

Our Way to Growth



Start from Wood

Profile

The origins of the Sumitomo Forestry Group lie in the management of the forest around the Sumitomo family's Besshi Copper Mine in Ehime Prefecture, which opened in 1691. Since our foundation, we have broadened our business activities mainly focused on wood, and helped to realize better housing and lifestyles for more than 320 years.

At the moment, the Group engages in the Forestry and Environment Business, the Timber and Building Materials Business, the Housing Business, the Overseas Business, the Lifestyle Service Business and other businesses both in Japan and abroad. The Group owns forests that cover around 1/900th of Japan's land area and handles the largest volume of timber and building materials in Japan. The Group also holds a leading domestic share of custom-built wooden detached homes.

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

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 dependent 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.

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.

Forestry and Environment Business,
Lifestyle Service Business, Others



Timber and Building
Materials Business



The Sumitomo Forestry Group's Business Fields



Overseas Business



Housing Business

FY2012 Highlights

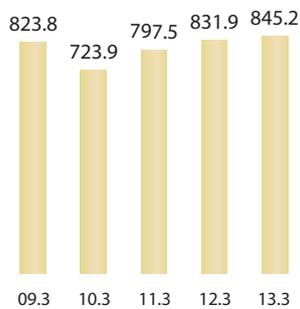
Year ended March 31, 2013

Financial

Net Sales

845.2 billion yen

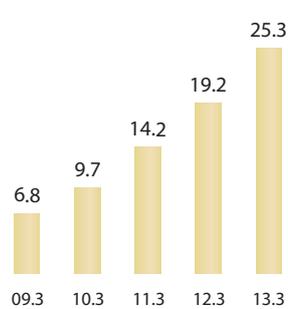
YoY change +1.6%



Operating Income

25.3 billion yen

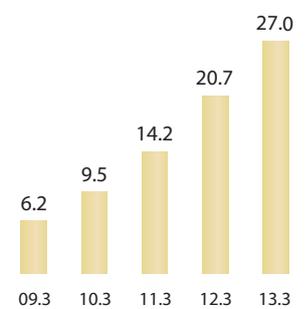
YoY change +32.0%



Recurring Income

27.0 billion yen

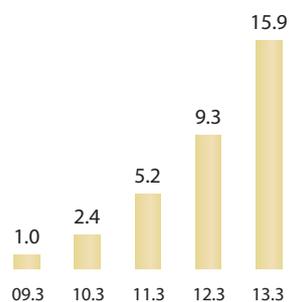
YoY change +30.3%



Net Income

15.9 billion yen

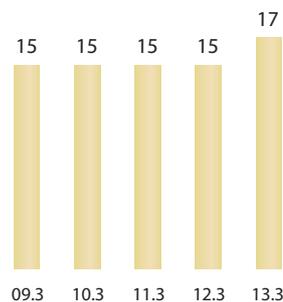
YoY change +71.8%



Dividend per Share

17.0 yen

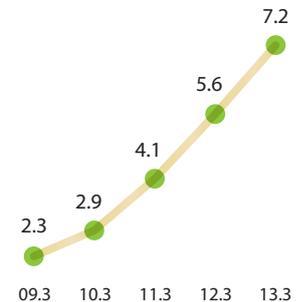
YoY change +2 yen



ROCE* (Return on Capital Employed)

7.2%

YoY change +1.6 points



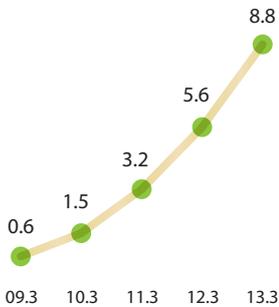
* ROCE = Operating profit / (Interest-bearing debt + Shareholders' equity)
 [Operating profit = (Recurring income + Interest expenses) × (1 - Effective tax rate)]

Sustainability

ROE* (Return on Equity)

8.8 %

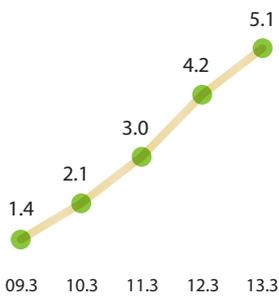
YoY change +3.2 points



ROA* (Return on Assets)

5.1 %

YoY change +0.9 points



* 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

Carbon Stock*¹

(From timber used to build new custom-built detached housing in Japan)

Approximately

203,000 t-CO₂

2012/3 Approximately, 203,000 t-CO₂

Installation Rate*²

(Environmentally sound equipment in new custom-built detached homes)

62 %

2012/3 51%

Overseas Plantation Land Area

8,412 ha

2012/3 13,905ha

Owned and Managed Forests*³

(Company-owned forests in Japan)

43,328 ha

(Overseas plantations)

Approximately

200,000 ha

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

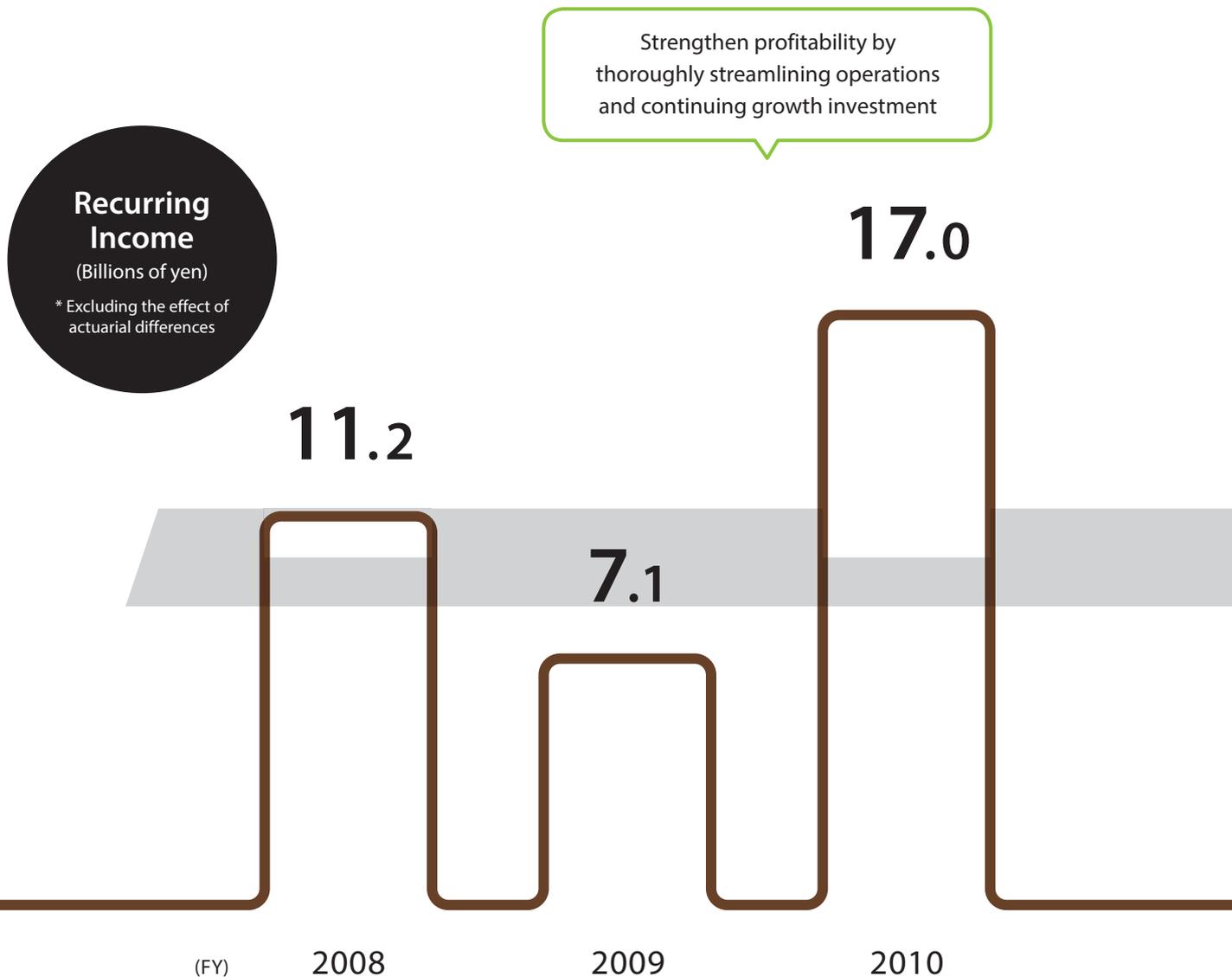
*2. Installation rate of solar power system or *ENE FARM* fuel cell system in *Sumitomo Forestry Home* houses (orders received basis)

*3. As of April 1, 2013.

Strengthening Profitabil

Measures to steadily improve profitability

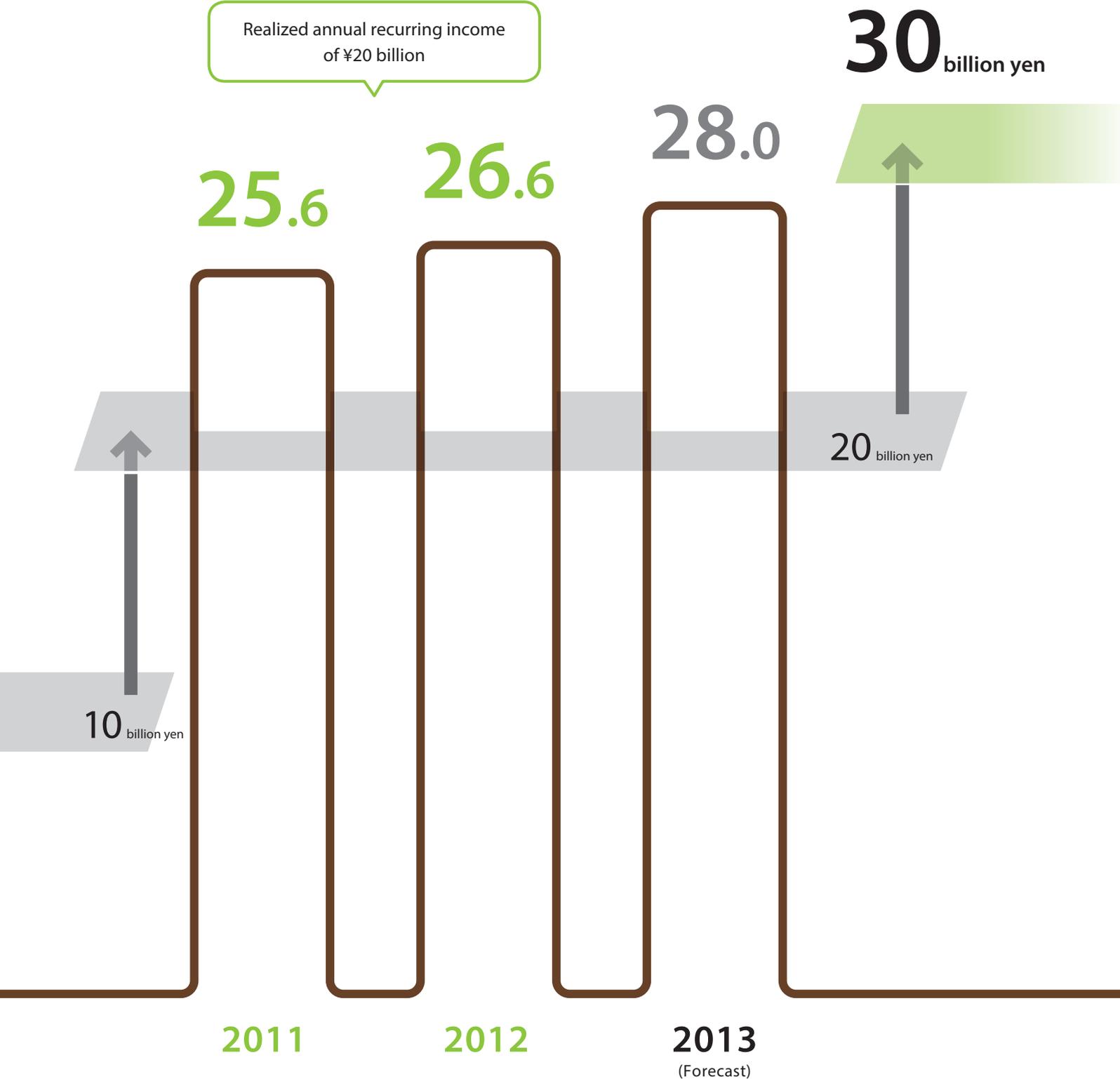
Sumitomo Forestry has faced major upheavals in its business environment, including the global financial turbulence and the Great East Japan Earthquake disaster. However, as a result of a management focus on strengthening profitability, we have put in place a business model capable of delivering stable recurring income of ¥20 billion a year. Looking ahead, we will further strengthen the earnings fundamentals of our main businesses and progress to the next stage by focusing on fostering the businesses that will become the drivers of new growth.



ity

Next Step
Aim for annual net sales of
¥1 trillion and recurring income of
¥30 billion in three years

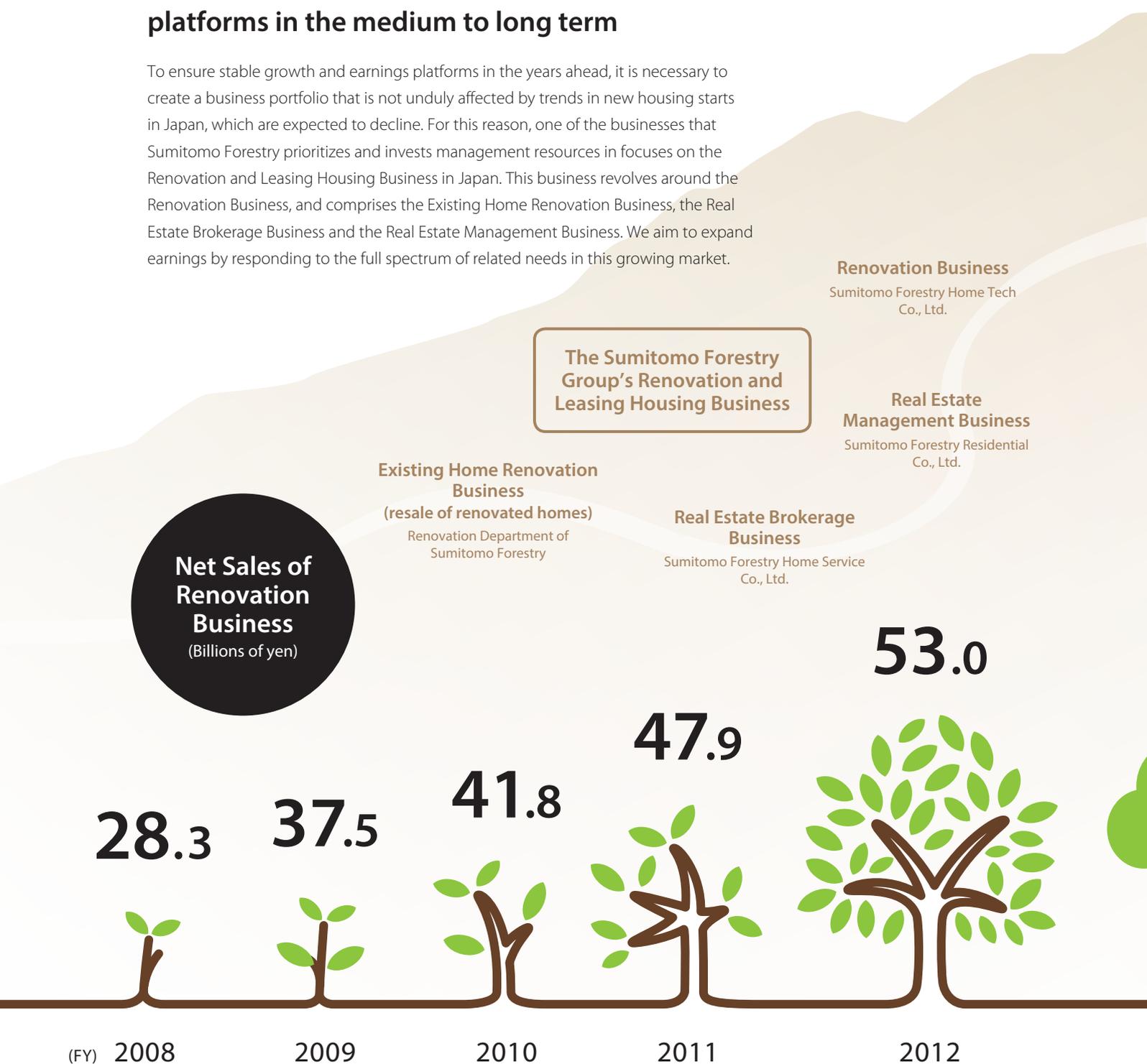
Realized annual recurring income
of ¥20 billion



Developing Potential

The challenge of creating new earnings platforms in the medium to long term

To ensure stable growth and earnings platforms in the years ahead, it is necessary to create a business portfolio that is not unduly affected by trends in new housing starts in Japan, which are expected to decline. For this reason, one of the businesses that Sumitomo Forestry prioritizes and invests management resources in focuses on the Renovation and Leasing Housing Business in Japan. This business revolves around the Renovation Business, and comprises the Existing Home Renovation Business, the Real Estate Brokerage Business and the Real Estate Management Business. We aim to expand earnings by responding to the full spectrum of related needs in this growing market.



