestation; log harvesting and export
25	PT. Mayangkara Tanaman Industri (Indonesia)	Large-scale afforestation; log harvesting
26	PT. Wana Subur Lestari (Indonesia)	Large-scale afforestation; log harvesting
27	PT. Kutai Timber Indonesia (Indonesia)	Manufacture and sales of plywood, secondary processed plywood, processed timber products and particle board
28	PT. Rimba Partikel Indonesia (Indonesia)	Manufacture and sales of particle board
29	PT. Sinar Rimba Pasifik (Indonesia)	Manufacture and sales of wooden interior products
30	PT. AST Indonesia (Indonesia)	Manufacture and sales of materials for musical instruments and wooden building materials
31	Vina Eco Board Co., Ltd. (Vietnam)	Manufacture and sales of particle board
32	Fuxin Sumirin Wood Products Co., Ltd. (China)	Manufacture and sales of plywood, processing timber
33	Paragon Wood Product (Dalian) Co., Ltd. (China)	Design and construction of wooden housing; interior design and construction of housing and offices
34	Paragon Wood Product (Shanghai) Co., Ltd. (China)	Interior design and construction of housing and office; manufacturing, processing and sales of trusses
35	Dalian Sumirin Information Technology Service Co., Ltd. (China)	CAD work and other business processing

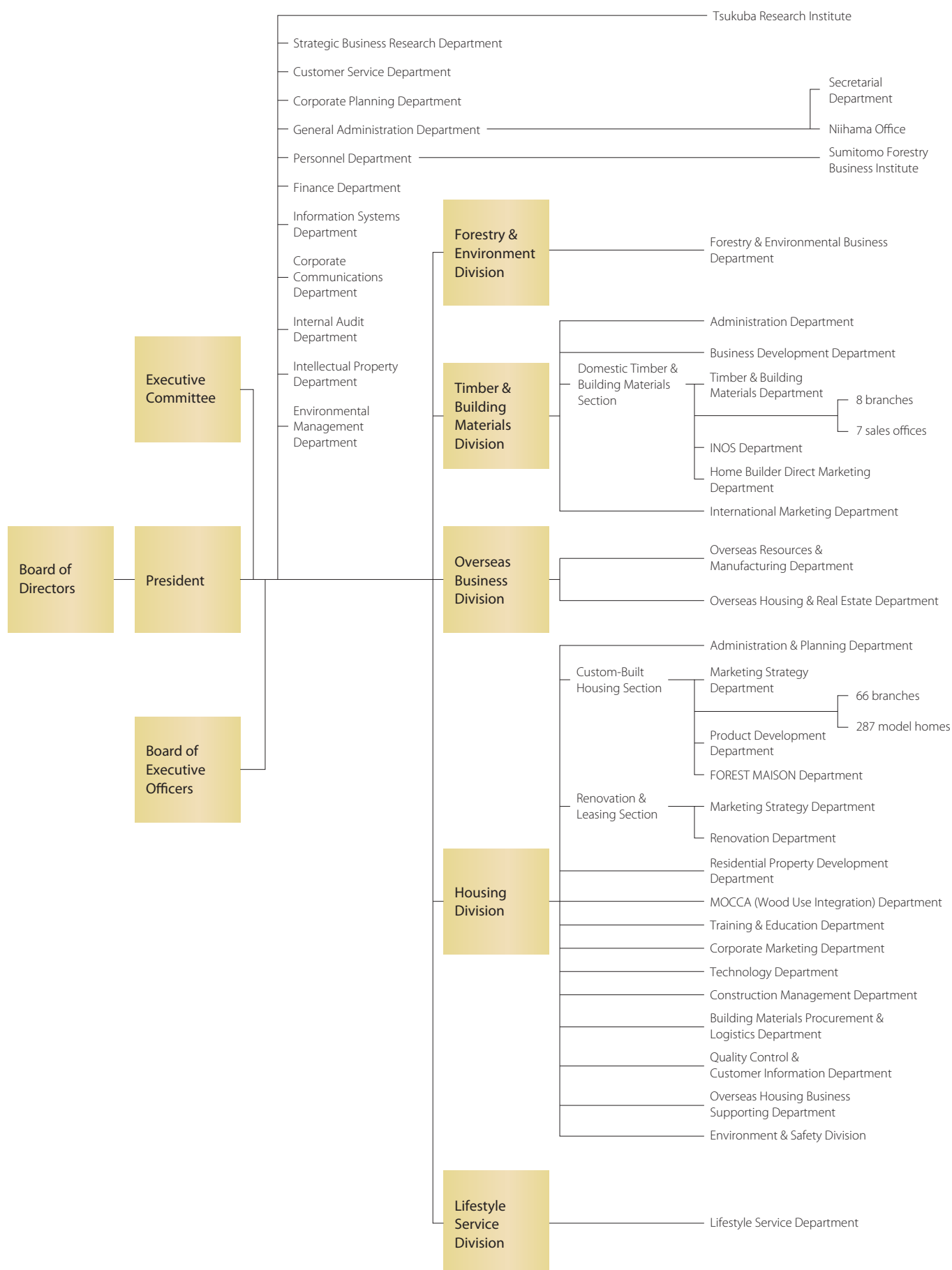
Housing Business Segment

36	Yantai Golden Bridge Enterprise Co., Ltd. (China)	Brokerage of rental housing
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Organization Chart

(As of April 1, 2012)



Investor Information

(As of March 31, 2012)