Potential of the Stock Housing Market in Japan

Stock Housing market
Approximately

10 trillion yen*

Renovation market in Japan: 6 trillion yen
Existing home resale market in Japan: 4 trillion yen

*Quotation from *New Growth Strategy*
(2010 Cabinet decision)

Total of Housing Stocks in Japan
Approximately

57 million units*

Of this number, 27 million are detached homes with residing households, over 90% of which are wooden homes

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

Next Step

Aim for sales of **¥100 billion** in the Renovation Business, and expand the overall Renovation and Leasing Housing Business in Japan.

59.6



2013
(Forecast)



Special Feature → p.21

Leading Sustainability

Leading the way to a sustainable society through our businesses

Wood is a renewable natural resource. By retaining carbon dioxide as they grow, forests bring many blessings, including the fostering of biodiversity. The Sumitomo Forestry Group conducts businesses centered on wood—forest management, timber and building materials distribution, and wooden housing construction. We also contribute to the realization of a sustainable society through our businesses, including the proactive use of domestic timber in our products.

Carbon Stock*

(From timber used to build new custom-built detached housing in Japan)
(Fiscal 2012)

Approximately
203,000 t-CO₂

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

Owned and Managed Forests

(As of April 1, 2013)

Company-Owned Forests in Japan

43,328 ha

Overseas Plantations

Approximately

200,000 ha

Social Forestry

Regarding its building materials manufacturing business in Indonesia, the Sumitomo Forestry Group conducts the "social forestry" initiative. Through this initiative, the Group distributes seedlings free of charge to local people. After six to seven years, the planted trees are ready to be harvested, which are then purchased by the Group's building material manufacturing companies, PT. Kutai Timber Indonesia and PT. Rimba Partikel Indonesia. In so doing, the "social forestry" initiative contributes to the stable supply of raw materials along with revitalizing the local economy.



Use of Japanese timber for structural members

The *Super Cypress* is a high-performance laminated engineered wood made from Japanese timber. It possesses superior deformation resistance and stable strength. Proactive use of Japanese timber for structural members helps preserve forests as well as revitalize Japan's forestry industry.



Percentage of Japanese Timber Used for the Principal Structural Members

(In the mainstay product, custom-built detached homes)

70%

Percentage of Certified Imported Timber* and Plantation Timber

(Handled in the timber and building materials distribution business)
(Fiscal 2012)

63%

*Timber cut from forests certified legal and sustainable

Percentage of Legally Verified Directly Imported Timber and Wood Building Materials

(In the timber and building materials distribution business)

100%

Sustainability → p.39

Going the Right Way

Growing sustainably as a trusted member of the community that lives up to expectations

Over the 320 years since its foundation, the Sumitomo Forestry Group has been practicing the Sumitomo Spirit as an action guideline that espouses business conduct that is beneficial to society based on the principles of integrity and sound management. At the same time, we have been broadening business domains focusing on wood both in Japan and abroad. With this in mind, every individual member of the Group is committed to building relationships of trust with customers, partners, local communities and other stakeholders in Japan and overseas, as we expand our business domains.

By utilizing wood, a natural resource, and improvement lifestyles, we aim to help realize a prosperous society and achieve sustainable growth while exceeding the expectations of all our stakeholders.



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External Commendations

Inclusion in Socially Responsible Investment Indexes

(As of June 2013)

DJSI (Dow Jones Sustainability Indexes)

We have been included in this index since 2005.



FTSE4Good Global Index

We have been included in this index since 2004.



Morningstar SRI Index

We have been included in this index since 2008.



"Gold Class" in the RobecoSAM's "The Sustainability Yearbook 2013"

We were awarded the "Gold Class" commendation in the Home Construction Sector of "The Sustainability Yearbook 2013," in a CSR rating by the RobecoSAM, which researches and analyzes companies to be listed in DJSI.



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.

"Kikorin" is the mascot of the Sumitomo Forestry Group.

Leading Our Growth and Future with Wood

Over two and half years have passed since the Great East Japan Earthquake. Although the recovery of disaster stricken areas is moving forward, industries and the population composition in these areas have undergone major changes since the disaster that have created numerous recovery-related issues. Despite these ongoing difficulties, we will actively promote measures to help these areas achieve a full recovery.

The disaster has changed the values of people in various ways. For example, interest in energy-related issues as well as safe, seismic resistant housing has increased dramatically. In addition, these value changes are having a psychological effect that is causing people to place greater importance on family and interpersonal relationships. Since Sumitomo Forestry's foundation, we have been contributing to society through businesses that increase the value of wood. In light of our history, we will utilize our technologies and knowhow developed to date to respond to these changing values.

Wood is highly valued as a material that is gentle on all five senses and allows us to feel at ease. Given these attractive characteristics, we believe that the role of wood has been expanding in recent years. The Sumitomo Forestry Group is promoting the use of wood construction and wood materials in non-residential building structures, many of which, until now, were composed of iron and concrete. The development of materials and technologies that take advantage of the strength and fire-resistant capabilities of wood is expected to drive up demand in the years ahead. Regarding public buildings, there is growing momentum with the government introducing policies that improve operating conditions, including law that promote the use of timber in general, and Japanese timber wherever possible.

The world's population currently exceeds seven billion and the living standards of developing countries are expected to improve. To realize sustainable lifestyles for future generations, the importance of being more environmentally conscious and reducing society's dependence on fossil fuels is clear. Wood holds the key to achieving a sustainable global society since it is a renewable natural resource that can be used as a material and energy source. In addition, forests serve the public good and make an important environmental contribution by absorbing and sequestering carbon dioxide. The Group's businesses have the potential to open the door to a better future by contributing to the global environment in areas that include promoting sustainable forestry, preserving biodiversity, carbon offsetting and energy generated by wood biomass.

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. With this in mind, we will redouble our efforts toward achieving further growth while helping to create a sustainable society by continuing to pursue the new possibilities of wood throughout our business activities.



Ryu Yano

Ryu Yano
Chairman / Representative Director

Message from the President

 住友林業株式会社 SUMITOMO FORESTRY LTD.



Akira Ichikawa
President / Representative Director

Steady Steps to Further Growth

In fiscal 2012, the Housing Business drove sales and profits increases against the backdrop of a healthy domestic housing market. In fiscal 2013, despite uncertainty caused mainly by a consumption tax hike set for April 2014, we expect the housing market to remain firm. Although the domestic business environment is forecast to remain favorable for the immediate future, we must remain resolved to improve management efficiency and implement strategies with an eye to further growth while continuing to reduce costs.

Since fiscal 2010, the Sumitomo Forestry Group has seen increases in recurring income for three consecutive years as a result of Groupwide efforts to strengthen profitability. Turning our attention to the future, however, the business environment in which the Group operates is expected to undergo major changes that leave little room for optimism. Such potential changes will likely arise mainly from a slowdown in the number of new housing starts, reflecting a decline in birth rates, rising numbers of elderly and the shrinking population in Japan.

Not flinching in the face of these changes, we will take steady steps to further expansion in order to maintain stable earnings as well as evolve into a corporate group with a diverse and solid revenue base. Accordingly, we will undertake aggressive measures to establish stable revenue bases by continually allocating management resources to business domains anticipated to grow in the medium to long term. Specifically, this includes the expanding stock housing market in Japan and overseas markets centered on the Pacific Rim region, including the United States and developing Asian countries.

With over 300 years of history, the Group has relentlessly pursued the acquisition of wood technologies and expertise, which have been used to address changing times. In Japan, a country prone to earthquakes, we provide sturdy, comfortable and environmentally sound homes by focusing on the evolution of wooden houses as well as by expanding beyond new housing to also create numerous renovation technologies for traditional Japanese-style houses built more than 100 years ago. Overseas, we operate businesses ranging from the import of timber and building materials to the manufacturing of building materials, the plantation forestry business, and the wooden housing business, while maintaining our focus on wood.

As environmental and resource-related problems become more evident worldwide, our businesses reflect once again the firm conviction that we must achieve sustainable growth while consistently engaging in high value-added businesses recognized by people and society. This is guided by the Sumitomo Spirit of pursuing business to the benefit of society based on the principles of integrity and sound management. Through developing the capabilities and values of wood, a renewable natural resource that is gentle to both people and the Earth, we will contribute to the prosperous lifestyles of people, while preserving the global environment. To this end, the Sumitomo Forestry Group is continuing on the path toward being a necessary presence in society.

Interview with the President

**Aiming for further growth,
we will promote business
expansion while improving
profitability.**

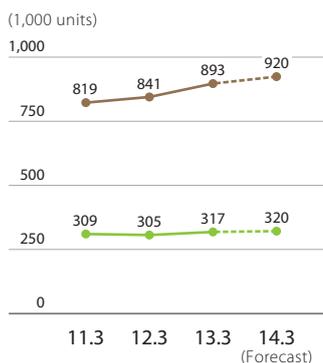
Akira Ichikawa,
President / Representative Director



▶▶ Fiscal 2012 (fiscal year ended March 31, 2013) Consolidated Results

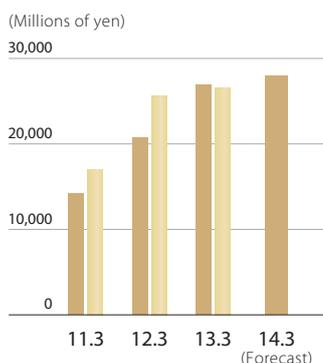
Against the backdrop of a robust domestic housing market, the Group's performance was driven by the Housing Business, leading to an increase in both sales and profits.

Number of New Housing Starts in Japan



● New housing starts
● Owner-occupied housing
Source: Ministry of Land, Infrastructure, Transport and Tourism (results), in-house estimate (forecast)

Recurring Income



■ Recurring income
■ Excluding the effect of actuarial gains and losses

The domestic housing market in fiscal 2012 remained robust, buoyed by housing loan interest rates that hovered at low levels as well as demand created by government incentives to promote house purchases, including disaster recovery support and the housing eco-point system. Given these factors, new housing starts in Japan increased 6.2% year on year to 893 thousand units, which closely correlates with the performance of the Group's businesses. Of this number, owner-occupied housing starts rose 3.8% year on year to 317 thousand units.

Under these circumstances, the Housing Business experienced increases in sales and profits, the Timber and Building Materials Business's performance remained on par with the previous fiscal year, and the Overseas Business saw an improvement in profitability. Consequently, in fiscal 2012, consolidated sales edged up 1.6% year on year to ¥845.2 billion, and consolidated recurring income rose 30.3% to ¥27.0 billion. Regarding actuarial difference in accounting for retirement benefit obligations, pension asset management increased by approximately ¥0.4 billion due mainly to a rebound in the stock market. Excluding this factor, recurring income increased 3.9% year on year to ¥26.6 billion. In addition, net income jumped 71.8% compared with the previous fiscal year to ¥15.9 billion despite recording an extraordinary loss of approximately ¥1.0 billion following the transfer of equity in a Chinese building materials manufacturing subsidiary.

In the Housing Business, an increase in the unit price per house boosted net sales in the main Custom-Built Detached Housing Business due mainly to a year-on-year upswing in the installation rate of environmentally sound equipment, including solar power systems. This result occurred despite a decrease in the number of houses sold since the previous fiscal year. In the Renovation Business as well, net sales steadily increased 10.6% compared with the previous fiscal year. Combined with such factors as higher sales in the Apartment Business and the Detached Spec Homes Business, the Housing Business overall performed strongly.

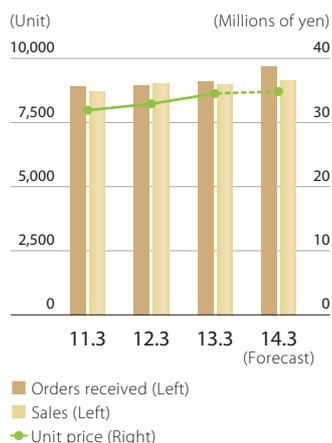
In the Timber and Building Materials Business, results for the domestic logistics operation were unchanged from the previous fiscal year despite deteriorating market conditions that contrasted a surging demand in fiscal 2011 centered on imported plywood following the Great East Japan Earthquake.

In the Overseas Business, losses were reported in fiscal 2012, reflecting the impact of severe competition mainly on its building materials manufacturing business in China. Nevertheless, deficits diminished from the previous fiscal year due primarily to improved earnings in the building materials manufacturing business in Australia and higher sales in the housing business in the United States.

▶▶ Outlook for Consolidated Performance in Fiscal 2013 (fiscal year ending March 31, 2014)

Steadily meeting demand in the domestic housing market, we are working to secure earnings through main businesses, expand the Renovation Business and improve profitability in the Overseas Business.

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



Large columns (engineered wood) used in the BF construction method



Expanding new sales offices in the Renovation Business



Vina Eco Board Co., Ltd., which manufactures building materials in Vietnam

The domestic housing market in fiscal 2013 is expected to remain firm despite the uncertainty caused mainly by an increase in the consumption tax rate scheduled for April 2014. Our initial fiscal 2013 forecasts are new housing starts of 920 thousand units, a 3.0% year-on-year rise compared with previous fiscal year, and for owner-occupied housing starts of roughly 320 thousand units. Within this brisk housing market, the Timber and Building Materials Business and the Housing Business are expected to enjoy higher sales and profits, while steps will be taken to improve profitability in the Overseas Business amid a rebound in the housing market in the United States. Anticipating the potential impact of a higher consumption tax rate, we will flexibly respond to government measures that include lowering taxes on housing loans and the forecast implementation of cash benefits. Based on these assumptions, we forecast sales to rise 6.5% year on year in fiscal 2013 to ¥900.0 billion, and recurring income to improve 3.8% to ¥28.0 billion. These forecasts do not include the impact of actuarial difference for retirement benefits.

The Timber and Building Materials Business is expected to see rises in sales and profits thanks to a strong domestic housing market. We will continue focusing on marketing closely rooted in local communities in our domestic logistics operations as well as sales of renovation materials. Overseas, we will take steps to expand sales channels focusing on markets in Asia.

In the Custom-Built Detached Housing Business, we will expand sales of our proprietary Big-Frame (BF) construction method, which improves seismic resistance, and increase installation rates for environmentally sound equipment. At the same time, we will undertake staffing that is tailored to specific regions. In the Renovation and Leasing Housing Business—which extends from renovation to real estate brokerage and management—we are working to expand operations by enhancing the Renovation Business sales offices and personnel. In the Apartment Business and the Detached Spec Homes Business, we will make efforts to expand sales.

In the Overseas Business, we will expedite improvements in unprofitable businesses while focusing on the development of new businesses, such as building materials manufacturing in Vietnam. In addition, favorable sales forecasts are expected in the housing business in the United States in light of its solid economic recovery. Based on these factors, deficits of the overall Overseas Business are expected to shrink across the board in fiscal 2013.



▶▶ New Objectives

Create a platform for realizing consolidated net sales of ¥1 trillion and consolidated recurring income of ¥30 billion in three years.



Renovation Business
(renovation of traditional Japanese-style house)

Over the past three years, the Sumitomo Forestry Group has prioritized the strengthening of profitability by promoting thorough business efficiency, including cost reductions. I believe that we achieved our immediate goal after fiscal 2010 of building a platform that realizes recurring income of ¥20 billion.

Accordingly, we have set the new objective of creating a platform for realizing consolidated net sales of ¥1 trillion and consolidated recurring income of ¥30 billion in three years to improve profitability and expand the scope of our businesses.

Regarding basic strategies for reaching this objective, we will accurately address changing market conditions while continuing to improve business efficiency and further solidifying revenue bases in the main Timber and Building Materials Business and the Custom-Built Detached Housing Business. Positioning the Overseas Business and the Renovation and Leasing Housing Business (which includes the Renovation Business) as growth areas, we will aggressively expand the scope of these operations through the ongoing investment of management resources.

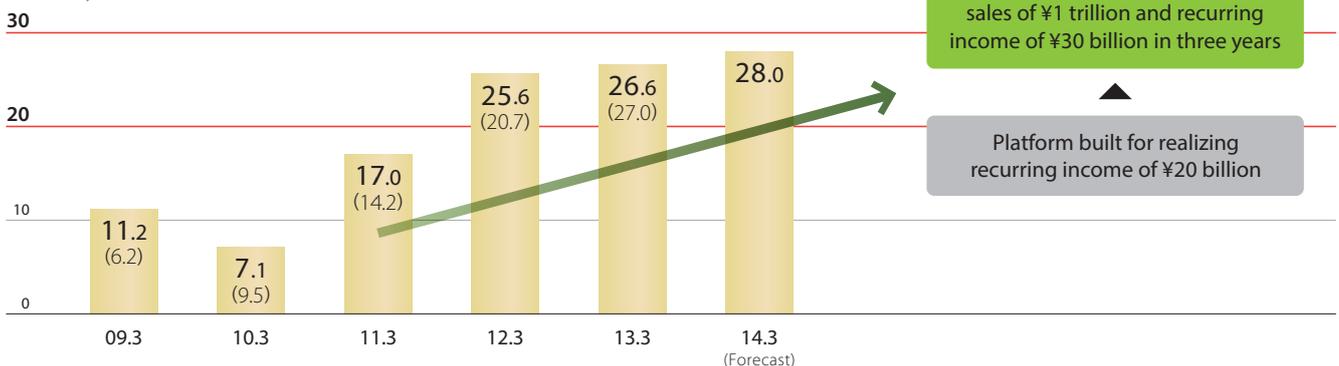
In the Overseas Business, we will accelerate business growth that includes M&A by restructuring business portfolios while keeping a close eye on market conditions in individual countries. Particularly in the United States, where the housing market is rebounding, we plan to establish a business base capable of 1,500 houses sold per year mainly by entering the detached spec home business in the Dallas-Fort Worth metropolitan area of Texas. In the Renovation and Leasing Housing Business, we will promote the Existing Home Renovation (resale of renovated homes) Business; In the Renovation Business, we aim to rapidly achieve net sales of ¥100 billion by further increasing its sales force and technological capabilities along with accelerating business expansion. In addition, we will continue growing the Detached Spec Home Business and the Apartment Business.

Sumitomo Forestry aims to build a balanced earnings portfolio not excessively affected by the number of housing starts in Japan. To this end, it is essential that we expand growth businesses by further strengthening profitability based on lower costs and improved efficiency.

Recurring Income

*() include actuarial gains and losses

(Billions of yen)



▶▶ Growth Strategy

Realizing the possibilities of wood to increase its value and further expand business.



MOCCA Business
(wooden elderly care facility)



Wood-chip biomass power plant
(Kawasaki Biomass Power Plant)



A modernized building method for wooden houses made possible through the introduction of pre-cutting technologies



Manufacture of wood building materials overseas (PT. Kutai Timber Indonesia)

We also focus our energies on developing new next-generation businesses. For example, we will pursue the new possibilities of wood, such as promoting the MOCCA (wood use integration) Business—which advances the use of wood construction and wood materials in the non-housing sector—the biomass power generation business.

The MOCCA Business is accumulating steady results, including the construction of a wooden, three-story fire-resistant elderly care facility, the first in Tokyo's 23 wards, as well as receiving an order to build a child care facility. Regarding the biomass power generation business, biomass is attracting attention as a form of renewable energy because it contributes to the prevention of global warming from the standpoint of being carbon dioxide free while promoting the reuse and recycling of timber and the effective use and preservation of timber resources. The Kawasaki Biomass Power Plant in Kawasaki City, Kanagawa Prefecture, which we began operating in 2011 as a joint venture, is already showing steady results. Moving forward, we are looking into expanding biomass power generation to new regions.

Since its foundation in 1691, the Sumitomo Forestry Group has increased the value of wood while contributing to society by utilizing the special characteristics of wood in response to changing times. During Japan's period of rapid economic growth, we established a nationwide timber and building material distribution system, procuring these materials both in Japan and overseas to meet vigorous domestic demand. In the years since, we started the housing business to increase the quality of wooden homes and consistently incorporated advanced technologies into our operations. In particular, we introduced a building method nationwide that uses precisely pre-cut factory-processed timber. Overseas, we are contributing to the economic development of various regions along with creating jobs by manufacturing wood building materials using local tree species and undertaking large-scale afforestation rooted in environmental preservation and resource development.

This business approach is based on our unshakable conviction that the Group will expand its business domains by ceaselessly tapping into the potential of wood and developing its value to further respond to a diverse array of values and changing of social needs.



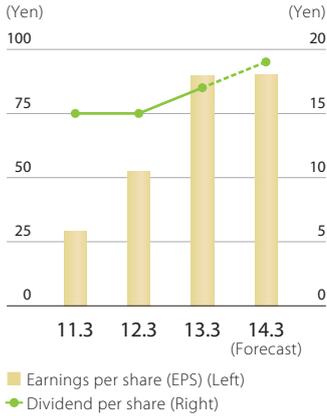
The Group promotes overseas timber procurement and upgrades nationwide timber and building materials distribution networks



▶▶ Shareholder Returns

Maintaining our basic policy of continuous, stable dividends, we pay appropriate shareholders returns that take into consideration such factors as our financial condition and investment plans.

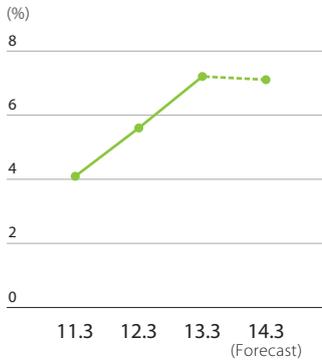
Dividend per Share/
Earnings per Share (EPS)



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 2012, we increased the full-year dividend by ¥2 to ¥17 per share in consideration of an increase in profitability over the past three years. For fiscal 2013, we plan to increase the full-year dividend by ¥2 to ¥19 per share. 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 conclusion, the Sumitomo Forestry Group will make every possible effort to contribute to people's lifestyles and society through the creation of an abundant global environment by increasing the value of wood, a recyclable, environmentally and people friendly resource, in its capacity as an expert in wood.

ROCE (Return on capital employed)



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



Special Feature

Unlocking the Potential of Wood to Boost the Growth of the Sumitomo Forestry Group

This section introduces the Sumitomo Forestry Group's Renovation and Leasing Housing Business and MOCCA (wood use integration) Business. Aiming for further growth, both businesses are meeting social needs that include improving the seismic resistance and energy-saving performance of existing homes as well as promoting the use of wood construction and wood materials in the non-housing sector.



Our Way to Growth

The Sumitomo Forestry Group's

Renovation and Leasing Housing Business Strategies

The Group is strengthening the Renovation Business and the Existing Home Renovation Business to meet the need for safe, secure and energy-efficient housing stocks, while accelerating the business expansion in our Renovation and Leasing Housing Business.

The Status of the Domestic Stock Housing Market

According to the Ministry of Internal Affairs and Communications' Housing & Land Survey, of the approximately 57 million housing units in Japan in 2008, the stock of detached houses with residing households amounts to about 27 million units, at least 90% of which are constructed from wood. In addition, it is estimated that around 10 million of these existing houses were built before the revision of seismic resistance standards in 1981. Accordingly, the need to renovate existing houses is increasing rapidly.

Energy consumption in Japan's residential sector is on an upward trend mainly due to the increasing demand for lifestyles that are comfortable and convenient. In new houses, basic performance in such areas as heat insulation and air sealing have increased significantly in tandem with a step-by-step strengthening of energy conservation standards, while the introduction of such environmentally sound equipment as solar power systems has moved forward. In contrast, there are many

existing houses that were constructed prior to the establishment of the first energy conservation standards in 1980.

In light of these issues facing existing houses, the Japanese government formulated its *New Growth Strategy* in June 2010. This strategy advocates shifting to housing policies that emphasize existing houses rather than building of new ones in line with structural changes in society as the Japanese population and number of households decline. In addition, this strategy aims to promote the revitalization of housing investment underpinned by domestic demand. Through these measures, this strategy sets forth a policy of further expanding the stock housing market, which is currently worth approximately ¥10 trillion (comprising a renovation market of around ¥6 trillion and an existing home resale market of about ¥4 trillion). Since the Great East Japan Earthquake, further growth of the stock housing market has been anticipated as the need for safe, seismic resistant and energy-efficient homes increases.

Total Number of Domestic Housing Stocks (Million Units)



Source: Ministry of Internal Affairs and Communications, Housing & Land Survey

Strategies of the Group's Renovation and Leasing Housing Business

In addition to the steadily growing Renovation Business, the Group will undertake measures that emphasize the existing home resale market.

The Group has worked to expand in the renovation market by allocating management resources to strengthen the operations of Sumitomo Forestry Home Tech Co., Ltd., a subsidiary that specializes in renovation. Looking ahead, the Group will undertake initiatives to expand its businesses with the aim of achieving ¥100 billion in annual net sales as early as possible.

In the existing home resale market, we will promote the Real Estate Brokerage Business and the Real Estate Management Business, while focusing on developing the Existing Home

Renovation Business, which resells existing renovated homes including detached housing and condominiums.

Sumitomo Forestry Group's Renovation and Leasing Housing Business



Expanding the Renovation Business

The Group's strengths in the Renovation Business lie in industry-leading technologies and expertise cultivated in the construction of custom-built wooden detached housing as well as design and proposal capabilities for living spaces that feature the plentiful use of wood. Leveraging these strengths, we will meet the need for safe, secure and energy-efficient homes. To this end, we are developing wide-ranging product lineups in such areas as renovating traditional Japanese-style houses, renovation that enables smart house functions and condominium renovation. We also utilize tools for explaining to customers in an easy-to-understand manner renovation effectiveness and

installation costs (including charts that clarify seismic resistant and energy-efficient performance and solar power system installation simulations). We also provide enhanced inspection systems and follow-up services.

To expand the Renovation Business, we will proactively augment this business's sales offices and personnel mainly in Japan's three largest metropolitan areas. Moreover, we will expand marketing activities including advertising to improve the level of recognition of the Group's *Reforest* renovation brand and highlight the Group's technological strengths.

The Strengths of the Group's Renovation Business

The Group's unique strengths are underpinned by its broad-ranging expertise in the areas of wood and wooden housing. This includes original renovation technologies and proposals featuring the plentiful use of wood, both of which utilize knowledge accumulated in the Custom-Built Detached Housing Business. Furthermore, with numerous members of the sales staff being fully qualified architects, a key characteristic of the Group is its full complement of highly specialized employees.

Energy-Efficient and Heat Insulation Renovation



We offer optimal heat insulation renovation proposals for every part of a house, including windows, ceilings and floors. To this end, our specialist engineers conduct detailed inspections of problem areas using thermographic cameras that penetrate every nook and cranny.

The Group's Original Seismic Resistant Renovation Technology



The Group has verified the reliability of its numerous originally developed seismic resistant renovation technologies based on the results of large-scale seismic tests on actual structures. As a result, our homes can withstand seismic waves twice as strong as the Great Hanshin-Awaji Earthquake.

Sumitomo Forestry's Tsukuba Research Institute



The Tsukuba Research Institute conducts R&D into advanced renovation technology that involves various testing and verification methods. The results of research on the safety and livability of homes accumulated in the Custom-Built Detached Housing Business are utilized in the Renovation Business.



Renovation of Traditional Japanese-Style Homes
The Group boasts leading technologies and performance in Japan regarding the renovation of traditional Japanese-style homes that are over a century old.



Smart Reforest
Smart Reforest proposes renovations aimed at eliminating lighting and heating expenses by installing environmentally sound equipment based on improving the basic functions of housing through seismic resistant and heat insulation renovations.



Condominium Renovations
With the concept of integrating the attractive qualities of wooden houses into condominiums, we realize comfortable residential spaces through the use of wood that are tailored to each owner's lifestyle.

Promoting the Existing Home Renovation Business

The surplus housing supply in Japan is growing as the number of existing homes surpasses the total number of households. Against this backdrop, the remodeling of existing homes by specialist architects has attracted attention in recent years. In response, Sumitomo Forestry established the Renovation Department in April 2012 as a business that resells renovated existing homes, offering customers new options in addition to purchasing new residences. This involves renovating detached housing, condominiums and other existing homes so they can be used again, thus boosting asset value.

The Existing Home Renovation Business helps create quality existing housing from the perspective of improving structural performance while contributing to the development of a low-carbon, recycling-oriented society by focusing on being environmentally friendly. Anticipating the growth of the existing home resale market, the Company currently purchases properties targeting condominiums and wooden detached housing its home resale business. In addition, we are enhancing our

support systems for renovated homes, which includes designing maintenance plans and conducting periodic inspections. Concentrating on Japan's three largest metropolitan areas, we are developing the Existing Home Renovation Business by strengthening cooperation among Group companies, including Sumitomo Forestry Home Service Co., Ltd., which engages in real estate brokerage services, Sumitomo Forestry Residential Co., Ltd., which undertakes real estate management, and Sumitomo Forestry Home Tech Co., Ltd.



Forest Haven HYOTANYAMA
Forest Haven HYOTANYAMA is a renovation project that resells high value-added structures used as company housing with a focus on raising children.



Leveraging the Group's Strengths to Expand the Existing Home Renovation Business

The Existing Home Renovation Business (resale of renovated homes) is an upstream-to-downstream business in the stock housing market that extends from property purchasing and home inspections to remodeling work that enhances

property value and performance, sales and property management. Each Group company will work together to leverage its specialized expertise and, in turn, create quality existing housing.