Company Outline

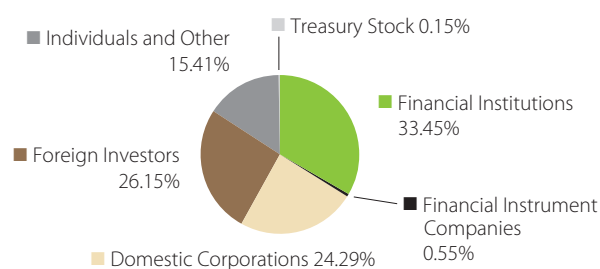
Company Name	Sumitomo Forestry Co., Ltd.
Founded	1691
Incorporated	1948
Paid-in Capital	¥27,672 million
Stock Exchange Listings	Tokyo, Osaka
Total Number of Authorized Shares	400,000,000
Total Number of Shares Issued	177,410,239
Ordinary Shareholders' Meeting	June
Number of Shareholders	12,649 (As of March 31, 2012)
Head Office	Keidanren Kaikan, 3-2, Otemachi 1-chome, Chiyoda-ku, Tokyo 100-8270, Japan
Consolidated Subsidiaries	47 (Overseas 20)
Associated Companies	23 (Overseas 21)
Number of Employees (Consolidated)	14,736 (As of March 31, 2012)
Homepage	http://sfc.jp/english/
Independent Auditors	Ernst & Young ShinNihon LLC
Contact Information	Sumitomo Forestry Co., Ltd. Corporate Communications Department IR Team Tel : 81-3-3214-2270 Fax: 81-3-3214-2272

Major Shareholders (As of March 31, 2012)

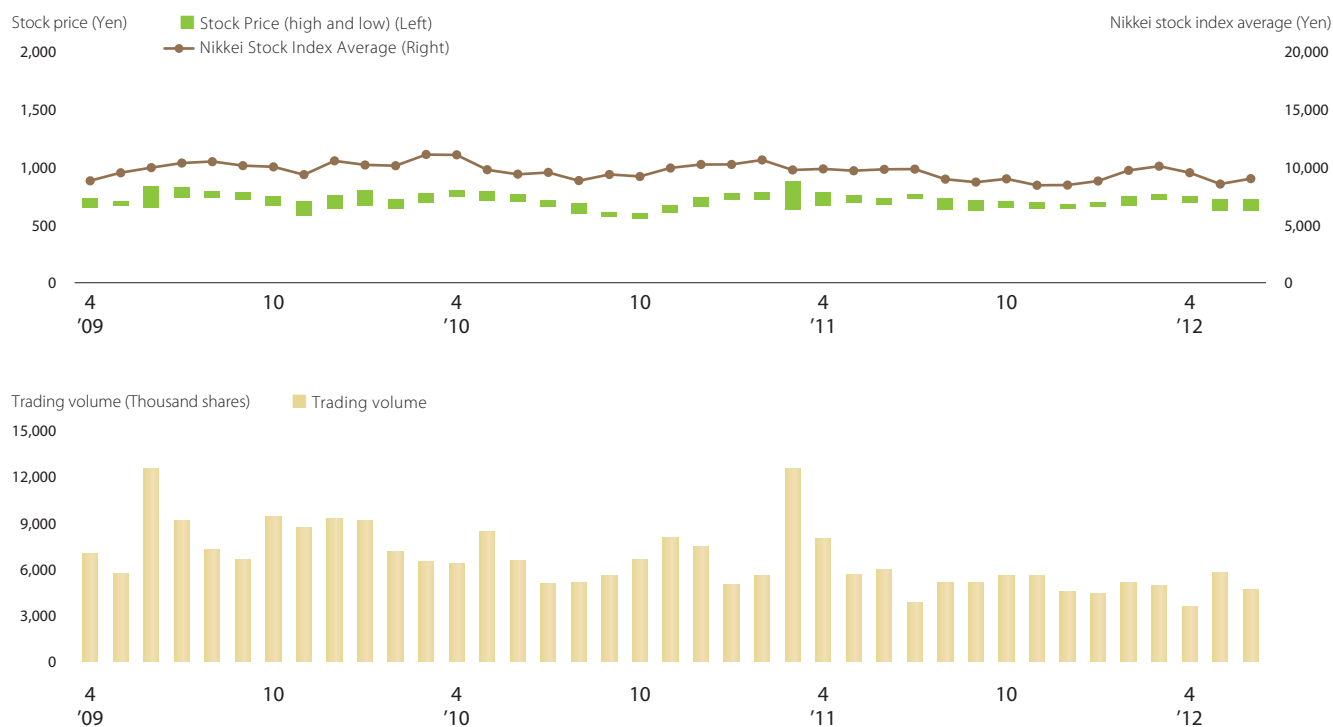
Shareholders	Number of shares held (Thousand shares)	Shareholding ratio (%)
Sumitomo Metal Mining Co., Ltd.	10,110	5.69
The Master Trust Bank of Japan, Ltd. (trust account)	8,251	4.65
Japan Trustee Service Bank, Ltd. (trust account)	7,000	3.94
The Iyo Bank, Ltd.	5,849	3.29
Sumitomo Corporation	4,383	2.47
Sumitomo Life Insurance Company	4,227	2.38
The Hyakujushi Bank, Ltd.	4,197	2.36
Sumitomo Mitsui Banking Corporation	4,136	2.33
Sumitomo Forestry Group Employees' Shareholding Association	3,968	2.23
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, 2012)



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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URL: <http://sfc.jp/english/>