Overview of the Sumitomo Forestry's Existing Home Renovation Business



Our Way to Growth

The Sumitomo Forestry Group's

MOCCA Business

Generating New Value through the Greater Use of Wood

The MOCCA (wood use integration) Business promotes various uses for wood through a wide range of businesses. Tapping into the potential of wood, these businesses extend from promoting wood construction and wood materials in non-residential building structures to disaster reconstruction efforts.





Three-story fire-resistant elderly care facility



An interior view of the facility



Government Measures Promoting the Use of Timber

Japan's forests, mainly which were planted after World War II, are ready to be harvested. However, there are concerns about the progressive desolation of these woodlands, which have been left unmanaged as Japan's forestry industry declines. In 2009, the Japanese government formulated the Forest and Forestry Revitalization Plan as a policy to fundamentally improve domestic forests and forestry. Targeting a wood self-sufficiency rate of more than 50% by 2020, the Japanese government took the initiative in implementing the Act for Promotion of Use of Wood in Public Buildings* in October 2010.

Through these actions, the government has signaled its intention to do everything possible to promote the use of wood in public buildings. Anticipating the wider, forward-looking use of domestic timber resources in particular, the Group established the MOCCA (wood use integration) Department in April 2011, while the MOCCA Business commenced operations to promote the use of wood construction and wood materials in the non-housing sector.

*Act for Promotion of Use of Wood in Public Buildings
The Japanese government has established a basic policy for promoting timber usage in public buildings and clarified the direction it will take with regard to encouraging, to the greatest possible, the use of wood construction and wood materials. To this end, this act also encourages the proactive initiatives of regional public organizations and private companies in line with this basic policy.

MOCCA Business Initiatives

In November 2011, the MOCCA Business completed its first project with the construction of a wooden, three-story fire-resistant elderly care facility, which is the first of its kind in Tokyo's 23 wards. Making abundant use of wood in its interiors and exteriors, this facility was selected by the Ministry of Land, Infrastructure, Transport and Tourism's initial wooden building development promotion business in fiscal 2010 for being a pioneering project in the area of large-scale wooden structures that use a significant amount of timber.

In cooperation with local residents, businesses and universities, the *Riku Café* was built in December 2011 based on Sumitomo Forestry's *MOCCA HUT* temporary wooden structure,

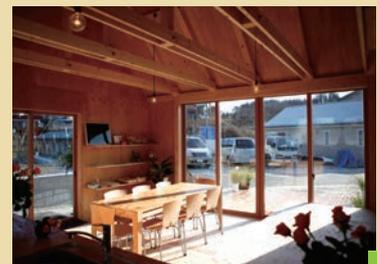
which uses local Tohoku timber. The *Riku Café* serves as a gathering place for residents of Rikuzentakata City, Iwate Prefecture, which was heavily damaged by the Great East Japan Earthquake.

Continuing from fiscal 2010, our proposals for designing and building wooden elderly care facilities as well as constructing the *oto no ha Café* (a commercial facility that uses Japan's first-ever 100% fire-resistant engineered wood) were selected by the Japanese government in September 2012 as wooden building technology leadership business projects for fiscal 2012. In addition, we are steadily accumulating successes as we extend our operations to the non-housing sector, which includes receiving an order to build a wooden child care facility in December 2012.

Riku Café, a Temporary Facility

Both striking and inviting, the *Riku Café* is a temporary wooden structure created out of the desire of local residents for a place to gather in the heart of their disaster-stricken community. Although many temporary structures are made from iron frames, this wooden building features attractive exteriors that make it easy to understand why the *Riku Café* is so beloved. In addition, the interiors are characterized by posts and beams that convey the innate warmth of wood. The *Riku Café* was built with regionally grown timber in an

effort to support the recovery of disaster-affected industries and promote environmental friendliness. The comfort and heat insulation performance enabled by the café's wooden interiors have received positive ratings from customers.



Interior view of the *Riku Café*



MOCCA HUT received the Good Design Award in fiscal 2012.



Child care facility (six, two-story wooden post-and-beam buildings)



Commercial facility (*oto no ha Café*)
(Photo Courtesy) KAJIMA CORPORATION, Otowa Building Ltd., K-PROVISION Co., Ltd., SLYME CORPORATION



Further Promoting the MOCCA Business

In July 2012, Sumitomo Forestry concluded a Community Reconstruction Cooperative Agreement with Higashimatsushima City, Miyagi Prefecture to help clarify this city's concept of an environmental community of the future. To this end, we will provide multifaceted support to achieve a municipal wood construction concept that encourages the creation of new timber-based industries.

As a renewable natural resource, wood possesses capabilities as a strong and durable material that brings people comfort while holding promise in the area of health. Actively leveraging these characteristics in various areas—including elderly care, educational and medical facilities—we will create a sustainable society that

promotes the harmonious coexistence of wood and people.

Operating wide-ranging businesses focusing on wood, the mission of the Sumitomo Forestry Group is to accelerate growth through businesses that contribute to society and people by tapping into the possibilities of wood and, in turn, increasing its value.



A health clinic built using MOCCA HUT temporary construction in Higashimatsushima City

Fire-Resistant Structural Technology, the Key to Popularizing Non-Residential Wooden Buildings

The key to adding greater value to wooden buildings is to bring out their woody feeling while retaining essential fire-resistant performance. In particular, the traditional *Arawashi* construction method utilizes the visibility of wooden posts and beams in rooms to enhance their woody atmosphere. The Group will promote the development and introduction of new wood construction technologies that bring out the woody feel of posts and beams in semi- and fully fire-resistant buildings, which are required to be more fire resistant than regular buildings. In so doing, we are working to popularize non-residential wooden buildings that feature interiors that make abundant use of wood.



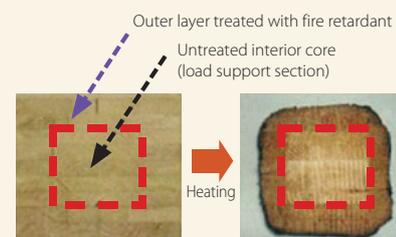
An interior image that uses the *Arawashi* construction method

The Commercial Facility *oto no ha Café* uses Japan's First-Ever 100% Fire-Resistant Engineered Wood

The *oto no ha Café*, which opened for business in Tokyo in May 2013, is a wooden structure that brings out the feel of wood. Located in a region with strict fire-safety regulations, this café uses fire-resistant engineered wood* to realize its woody atmosphere while remaining in compliance with these regulations.

The core of the cross-section is composed of engineered cedar while the surrounding outer layer consists of engineered wood treated with fire retardant. Tohoku-grown cedar supplied by Sumitomo Forestry was used to build this café, contributing to the revitalization of the domestic forestry industry while creating local jobs.

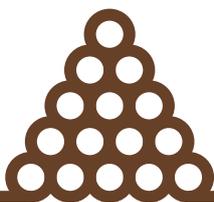
*Developed by four organizations: KAJIMA CORPORATION, Tokyo University of Agriculture and Technology, Forestry and Forest Products Research Institute, and T.E. Consulting Inc.



(KAJIMA CORPORATION obtained the approval of the Minister of Land, Infrastructure and Transportation)

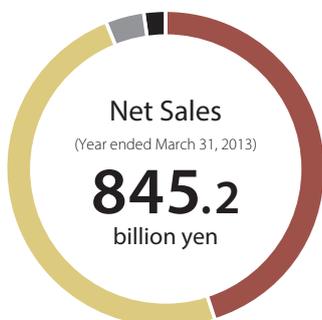
< *oto no ha Café* > Client & Basic Design: Otowa Building Ltd. / Design & Supervision: KAJIMA CORPORATION / Design Cooperation: Ikehata Atelier / Interior Design & FFE: ILYA CORPORATION / Construction: Sumitomo Forestry (Building), Sakamoto Corporation (Exterior)

Business Strategies by Segment



At a Glance

Net Sales by Segment



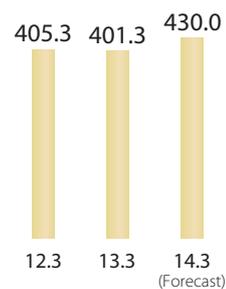
Timber and Building Materials Business	45%
Housing Business	49%
Overseas Business	4%
Other Businesses	2%

Timber and Building Materials Business

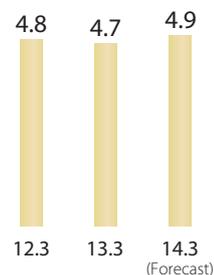


We operate a distribution business that sources high quality timber and building materials from Japan and overseas for marketing to domestic and overseas customers, and a manufacturing business that makes materials for wooden buildings in Japan.

Net Sales (Billions of yen)



Recurring Income (Billions of yen)



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

(Years ended March 31)	2012	2013	2014 (Forecast)
Net Sales	831.9	845.2	900.0
Timber and Building Materials Business	405.3	401.3	430.0
Housing Business	415.1	430.8	450.0
Overseas Business	35.0	38.7	44.0
Other Businesses	14.0	15.4	16.0
Adjustments	(37.6)	(40.9)	(40.0)
Recurring Income	20.7	27.0	28.0
Timber and Building Materials Business	4.8	4.7	4.9
Housing Business	25.8	26.2	28.2
Overseas Business	(2.9)	(1.8)	(1.0)
Other Businesses	0.7	0.8	0.8
Adjustments	(7.7)	(2.9)	(4.9)
Net Income	9.3	15.9	16.0

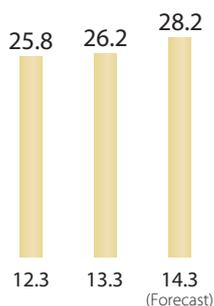
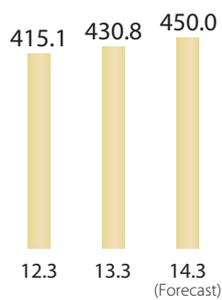
* Figures are rounded when less than one unit.

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

Housing Business



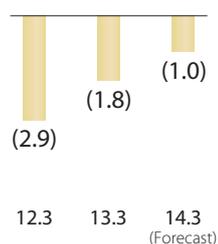
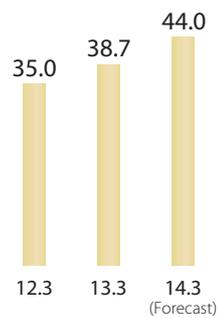
Centered on the Custom-Built Detached Housing Business, we operate a wide range of lifestyle-related businesses. These include the Renovation and Leasing Housing Business, which focuses on renovation, real estate brokerage and management, and the new Detached Spec Homes Business.



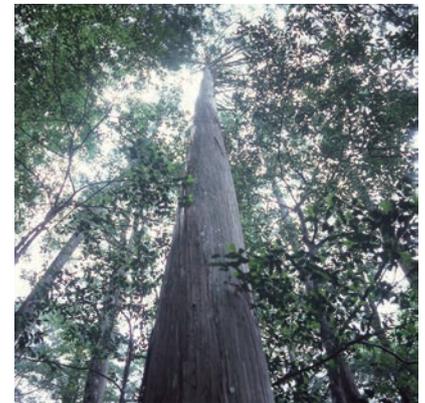
Overseas Business



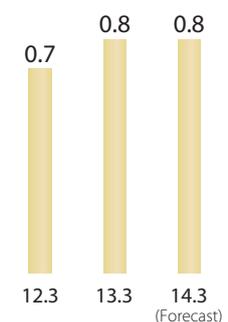
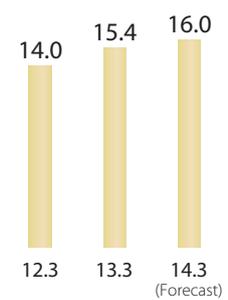
We operate the resources business, which is centered on plantation forestry, the building materials manufacturing business, and the housing and real estate business mainly in the Pacific Rim, including Southeast Asia, Oceania, North America and China.



Other Businesses



We conduct businesses including the 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.



Timber and Building Materials Business

Volume of timber and building materials handling in Japan

No.1



Fiscal 2012

Sales

401.3 billion yen

Recurring Income

4.7 billion yen

Percentage of Total Sales

45 %

Basic Policy

Establish a Stable Earnings Base by Servicing Growing Markets in Japan and Developing a Global Distribution Strategy

Given the stable rate of new housing starts in Japan, the Group expects earnings performance in the Timber and Building Materials Business to remain robust in the near term. However, since the new housing market is expected to shrink in the medium to long term, we need to build a stable earnings base that is not overly susceptible to trends in new housing starts.

Accordingly, we will step up the marketing of products for the renovation market, which is expected to expand, and of environmentally sound equipment such as solar power systems, for which demand has risen in recent years. We will also respond to new market needs that include supplying wood chips to wood biomass power plants.

In our overseas timber and building materials distribution business, we are also developing global distribution strategies focusing on the Pacific Rim region through the integration of our domestic distribution business operations in an effort to maximize the Group's comprehensive capabilities. We will accelerate the expansion of our distribution business in the global market by deepening ties between our timber and building materials distribution bases in China and Southeast Asia, and by leveraging information networks such as our extensive supplier and marketing chains.

Domestic Distribution Business

Preparing Established Businesses for Change in the Market Environment

New housing starts in Japan in fiscal 2013 are expected to maintain growth momentum even amid uncertainties about the likely impact of an expected consumption tax rate increase. We expect earnings in the timber and building materials distribution business to likewise remain robust.

In anticipation of a future decline in the new housing market in Japan, due to factors such as falling birth rates, rising numbers of the elderly and population decline, we plan to increase earnings capability per employee through the optimization of staffing. At the same time, we will focus on our regional strategy to maintain an overwhelming top share in the number of handling volumes in the timber and building materials sector in Japan. For each given region, we will ensure stable product supplies to our customers such as distributors and home builders as well as provide our own knowhow, such as logistics systems, to help solve the various issues facing our customers. Therefore, we aim to achieve a higher market share by further promoting these measures. For this reason, we are growing handling volumes with user businesses through the expansion of our Japan Housing Open Platform (JHOP), a cloud-based service for housing-related businesses, and will step up our development of logistics system businesses for home-building materials. We will also continue to focus on environmentally sound products using certified



Woodchips for wood biomass power plant



JHOP cloud-based services for housing-related businesses

timber or plantation timber, including *KIKORIN-PLYWOOD*, and expand sales of timber produced in Japan to help preserve national forests.

Overseas Distribution Business

Using our Networks for Faster Global Marketing of Timber and Building Material Products

Against a background of long-term global growth underpinned by the emerging economies, worldwide demand for timber is expected to increase in the years ahead. Since fiscal 2012, the overseas distribution business has shifted from the Overseas Business Division to the Timber and Building Materials Division. As a result, we have integrated our domestic and overseas operations for timber and building materials distribution while strengthening our procurement and marketing systems. Moreover, we are enhancing distribution operations for timber and building materials in overseas markets, having established new distribution bases in China and Vietnam in the same year.

After many years of development, our network covers 20 countries around the world. Under its global distribution strategy, the Group will develop marketing networks that are tailored to individual country and regional markets while further strengthening its procurement capabilities. In addition, the Group will increase offshore trading of timber and building materials to other countries, including products produced by the Group's overseas manufacturing sites.



Building material products of our overseas manufacturing site (New Zealand)

Topics Stepping up Sales of Environmentally Sound Equipment

In addition to the arrival of the "low-carbon society" and energy-saving awareness, public attention has increasingly been drawn by smart houses equipped with environmentally sound equipment such as solar power systems, which came to prominence following the disruption of power supplies after the Great East Japan Earthquake in 2011.

According to the results of a survey* published in 2012, the market for major facilities and equipment for smart houses had grown to approximately ¥540 billion in 2010, and this figure is expected to reach ¥1,280 billion by 2020. In addition to solar power systems and other well-known environmentally sound

equipment, public attention in recent years has focused on home-based initiatives such as household power storage battery systems capable of providing stored electricity during emergencies, and the Home Energy Management System (HEMS), which heightens energy-saving awareness by monitoring and displaying household electric power usage.

For the Group, sales of environmentally-sound equipment such as solar power systems are strong. Looking ahead, we will precisely identify needs arising in the new housing and renovation markets while augmenting our product lineups to meet them. Through these actions, we will further expand sales growth.

* Source: "Results of a study into principal equipment and devices used in smart homes 2012," published by Yano Economic Research Institute Ltd.



A solar power system



Household power storage battery system



Screen image of HEMS

Housing Business

Total number of custom-built wooden detached homes sold

Approximately **260,000** units



Fiscal 2012

Sales

430.8 billion yen

Recurring Income

26.2 billion yen

Percentage of Total Sales

49 %

Basic Policy

Expanding Revenue Base by Responding to Overall Housing Needs

Our forecast is that the housing market in Japan in fiscal 2013 will remain strong, continuing from fiscal 2012, despite uncertainty mainly involving the impact of planned consumption tax rate hikes.

The Group will focus on the overall housing market, regardless of whether for new housing or existing housing, and actively meet social needs for housing that is safe, seismic resistant and energy-efficient. Especially in the Renovation and Leasing Housing Business—which includes Renovation, Existing Home Renovation (resale of renovated homes), Real Estate Management and Real Estate Brokerage—we will effectively utilize our technology and expertise in the Housing Business to further expand these operations. We will also undertake initiatives to develop and expand the Apartment Business, the Detached Spec Homes Business and the MOCCA (wood use integration) Business.



Smart Kodachi

Offers a selection of 388 room layout plans that feature solar power systems as standard equipment.



Summer



Winter

Ryouonbou Design Concept

This design concept draws on the wisdom and techniques of Japan's traditional houses to create housing that is cool in the summer by blocking sunlight and allowing wind to pass through while staying warm in the winter by capturing sunlight and retaining heat.



Technology Housing Display Center

Technology Housing Display Center enables potential customers to experience Sumitomo Forestry's proprietary BF construction method and the superior capabilities of wooden homes.

Custom-Built Housing Business

Expand Marketing that Showcases the Technologies and Performance of Sumitomo Forestry Products

In the Custom-Built Detached Housing Business, we are working to promote the market penetration of Sumitomo Forestry's safe and highly seismic resistant housing products, along with the *Ryouonbou* design concept, which conserves energy use by utilizing natural energy sources. We will also focus on marketing homes that use our proprietary Big-Frame (BF) construction method. In addition, we will expand sales of environmentally sound equipment, including solar power systems and household fuel cells, while facilitating orders for smart house products, such as *Smart Solabo* and *Smart Kodachi*.

In the Apartment Business, we will work to penetrate new markets by expanding our product lineups while meeting customer needs in terms of offering ways to cope with inheritance taxes.

As a marketing strategy, we will strengthen our sales structures in the three largest urban markets (Tokyo, Nagoya and Osaka), where rebuilding demand is strong and the prospect of order growth is good. In addition, we continue to hold *Sumai Haku* housing fairs, regional-based small *Sumai Haku* housing fairs and *Web Sumai Haku* housing fairs on the Internet. Through these initiatives, potential customers can experience our housing products and get a better understanding of our technologies and features.

Another approach we will use to broaden our customer base includes original exhibition strategies focusing on the *Technology Housing Display Center*, which specializes in showcasing the technical and functional aspects of our homes.

Furthermore, we will actively promote sales initiatives to secure introductions from a total of 260,000 owners of *Sumitomo Forestry Home* houses and from various companies.

Renovation and Leasing Housing Business

Meeting Diverse Needs throughout the Stock Housing Market

In the Renovation Business, we will work to differentiate ourselves in the market by continuing to develop proprietary technologies that leverage our accumulated knowhow in the Custom-Built Detached Housing Business. We will also meet diverse market needs by enhancing product lineups that utilize advanced renovation technologies. These include the renovation of traditional Japanese-style houses in order to pass these homes of our ancestors on to future generations; *Smart Reforest*, which realizes renovations with smart house functions; and condominium renovation. In addition, we will expand the scope of our businesses by aggressively investing in personnel and other management resources.

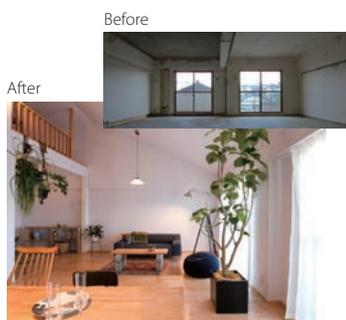
In other businesses—which encompasses the resale of renovated homes undertaken by the Existing Home Renovation Business as well as real estate brokerage and management—we are deepening and strengthening inter-Group cooperation to build a stable earnings structure.

Detached Spec Homes Business / MOCCA Business

Expanding the Detached Spec Homes Business, Focusing on Developing the MOCCA Business

In the Detached Spec Homes Business, we will work to expand operations with the goal of reaching annual sales of 500 units over the medium- to long-term. To this end, we offer detached spec homes that are tailored to each region, particularly the Tokyo metropolitan, Chukyo and Kansai areas.

In the MOCCA Business, which is being positioned as a new, next-generation growth business, we are working to develop wood construction technologies and introduce fire-resistant materials. In addition, we will expand the MOCCA Business in an effort to promote the use of wood construction and wood materials in the non-housing sector.



Forest Haven HYOTANYAMA
An Existing Home Renovation Business project to resell high value-added structures used as company housing.



A wooden child care facility built by the MOCCA Business.

Topics Focusing on the Apartment Business

In the Apartment Business, the need to find ways to cope with inheritance taxes has increased since revisions in the Japanese tax code were enacted in fiscal 2013. Accordingly, the Group offers a diverse lineup of apartments to meet this market need. We are also taking steps to enhance equipment specifications by unifying our apartment lineups under the *ForestMaison* brand in October 2012 and by improving basic functions that include heat insulation performance as part of a new product structure based on multi-unit residential housing, rental units and detached rental housing. Looking ahead, we will promote the *ForestMaison* brand by working to expand its share of the urban market, especially Japan's three major urban centers.



ForestMaison Sharehouse

In April 2013, Sumitomo Forestry released *ForestMaison Sharehouse*, an apartment brand that offers a new style of living. Shared accommodations are becoming a new option in rental homes amid their rapid growth accompanying lifestyle changes among adults in their 20s and 30s. Through sales of *ForestMaison Sharehouse*, the Group proposes living spaces that facilitate communication among fellow residents by utilizing the unique livability of wooden homes.

Overseas Business

Number of homes sold per year overseas

Approximately **2,000** units



Fiscal 2012

Sales

38.7 billion yen

Recurring Income

-1.8 billion yen

Percentage of Total Sales

4 %

Basic Policy

Improving the Performance of Unprofitable Businesses, Focusing on New Business Development

Positioning the Overseas Business as a growth area that will drive earnings in the future, the Sumitomo Forestry Group is working to expand its operations abroad. Operating the resource business, which is centered on plantation forestry, as well as building materials manufacturing, housing and real estate businesses, we aim 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 strengthen alliances among Group companies by leveraging horizontal connections in each business area.

We are currently struggling under harsh market conditions in certain regions while various businesses have reached the anticipatory investment stage, including the particle board manufacturing business in Vietnam and the plantation forestry business in Indonesia. Due to these factors the Overseas Business overall is forecast to remain in the red in fiscal 2013. Nevertheless, we expect deficits to shrink thanks to recovery particularly in the building materials manufacturing business in Australia and the housing business in the United States. Looking ahead, we will expedite improvements in unprofitable businesses while focusing on the development of new businesses in emerging countries, such as the building material manufacturing business in Vietnam. At the same time, we will expand existing businesses, which includes extending the housing business into new regions of the United States.

Overseas Resources and Building Materials Manufacturing Business

Expanding Sales in Existing Businesses and Accelerating Growth in New Businesses

In the building materials manufacturing business, the Group has been supplying the world with various wooden building materials produced mainly in Southeast Asia and Oceania since entering this field in Indonesia in the 1970s. Leveraging our extensive sales and procurement networks, we will expand sales in the Pacific Rim, particularly developing countries and other growth markets. To this end, the Group's manufacturing companies will introduce new facilities and systems to further improve production efficiency. Moreover, utilizing the Group's overseas distribution sites, we will also promote sales growth in other manufacturing businesses through the supply of highly competitive products that accurately meet the needs of each market.

In the Group's resource business, we operate plantation forestry primarily in Indonesia as well as Papua New Guinea, New Zealand and other countries, utilizing our forest management



Alpine MDF Industries Pty Ltd., which manufactures wood building materials in Australia



PT. Kutai Timber Indonesia, which manufactures wood building materials in Indonesia

expertise developed over many years in Japan. We are also cultivating tree species as resources for wooden building materials used in the Group's building materials manufacturing and other businesses while contributing to the restoration of devastated regions and the preservation of biodiversity. In addition, we will work to expand the areas of owned and managed forests, which total approximately 200,000 hectares in size.



A plantation forest in Indonesia

Overseas Housing and Real Estate Business

Expand Sales by Assessing the Direction of Overseas Housing Markets

Operating housing and real estate businesses in the United States, Australia and China, the Group sold approximately 2,000 homes in those countries in fiscal 2012. In the United States, unit sales of detached spec homes increased due to an upswing in the number of new housing starts. Hereafter, we anticipate improvement in housing markets in the United States as well as Australia, which is on a recovery track. Mindful of market trends in these countries and future business strategies, the Group purchased an equity stake of a homebuilder based in Texas, U.S.A.—a new market it is entering—with the objective of further expanding its housing businesses in the United States. Together with its existing Seattle operation, the Group plans to establish a business base capable of 1,500 houses sold per year in the United States.



An interior view of a detached spec home in Seattle

Topics Sumitomo Forestry Enters the Detached Spec Homes Business in Texas

Commencing its U.S. housing business in Seattle in 2003, the Sumitomo Forestry Group presently sells over 200 detached spec homes annually. Surrounded by sea and mountains, however, growth in the Seattle area is constricted by its geographical limitations. In order to further grow its housing business in the United States, the Group has been examining new regions to expand into. Consequently, in June 2013, the Group purchased an equity stake in Bloomfield Homes, L.P., a homebuilder in the Dallas-Fort Worth metropolitan area of Texas. With this purchase, the Group has expanded its detached spec homes business into a major new market that is home to such rapidly growing high-tech industries as semiconductors and aircraft.



A detached spec home in Texas

Other Businesses

The area of forest managed in Japan

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



Fiscal 2012

Sales

15.4 billion yen

Recurring Income

0.8 billion yen

Percentage of Total Sales

2 %

Forestry and Environmental Businesses

Achieving Sustainable Forestry Management, Developing an Environmental Business

The Group's forestry business currently owns and manages approximately 43,328 hectares within Japan (about 1/900th of the nation's land area) in an environmentally sound and sustainable manner based on the philosophy of Sustainable Forestry, which promotes the stable cultivation and repeated use of forests. We also make use of our technologies and expertise developed over many years in forestry management services for forests owned by local governments and private companies. In addition, we provide forest management consulting services overseas. Amid a heightened awareness of environmental issues and the growing importance of renewable energy to help solve energy-related problems, we are also involved in biomass and other environmental energy businesses.

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

Lifestyle Service Business

Addressing Changes in the Structure of Society and Diverse Values

In an effort to address changes in the structure of society as well as people's diverse values, the Group operates the Lifestyle Service Business, which offers multifaceted support for people's lifestyles. This includes various lifestyle- and aging society-related businesses that draw on the Group's main customer base.

Responding to the needs of an aging society, our private-pay elderly care facilities are performing well in terms of occupancy rates thanks to the excellent communication we maintain with local communities. Moreover, we have been working to further improve the quality of nursing services while building a stable earnings structure.

We also undertake various lifestyle-related businesses, including property insurance agency services, leasing operations and the manufacture and sales of farming and gardening soil.



Kawasaki Biomass Power Plant is jointly operated with other companies in Kawasaki City, Kanagawa Prefecture.



Private-pay elderly care facility *Grand Forest Hikawadai*



Karuido lightweight growing medium for rice seedlings

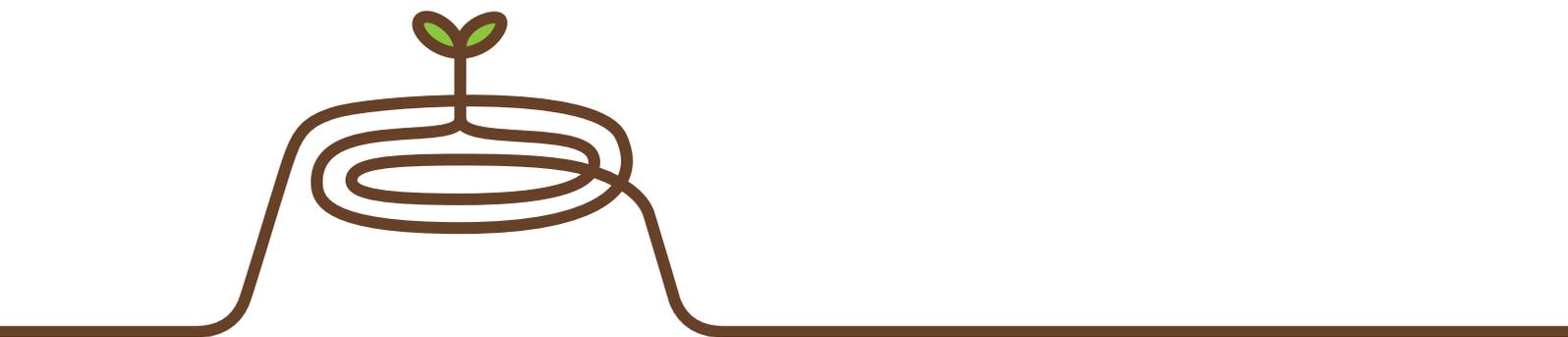
Sustainability

Showcasing the Sumitomo Forestry Group's key initiatives that contribute to the realization of a sustainable society through its businesses.

This year's annual report provides an overview of the Sumitomo Forestry Group's important CSR activities. For more details on the Group's CSR activities and performance data, please refer to the *CSR Report 2013*.

CSR Report 2013

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





Pursuing Sustainable Businesses

We are pursuing sustainable businesses—including providing timber and wood building materials from sustainable forests, providing environmentally friendly homes and promoting global warming countermeasures—in order to help solve problems facing the global environment and society. Valuing employees and their families, we create workplaces that encourage the active participation of a diverse range of people while proactively working to develop the next generation of employees.

Providing Timber and Wood Building Materials from Sustainable Forests

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

Company-owned Forests in Japan

(As of April 1, 2013)

43,328_{ha}

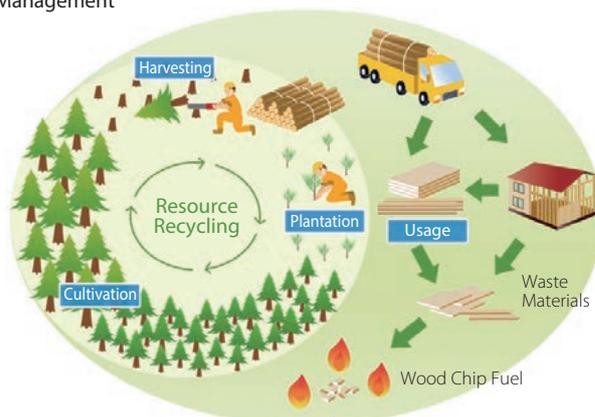
Promoting Sustainable Forestry in Japan

Sumitomo Forestry currently owns approximately 43,328 hectares of forest in Japan (about 1/900th of the nation's land area). We undertake appropriate thinning and effective harvesting that take into consideration the ecosystems of each area as well as engage in sustainable forest management through reforestation. The acquisition of certification from Japan's Sustainable Green Ecosystem Council (SGEC)*1 for Sumitomo Forestry-owned forests*2 is one example of the evaluations the Company has received from third parties regarding its forest management practices, including the preservation of biodiversity.

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

*2. A portion of the forests purchased in fiscal 2012 (459 hectares) is scheduled to receive SGEC certification in September 2013.

Sustainable Forest Management



Overseas Plantation Land Area

(FY2012)

8,412ha

Percentage of Legally Verified Directly Imported Timber and Wood Building Materials

(In the timber and building materials distribution business)

100%

Percentage of Certified Imported Timber and Plantation Timber

(In the timber and building materials distribution business)

(FY2012)

63%

Number of Local Residents Engaged in Social Forestry

(As of 2012)

Approximately
3,900

Promoting Overseas Plantation Forest Operations

In order to preserve in a stable and environmentally friendly manner the raw materials used in wood building materials, we are promoting plantation forest operations primarily in Indonesia and Papua New Guinea. Through this business, we are increasing raw material procurement from plantation forests as natural forests diminish. In fiscal 2012, the total area of Sumitomo Forestry's overseas plantation forests was 8,412 hectares.

Ensuring the Traceability of Timber

Sumitomo Forestry confirmed the legality of the timber and wood building materials that were imported directly from overseas in fiscal 2009, domestic timber sold in Japan in fiscal 2010 and timber procured from outside of the Group in fiscal 2011 for use in the Housing Business.

Promote the Use of Timber from Certified Forests and Plantation Forests

To promote distribution of timber from appropriately managed forests, the Group has acquired Chain of Custody (CoC) certifications from the Forest Stewardship Council*1 (FSC®) and the Programme for the Endorsement of Forest Certification*2 (PEFC), which comprise a global forest certification system, as well as the SGEC. At the same time, the Group encourages the increased handling ratio of timber from certified forests and plantation forests.

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

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

Contributing to Society through Social Forestry

The building materials manufacturing business undertakes "social forestry" in Indonesia. This involves distributing seedlings free of charge to local residents. These seedlings are then purchased by the Group once they are ready to be harvested six to seven years later. While attempting to support the independence of local residents, we are engaging in communication that will build a positive relationship with regional communities.

As of 2012, approximately 3,900 local residents from over 40 communities throughout Indonesia engage in social forestry-based plantation forestry.



A sign indicating the name of the local resident who cultivated the trees

Providing Environmentally Friendly Homes

The domestic Housing Business uses a design method that utilizes the power of nature in the areas of wind and solar while developing Life Cycle Carbon Minus (LCCM) homes to reduce CO₂ emissions in the overall life cycle through the use of solar power systems and other energy-saving equipment. In addition, this business promotes initiatives that include utilizing domestic timber in building materials and interior products along with achieving zero emissions at new housing construction sites.

Installation Rate*

(Environmentally sound equipment in new custom-built detached homes)
(FY2012)

62%

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

Percentage of Japanese Timber Used for the Principal Structural Members*

70%

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

Promoting the Use of Environmentally Sound Equipment in Housing

Sumitomo Forestry helps create homes that reduce environmental impact mainly by actively promoting the installation of solar power systems, household fuel cells and other types of environmentally sound equipment. In fiscal 2012, the installation rate* of environmentally sound equipment in new custom-built detached homes was 62%. Moreover, we are aggressively expanding the use of environmentally sound equipment in the Timber and Building Materials Business and the Renovation Business.



Smart Solabo

Utilizing Domestic Timber in Building Materials and Interior Products

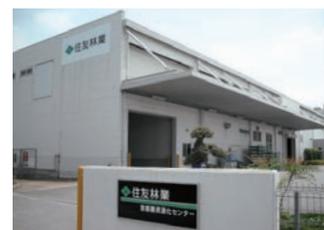
Sumitomo Forestry develops original building materials made from domestic timber that are actively used to construct custom-built detached homes. We also contribute to the revitalization of Japan's forestry industry while preserving domestic forests by promoting the use of domestic timber mainly in interiors, furniture and exterior products.



A wood deck made from domestic timber

Initiatives to Achieve Zero Waste Emissions at New Housing Construction Sites

In December 2010, Sumitomo Forestry obtained industrial waste certification from the Minister of the Environment based on an inter-region recovery and recycling certification system. This makes it possible to collect industrial waste by utilizing trucks returning to base after having transported homebuilding materials to new building construction sites, and to consolidate waste collection at collection centers registered in the inter-region certification system. Utilizing this system, Sumitomo Forestry established the Metropolitan Area Recycling Center in Kazo City, Saitama Prefecture, which is capable of undertaking the high-level sorting of waste. Becoming fully operational in July 2012, this recycling center has been sorting waste collected from construction sites throughout the Kanto area (Tokyo, Kanagawa Prefecture, Chiba Prefecture, Saitama Prefecture, Ibaraki Prefecture, Tochigi Prefecture, Gunma Prefecture) and is also capable of gathering and analyzing waste-related data. Looking ahead, the establishment of the Capital Area Recycling Center will make it possible to collect and analyze waste-related data, and provide feedback on potential improvements in areas such as product development, materials, design, production and distribution, which will lead to a reduction in the volume of waste being generated.



Metropolitan Area Recycling Center

Promoting Global Warming Countermeasures through Our Business

We promote energy-saving initiatives in offices and plants as well as the use of wood biomass to reduce CO₂ emissions in the Company's business activities. In addition, we are undertaking various measures through our business activities to help stem global warming. These include the absorption and storage of CO₂ through our forest management, reducing CO₂ emissions during housing construction and use as well as carbon offsetting.

Carbon Stock*

(From timber used to build new custom-built detached housing in Japan)
(FY2012)

Approximately
203,000 t-CO₂

*The amount of CO₂ retained as carbon from timber used in the Group's new detached housing built in Japan. *Sumitomo Forestry Home* houses retain 22.6t-CO₂ per unit.

Scope of the Group's Biomass Power Generation Business in Japan

33 MW

(Capable of supplying power to approx. 38,000 ordinary households)

Total Plantation Land Area in the Carbon Offset Project

(FY2012)

1,090 ha

Expanding Carbon Stock

Trees absorb CO₂ then sequester it as carbon (carbon stock). The Group is working to expand the carbon stock by undertaking plantation in sustainable forestry. The Group also helps fight against global warming by increasing timber-based carbon stocks mainly through building high-quality, long-lasting wooden homes and the promotion of the MOCCA Business, which is widening the applications of timber resources.

The Sumitomo Forestry Group's Carbon Stock (2012)

Company-owned forests in Japan	11.00 million t-CO ₂ *1
Plantation forests overseas	3.79 million t-CO ₂ *2

*1. Domestic: carbon stock as of the beginning of fiscal 2012

*2. Overseas: carbon stock as of the beginning of 2012

Promoting Biomass Power Generation

The Sumitomo Forestry Group engages in biomass power generation operations primarily using wood biomass fuels produced from construction waste. In 2011, we commenced operations of the Kawasaki Biomass Power Plant jointly with other companies. The facility is able to generate 33MW of power, which means it can supply power for approximately 38,000 households consuming a typical amount of power. In addition, the wood biomass operations of the Indonesia-based manufacturing company, PT. Rimba Partikel Indonesia (RPI), have been registered by the United Nations as a Clean Development Mechanism (CDM)* project.



RPI's wood biomass boiler

* CDM (Clean Development Mechanism) provides credits for a portion of greenhouse gas emissions produced by a developed country that are reduced as a result of financial and technological assistance provided to a developing country, reductions in the release of greenhouse gases, and increases in the sequestering of greenhouse gases in a developing country.

Carbon Offset through Afforestation

Sumitomo Forestry is undertaking measures through new overseas afforestation projects to offset CO₂ (approx. six tons per unit) emitted by domestic housing, extending from the use of trimmed wood in main building materials to final construction. Since 2009, we have planted around 1.5 million trees in 1,500 hectares of land in Indonesia in order to offset the CO₂ emitted by all custom-built detached homes and detached spec homes sold over a five-year period. Over the next decade, we plan to cultivate and manage this afforested area.



Bromo Tengger Semeru National Park in Indonesia, Site of plantation forest

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

To realize its corporate philosophy, Sumitomo Forestry has established as one of its action guidelines, "We create an open and inclusive corporate culture that values diversity." In line with this action guideline, we undertake fair hiring practices and operate effective personnel systems while focusing on human resource development that supports the global expansion of Group companies. We also actively promote work-life balance through workplaces that support the professional and private lives of employees.

Rate of Local Employment

(In Group Companies outside Japan)

99.2%

* Total overseas consolidated subsidiaries
(As of March 31, 2013)

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 March 31, 2013, the percentage of female employees including contract and temporary employees was 17.1%, the percentage of female employees in management positions was 1.6%. As of April 1, 2013, the percentage of newly hired female university graduates was 23.6%. In addition, overseas Group companies are actively engaging in local hiring.

Employment Breakdown

Management level	1,983
Non-management level	2,303
Contract employees (interior coordinators)	8
Contract employees (non-interior coordinators)	106
Hosted from other companies	16
Average years of service	14
Ratio of disabled employees	1.95%

(Non-consolidated, as of March 31, 2013)

Graduates of Sumitomo Forestry School of Professional Building Techniques

(Cumulative total number)
(FY2012)

951

Human Resource Development and Career Support

The Group's fundamental policy on human resource development is to cultivate highly motivated personnel, guided by the keywords of "independence" and "support." Sumitomo Forestry Business Institute supports skill improvement by offering a range of study programs that stimulate the employee's personal desire for learning as well as various e-learning courses.

In addition, Sumitomo Forestry recognizes that to continue building 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 this end, Sumitomo Forestry founded the Sumitomo Forestry School of Professional Building Techniques in 1988 as an intra-corporate vocational training school. This institution has nurtured the skills and knowledge of numerous craftspeople (carpenters).



Apprentices practicing the wooden housing construction (Sumitomo Forestry School of Professional Building Techniques)

Helping Employees Achieve a Work-Life Balance

Recognizing the importance of work-style diversity, Sumitomo Forestry, as a company involved with housing and lifestyles, strives to create a workplace employees find worthwhile, and create a rich family life. We encourage female employees, and also male employees, to take childcare leave. Aiming to promote work styles that support both increased efficiency and a better work-life balance, we operate the telework program, in which employees who have needs in the areas of childcare or family care, or who have long commute times, may work at home or other locations remotely.

In April 2013, we established the Workstyle Diversification Department, which provides employees with consultation services that are easier to use than before to encourage them to take full advantage of the Company's work-life balance programs. Through these initiatives, we will lend our support to work-style diversity.

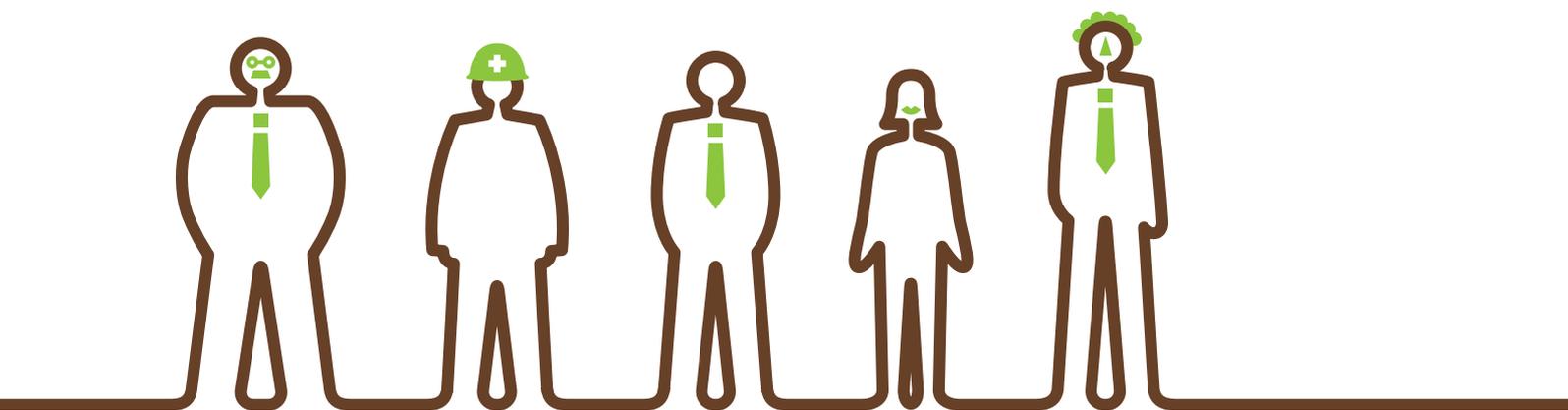
Governance

The Group enhances and strengthens corporate governance to ensure transparency and maintain sound, sustainable management.

For more details on the Group's corporate governance, please refer to the *CSR Report 2013*.

CSR Report 2013

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





Board of Directors and Statutory Auditors

(As of June 21, 2013)

Directors

Ryu Yano
* Chairman of the Board

Akira Ichikawa
* President / Director

Hideyuki Kamiyama
* Director

Hitoshi Hayano
* Director

Shigeru Sasabe
Director

Ken Wada
Director

Tatsuru Satoh
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 Statutory Auditors as stipulated by the Companies Act

Executive Officers

Akira Ichikawa
* President and Executive Officer

Hideyuki Kamiyama
* Executive Vice President and Executive Officer
In charge of East Japan reconstruction support works, diminishing consumption-tax hike impacts, value up and cost down works

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

Shigeru Sasabe
* Managing Executive Officer
Divisional Manager of Lifestyle Service Division
(also oversees Forestry & Environment Division, Timber & Building Materials Division and Overseas Business Division)



From left: Tatsuru Satoh, Shigeru Sasabe, Hideyuki Kamiyama, Ryu Yano, Akira Ichikawa, Hitoshi Hayano, Ken Wada

Ken Wada

*** Managing Executive Officer**
Deputy Divisional Manager of Housing Division and General Manager of Custom-Built Housing Section

Tatsuru Satoh

*** Managing Executive Officer**
In charge of General Administration, Personnel, Corporate Communications, Internal Audit, Intellectual Property and Environmental Management (also oversees Corporate Planning, Finance, and Information Systems and Tsukuba Research Institute)

Hideo Watabe

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

Akihisa Fukuda

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

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, Overseas Housing Business Supporting, Environment & Safety)

Takanori Umeki

Managing Executive Officer
Divisional Manager of Timber & Building Materials Division

Akito Kataoka

Managing Executive Officer
Divisional Manager of Forestry & Environment Division and General Manager of Forestry & Environmental Business Department

Kunihiko Takagiri

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

Ryoji Machino

Executive Officer
Deputy Divisional Manager of Housing Division (in charge of Residential Property Development and MOCCA (Wood Use Integration)) and General Manager of Renovation & Leasing Section

Yoshihiro Yoshioka

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

Masayuki Tabuse

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

Akira Sekimoto

Executive Officer
Deputy Divisional Manager of Timber & Building Materials Division, Deputy Divisional Manager of Overseas Business Division, President of Sumitomo Forestry (Shanghai) Ltd. and President of Fuxin Sumirin Wood Products Co., Ltd.

*** Doubles as Director and Executive Officer**

Corporate Governance and Internal Control

Corporate Governance System

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

Sumitomo Forestry has a Board of Directors and a Board of Statutory Auditors. We have strengthened our statutory auditors' monitoring function. We have introduced an executive officer system to separate decision-making and supervisory functions from executive functions and have clarified where the executive responsibility lies. As of June 21, 2013, there were seven directors, 17 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.

At this time, we believe that further enhancing statutory auditors' monitoring functions concerning the business execution of directors is an effective means for increasing the viability of our corporate governance.

The Sumitomo Forestry Group's Board of Statutory Auditors is composed of five statutory auditors, which include three external auditors: one certified public accountant, one university professor specializing in forest resource science and one lawyer. Each statutory auditor monitors the business execution of directors based on a high degree of expertise gained in their respective professions as well as possessing a diverse array of perspectives.

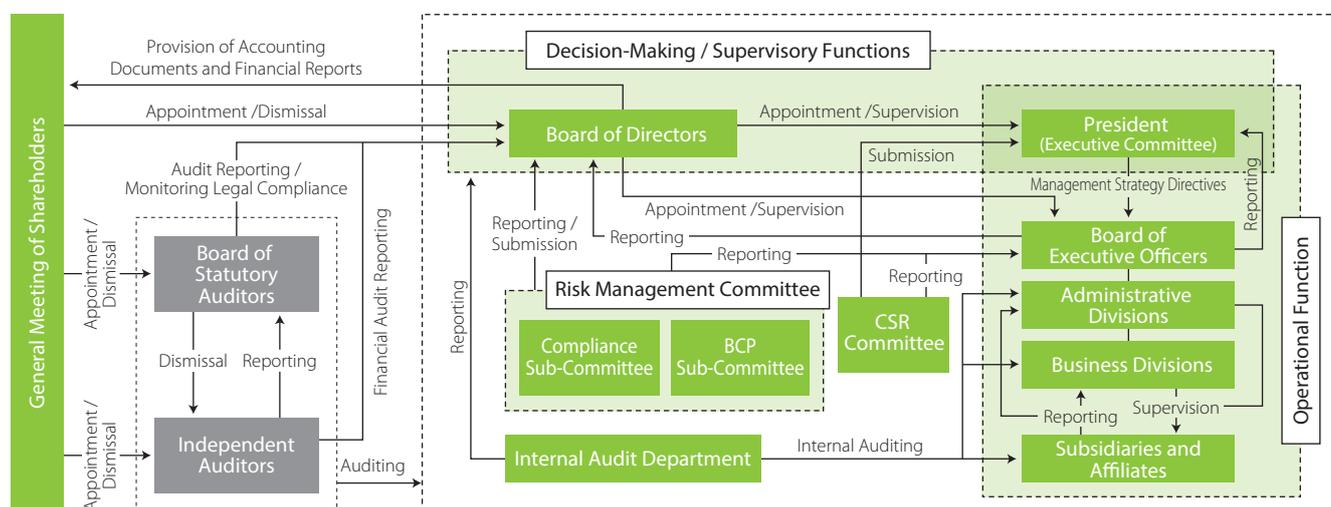
In addition to statutory auditors' attending Board of Directors, Executive Committee and other important meetings, we have developed a system capable of obtaining accurate information in a timely manner regarding management decision-making processes. This is made possible by close coordination in the areas of internal auditing, compliance, and accounting as well as statutory auditors of important subsidiaries and accounting auditors. Based on this information, statutory auditors conduct rigorous audits from the standpoint of shareholders. In addition, statutory auditors maintain management objectivity by expressing their opinions when necessary about the business execution of directors.

We have taken steps to strengthen the monitoring function of the Board of Directors related to business execution as well as clarify where executive responsibility lies by introducing an executive officer system that separates supervisory and executive functions.

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 2012, the Board of Directors met 16 times and the Executive Committee 26 times.

Corporate Governance System (As of April 30, 2013)



Board of Statutory 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 2012. The Board of Statutory Auditors' meeting for the Group is held once every two months.

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 (FY2012)

Position and Name	Board of Directors Meetings (convened 16 times)		Board of Auditors Meetings (convened 14 times)	
	Number of meetings attended	% of meetings attended	Number of meetings attended	% of meetings attended
Statutory Auditor: Satoshi Teramoto	16	100%	14	100%
Statutory Auditor: Shin Nagata*	13	100%	11	100%
Statutory Auditor: Junko Hirakawa*	13	100%	11	100%

* The external auditors, Mr. Shin Nagata and Ms. Junko Hirakawa, have both attended all meetings of the Board of Directors and Board of Statutory Auditors since being appointed on June 22, 2012.

Remuneration, etc. (FY2012)

Directors (7)*1	¥421 million
Corporate Auditors (8)*2 (including ¥25 million in remuneration for five external auditors)	¥74 million

*1. Included in total remunerations for directors are director bonuses amounting to ¥105 million, which were decided upon at the 73rd regular shareholders' meeting held on June 21, 2013.

*2. Including remunerations for three statutory auditors who retired as of the 72nd regular shareholders' meeting held on June 22, 2012.

Risk Management and Compliance

Risk Management Overview

The Group 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.

Risk Management Committee

In accordance with the Company Act and other regulations, the Company has formulated the Risk Management Basic Regulations, in order to develop a system for managing business risk that includes all Group companies. Accordingly, the President and Representative Director of Sumitomo Forestry has been appointed as the Sumitomo Forestry Group's highest authority on risk management. Based on the Risk Management Basic

Regulations, the Company has established the Risk Management Committee, which is chaired by the executive officer in charge of the General Administration Department, in order to appropriately and smoothly undertake risk management. Established under the umbrella of the Risk Management Committee, the Compliance Sub-Committee and the Business Continuity Plan (BCP) Sub-Committee are comprised of the general manager of the General Administration Department, who serves as committee chairman, and the working-level managers of each department.

This system effectively enhances the effectiveness of risk management measures that must be given priority throughout the Group. The Risk Management Committee regularly reports the content of its activities to the Board of Directors and statutory auditors as well as implements management reviews to develop a system able to reflect risk management in business operations.

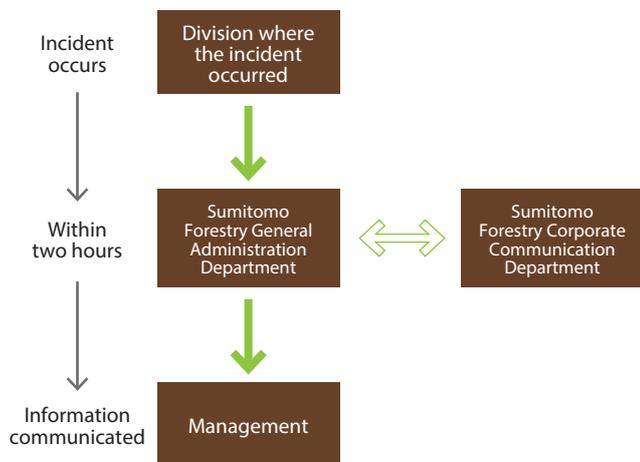
In fiscal 2012, the Risk Management Committee reported its activities to the Board of Directors four times, the Compliance Sub-Committee held meetings two times and the BCP Sub-Committee held meetings three times.

Rapidly Comprehending and Dealing with Risks

The Group operates 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. In addition, the Company maintains a system that gathers and analyzes data in order to disclose information to its stakeholders in a timely and appropriate manner. By compiling case studies, this system also strengthens measures aimed at preventing incidents from reoccurring throughout the Group.

In order to bolster its system for disclosing information to stakeholders, in fiscal 2012 the Company developed a system to strengthen coordination by sharing emergency information with the Corporate Communications Department as soon as it is received by the General Administration Department.

Sequence of Events for the Two-Hour Rule



■ Disaster Risk

The BCP Sub-Committee has developed BCPs for various risks—including natural disasters and outbreaks of new influenza strains—that are beyond the control of the Group and could significantly impact the headquarters' functions, and



The BCP Sub-Committee

systematically acts based on these plans. Established under the Risk Management Committee, the BCP Sub-Committee is comprised of the general manager of the General Administration Department, who serves as committee chairman, and working-level managers of each department. On the basis of important supply chains operated as mutual businesses, each Group company undertakes measures to address common Group issues with an eye to consistently enhancing Groupwide resilience and business continuity.

Compliance Promotion System

The Group has established and promotes compliance management through the Compliance Sub-Committee, which is a Groupwide organization under the umbrella of the Risk Management Committee. The Compliance Sub-Committee is comprised of the general manager of the General Administration Department, who serves as committee chairman, and working-level managers of each department. In addition, compliance managers of each Group company undertake bottom-up management by sharing information on management systems (including safe operation management, and licenses and national certifications required for operations), and by inviting specialist instructors to hold workshops. Briefing sessions for internal auditors are held on a monthly basis to share risk information for each company with the entire Group.

■ Internal Audits

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

Financial Section

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Eleven-Year Summary

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

	Millions of yen			
	2013	2012	2011	2010
Operating Results:				
Net sales	¥845,184	¥831,870	¥797,493	¥723,923
Gross profit	141,436	136,873	132,568	124,269
Selling, general and administrative expenses	116,105	117,682	118,330	114,522
Operating income	25,330	19,191	14,238	9,747
Recurring income*1	26,981	20,714	14,206	9,465
Net income (loss)	15,923	9,271	5,175	2,377
Financial Position:				
Total assets	¥547,973	¥503,496	¥489,417	¥469,738
Working capital*2	91,335	94,509	89,665	88,338
Interest-bearing debt	69,229	67,923	69,229	66,786
Total net assets	193,250	169,335	163,110	162,930
Cash Flows:				
Cash flows from operating activities	¥ 45,910	¥ 26,873	¥ 17,515	¥ 37,239
Cash flows from investment activities	(28,662)	(32,903)	(13,247)	(19,117)
Cash flows from financing activities	(5,305)	(5,622)	372	11,546
Cash and cash equivalents at the end of the year	75,658	63,839	75,582	71,662
Capital Investment:				
Tangible fixed assets*3	¥ 7,058	¥ 10,970	¥ 11,923	¥ 10,636
Intangible fixed assets	2,890	2,786	2,434	1,561
Others	343	194	215	395
Total	10,291	13,950	14,572	12,592
Depreciation and amortization	8,978	8,469	8,437	8,502
Per Share Data:				
Yen				
Net income (loss)	¥ 89.89	¥ 52.34	¥ 29.2	¥ 13.4
Net assets	1,086.68	954.8	919.5	917.8
Cash dividends	17.0	15.0	15.0	15.0
Financial Ratios:				
%				
Gross profit margin	16.7	16.5	16.6	17.2
Operating income margin	3.0	2.3	1.8	1.3
Recurring income margin	3.2	2.5	1.8	1.3
Return on assets (ROA)*4	5.1	4.2	3.0	2.1
Return on equity (ROE)*4	8.8	5.6	3.2	1.5
Equity ratio	35.1	33.6	33.3	34.6
Interest-bearing debt ratio*5	26.5	28.7	29.8	29.1
Current ratio	133.1	137.1	136.8	140.3
Interest coverage ratio [times]	14.2	10.8	8.2	6.8

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

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

*2. Working capital = Current assets – Current liabilities

Millions of yen						
2009	2008	2007	2006	2005	2004	2003
¥823,810	¥861,357	¥911,674	¥791,128	¥723,193	¥673,779	¥645,100
133,493	135,277	141,117	127,853	125,582	120,778	109,632
126,656	128,041	120,711	112,407	107,116	103,201	100,859
6,837	7,235	20,405	15,446	18,466	17,577	8,773
6,160	7,659	21,259	16,800	18,692	17,074	9,721
1,028	1,115	11,954	10,842	8,014	9,870	(15,440)
¥427,738	¥450,730	¥500,136	¥464,193	¥370,684	¥369,755	¥357,322
81,700	64,156	76,453	68,037	67,579	66,377	60,260
49,127	25,816	25,739	22,067	15,580	19,929	16,497
156,192	173,089	188,855	175,206	152,500	146,269	129,727
¥ (8,161)	¥ 26,106	¥ 7,084	¥ 16,626	¥ 6,685	¥ 25,962	¥ 19,734
(29,062)	(17,587)	(7,102)	(8,998)	(12,895)	(7,646)	2,026
24,196	(4,262)	665	(14,039)	(7,087)	(735)	(8,171)
40,730	54,475	50,311	49,628	55,928	69,312	52,029
¥ 24,075	¥ 9,578	¥ 7,020	¥ 8,132	¥ 7,016	¥ 4,040	¥ 2,761
2,013	1,694	1,586	1,857	1,673	1,468	2,077
150	222	420	454	549	883	283
26,238	11,494	9,026	10,443	9,237	6,392	5,123
8,477	7,258	6,476	6,403	6,452	6,447	5,985
Yen						
¥ 5.8	¥ 6.3	¥ 67.4	¥ 61.3	¥ 45.3	¥ 55.8	¥ (87.5)
880.9	976.0	1,059.2	996.0	866.5	830.5	736.4
15.0	15.0	15.0	13.0	13.0	13.0	10.0
%						
16.2	15.7	15.5	16.2	17.4	17.9	17.0
0.8	0.8	2.2	2.0	2.6	2.6	1.4
0.7	0.9	2.3	2.1	2.6	2.5	1.5
1.4	1.6	4.4	4.0	5.0	4.7	2.7
0.6	0.6	6.6	6.6	5.4	7.2	(11.1)
36.5	38.4	37.5	37.7	41.1	39.6	36.3
23.9	13.0	12.1	11.2	9.3	12.0	11.3
141.6	127.6	129.3	129.3	137.4	135.7	132.6
4.5	4.5	11.2	10.8	18.6	21.9	18.3

*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

Against the backdrop of reconstruction-related demand from the Great East Japan Earthquake, the Japanese economy displayed signs of a gentle recovery in fiscal 2012, ended March 31, 2013. However, exports and production activities stagnated and company earnings were held in check due to the sluggishness of the European economy and the deceleration of economic growth in China and the rest of Asia amid a slowdown of the global economy. The severe employment situation also continued. On the other hand, signs of a recovery could be seen, including a fall in the yen from historical highs and the beginning of a recovery in stock prices. This was due to expectations that the change in the Japanese government would lead to agile and flexible economic and fiscal management.

With respect to the domestic housing market, which has a deep relationship to our Group businesses, housing loan interest rates hovered at low levels. In addition, reconstruction-related demand following the Great East Japan Earthquake was seen along with demand generated by government housing acquisition promotion policies, such as reconstruction support and the housing eco-point system. As a result, new housing starts were steady, increasing 6.2% year on year to 893 thousand. Of this number, owner-occupied dwellings totaled 317 thousand, a gain of 3.8% year on year.

Consolidated Operating Results

1 Net Sales and Orders Received

Net sales increased 1.6% year on year to ¥845,184 million. This was primarily due to an increase in sales in the Custom-Built Detached Housing Business and the Renovation Business, as well as a rise in housing sales in the United States recorded by the Overseas Business.

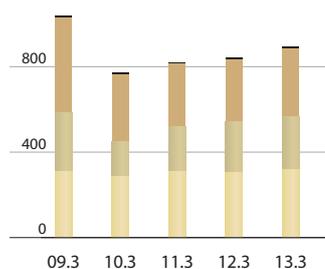
The value of orders received for custom-built detached housing totaled ¥314,240 million, up 6.5% compared with the previous fiscal year. This rise was mainly attributable to a 1.6% year-on-year increase in the number of orders received, an upswing in environmentally sound equipment and higher unit prices in line with an expansion in total floor area per building following a boost in the percentage of rebuilding.

2 Selling, General and Administrative Expenses

Selling, general and administrative expenses totaled ¥116,105 million, a decrease of 1.3% compared with the previous fiscal year, but increased 3.3% to ¥116,457 million after excluding actuarial difference in accounting for retirement benefit obligations. The increase in selling, general and administrative expenses based on the above actuarial difference was caused mainly by an upswing in expenses accompanying the expansion of the Renovation Business.

Number of New Housing Starts in Japan

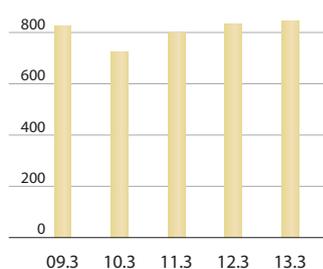
(Thousands of units)
1,200



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

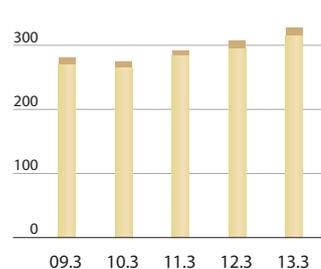
Net Sales

(Billions of yen)
1,000



Amount of Orders Received

(Billions of yen)
400



■ Custom-built detached housing
■ Collective housing (wooden apartment)

3 Operating Income, Recurring Income

Operating income improved 32.0% year on year to ¥25,330 million, and recurring income rose 30.3% to ¥26,981 million. These increases were primarily attributable to higher net sales and gross profit as well as the positive impact of actuarial difference in accounting for retirement benefit obligations of approximately ¥400 million in fiscal 2012. This is in contrast to a negative impact totaling approximately ¥4,900 million in fiscal 2011.

Excluding the impact of the above-mentioned actuarial difference, operating income amounted to ¥24,979 million, an increase of 3.6% year on year, and recurring income totaled ¥26,630 million, an improvement of 3.9%.

4 Net Income

Net income improved 71.8% year on year to ¥15,923 million. This was due to higher year-on-year income levels across the board, which offset the booking of an extraordinary loss totaling ¥971 million, including approximately ¥300 million following the transfer of equity in a Chinese building materials manufacturing subsidiary.

Net income per share came to ¥89.89, an increase of ¥37.55 from the previous fiscal year.

Segment Results

* Segment net sales figures given below include intersegment sales and transfers. Recurring income figures have been used for the segment results section. From fiscal 2012, the Company has changed its business segment classifications to "Timber and Building Materials," "Housing," "Overseas" and "Other Businesses." For the following year-on-year comparisons, therefore, comparisons were made after replacing the figures for the previous fiscal year with figures for the segment classification reflecting the said changes.

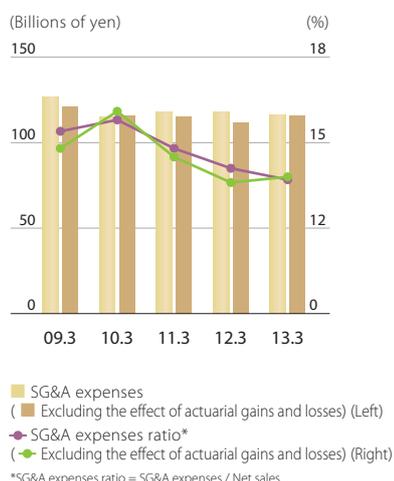
1 Timber and Building Materials Business

Net sales dipped 1.0% year on year to ¥401,266 million, and recurring income declined 1.6% to ¥4,704 million. Regarding market conditions in fiscal 2012, demand slowed in contrast to a surge in fiscal 2011 centered on imported plywood following the Great East Japan Earthquake. However, a recovery occurred in the housing market beginning in the second half that helped the entire Timber and Building Materials Business maintain performance on par with the previous fiscal year.

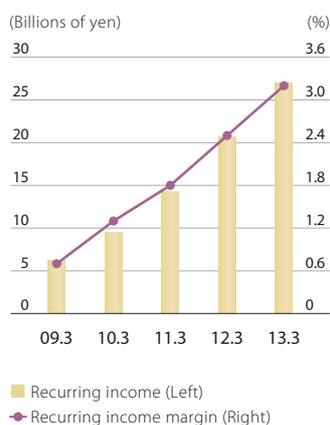
Regarding specific initiatives, in the domestic timber and building materials distribution business, we focused our efforts on expanding the sales of environmentally sound products such as plantation timber and certified timber as well as seeking to capture the demand accompanying an increase in the number of new housing starts and to further bolster links with partners.

With regards to the timber and building materials distribution business overseas, we worked to expand the sales of the Group's products focusing on China and Southeast Asia and, in an effort to construct a sales structure for products, established a subsidiary in Shanghai, China and a subsidiary in Ho Chi Minh City, Vietnam. While being impacted by a steep rise in the price of raw materials in the domestic building materials manufacturing business, we strove to expand sales by developing new customers.

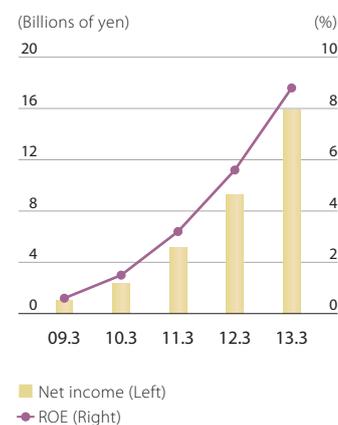
SG&A Expenses and SG&A Expenses Ratio



Recurring Income and Recurring Income Margin



Net Income and ROE



2 Housing Business

Net sales increased 3.8% year on year to ¥430,774 million, and recurring income edged up 1.7% to ¥26,227 million. In the mainstay Custom-Built Detached Housing Business, price per unit and net sales both increased due mainly to a year-on-year rise in the installation rate of environmentally sound equipment such as solar power systems. This result occurred despite lower unit sales compared with the previous fiscal year. In addition, net sales in the Renovation Business remained strong, increasing 10.6% year on year, while sales in the Apartment Business and the Detached Spec Homes Business grew. Consequently, the Housing Business experienced increases in both sales and profits.

Custom-Built Housing Business

In the Custom-Built Detached Housing Business included within the Custom-Built Housing Business, we endeavored to expand our share of the three major metropolitan areas while putting efforts into increasing the installation rate of environmentally sound equipment, including solar power systems and household fuel cells (*ENE-FARM*). In addition, we worked to expand orders by proactively presenting our proprietary Big-Frame (BF) construction method, which features superior seismic resistance and utilizes greater design flexibility.

With regard to concrete efforts for promoting sales, we opened *Sumai Haku* housing fairs in various locations, focusing on the three major metropolitan areas of Tokyo, Osaka and Nagoya. These housing fairs can offer services related to safe, secure and comfortable housing

that takes into consideration the environment and seismic resistance. We also developed a *WEB Sumai Haku* on the Company's website. On the product strategy front, we worked to further bolster the seismic resistance of our BF construction method by increasing pillar and beam joint strength based on improvements to the existing joint metal. Moreover, against the backdrop of heightened customer interest in environmentally sound equipment, we also released the designable product, *Smart Kodachi*, which offers a selection of 388 different room layout plans installed with a variety of specifications and equipment along with making solar power systems standard equipment.

In the Apartment Business, we began sales of the new detached rental housing, *ForestMaison Houses for Rent*. In addition, we worked to expand orders by increasing product appeal through the consolidation of our rental housing product brands into *ForestMaison*.

Renovation and Leasing Housing Business

With regards to the Renovation Business—which is included within the Renovation and Leasing Housing Business—we endeavored to enhance the degree of recognition of our renovation product brand, *Reforest*. We also worked to bolster our sales capabilities principally in large-market metropolitan areas. In addition, we proactively sought to expand orders by releasing *Smart Reforest*, which offers renovated housing equipped with solar power systems and other environmentally sound equipment as well as enhances seismic resistance, thermal insulation and air sealing performance.

Housing Business

(Years ended March 31)		2010	2011	2012	2013
Orders					
Custom-Built Detached Housing	(¥million)	¥265,203	¥284,420	¥295,194	¥314,240
	(Units)	8,593	8,926	8,962	9,105
Wooden Apartment	(¥million)	¥ 6,969	¥ 7,343	¥ 11,169	¥ 13,043
	(Units)	736	775	986	1,138
Sales					
Custom-Built Detached Housing	(¥million)	¥264,215	¥270,903	¥294,081	¥300,936
	(Units)	8,580	8,721	9,007	8,999
Wooden Apartment	(¥million)	¥ 5,630	¥ 6,681	¥ 7,899	¥ 9,371
	(Units)	670	724	772	858
Detached Spec Homes	(¥million)	¥ 7,851	¥ 9,567	¥ 9,862	¥ 11,376
	(Units)	183	226	225	254

In the Existing Home Renovation Business (resale of renovated homes), we focused on purchasing activities for existing homes in anticipation of an expansion in the existing homes market.

Results were firm in the Real Estate Distribution Business and the Real Estate Management Business because of our efforts to develop a management organization corresponding to market trends and to bolster earnings power.

Detached Spec Homes / MOCCA (wood use Integration) Business

In the Detached Spec Homes Business, we worked to enhance sales capabilities while expanding business scale. In the MOCCA (wood use integration) Business, we aim to expand new usages of timber raw materials through the adoption of timber construction and wood-based interiors in non-residential buildings. We are also steadily moving our business forward by accepting orders to construct timber-based buildings, including a child care facility, an elderly care facility and a cafe.

3 Overseas Business

Net sales in the Overseas Business climbed 10.5% year on year to ¥38,657 million and reported a recurring loss of ¥1,840 million, compared with a recurring loss of ¥2,938 million in the previous fiscal year. The Company's Overseas Business reported losses across the board in fiscal 2012, reflecting the impact of severe competition mainly on its Chinese building materials manufacturing business. However, deficits diminished compared with the previous fiscal year

thanks largely to improved earnings in the building materials business in Australia, and higher sales in the housing business in the United States.

In the overseas buildings materials manufacturing business, results in New Zealand were firm due to increased sales volume directed towards Japan. In Indonesia, results were sluggish due to a collapse in unit selling prices caused by competition with low cost import goods. In Australia, losses improved compared with the previous fiscal year thanks to a focus on domestic sales in light of the worsening profitability of exports caused by the strong Australian dollar. Although we worked to expand production volume in China, harsh conditions continued. In Vietnam, we began the commercial production of particle board in May 2012 and sought to expand production volume.

Regarding the overseas housing business, losses improved compared with the previous fiscal year due to an increased number of sold houses in the United States against the backdrop of an upswing in the housing market. In Australia, we made an effort to expand orders in light of that country's home acquisition support policy. In China, we faced an uphill battle given the state of the real estate market.

In the afforestation business, we worked to promote business operations by expanding the area of tree-planting in Indonesia in order to stably supply environment-friendly raw materials.

Segment Performance Highlights

(Years ended March 31)	Millions of yen			
	2012	2013	2012/2013 (change)	(% of change)
Net Sales	¥831,870	¥845,184	+13,315	+ 1.6%
Timber and Building Materials Business	405,350	401,266	- 4,084	- 1.0%
Housing Business	415,098	430,774	+15,676	+ 3.8%
Overseas Business	34,971	38,657	+ 3,686	+10.5%
Other Businesses	14,049	15,406	+ 1,357	+ 9.7%
Adjustments	(37,599)	(40,919)	- 3,320	—
Recurring Income	¥ 20,714	¥ 26,981	+ 6,267	+30.3%
Timber and Building Materials Business	4,781	4,704	- 77	- 1.6%
Housing Business	25,800	26,227	+ 427	+ 1.7%
Overseas Business	(2,938)	(1,840)	+ 1,098	—
Other Businesses	728	754	+ 27	+ 3.7%
Adjustments	(7,655)	(2,863)	+ 4,792	—

* Net sales include intersegment sales and transfers.

Net sales and recurring income adjustments include net sales and selling, general and administrative expenses at the Administrative Division that cannot be allocated to specific businesses. From fiscal 2012, the Company has changed its business segment classifications to "Timber and Building Materials," "Housing," "Overseas" and "Other Businesses." For the following year-on-year comparisons, therefore, comparisons were made after replacing the figures for the previous fiscal year with figures for the segment classification reflecting the said changes.

4 Other Businesses

In addition to the above noted businesses, the Group engages in the management of private-pay elderly care facilities, the lease business, various service businesses that include the insurance agency business (which mainly targets housing customers), the manufacture and sales business for farming and gardening materials, and information systems development targeting each Group company. Other businesses posted net sales of ¥15,406 million, an increase of 9.7% year on year, and a recurring income of ¥754 million yen, a rise of 3.7%.

Recurring Income of Main Subsidiaries

Timber and Building Materials Business

(Years ended March 31)	Millions of yen	
	2012	2013
Sumitomo Forestry Crest Co., Ltd.	¥ 173	¥ 165

Housing Business

(Years ended March 31)	Millions of yen	
	2012	2013
Sumitomo Forestry Residential Co., Ltd.	¥ 472	¥ 536
Sumitomo Forestry Home Engineering Co., Ltd.	932	769
Sumitomo Forestry Home Service Co., Ltd.	132	210
Sumitomo Forestry Landscaping Co., Ltd.	124	209
Sumitomo Forestry Home Tech Co., Ltd.	2,641	2,705

Overseas Business

(Years ended December 31)	Millions of yen	
	2011	2012
Overseas Subsidiaries*		
PT. Kutai Timber Indonesia (Indonesia)	¥ 207	¥ 200
Alpine MDF Industries Pty Ltd. (Australia)	(457)	(150)
Nelson Pine Industries Ltd. (New Zealand)	1,152	1,407

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

	US\$	AUS	NZ\$
FY2011:	79.70	82.31	63.07
FY2012:	79.80	82.65	64.66

Financial Position and Cash Flow

1 Financial Position

At the end of March 2013, total assets stood at ¥547,973 million, an increase of ¥44,477 million year on year, mainly as a result of an increase in liquidity because of higher sales and earnings as well as an upswing in investment securities amid a recovery in the market prices of stock holdings.

Liabilities increased by ¥20,562 million to ¥354,723 million. This growth was mainly the result of an increase in notes and accounts payable, trade in the Housing Business because of a greater number of homes completed near the fiscal year-end settlement date, and a rise in deferred tax liabilities related to valuation gains on stock holdings.

Interest-bearing debt increased ¥1,306 million year on year to ¥69,229 million. However, the interest-bearing debt ratio fell from 28.7% in the previous fiscal year-end to 26.5% due to an increase in shareholders' equity accompanying the accumulation of retained earnings amounting to ¥13,265 million.

Net assets totaled ¥193,250 million, and the equity ratio was 35.1%.

2 Cash Flow

Net cash provided by operating activities was ¥45,910 million. In addition to higher income before income taxes and minority interests and depreciation and amortization, this rise resulted mainly from factors that increased cash, such as increases in notes and accounts payable, trade and inventories, which together exceeded such cash-decreasing factors as income taxes paid.

Net cash used in investment activities totaled ¥28,662 million. This decrease mainly resulted from funds management based on time deposits, as well as capital expenditures.

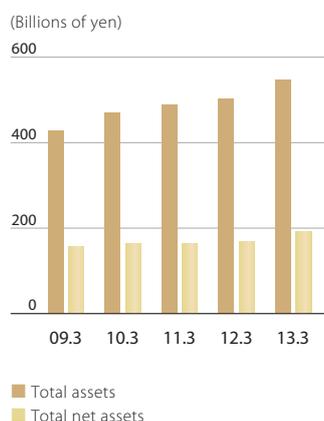
Net cash used in financing activities was ¥5,305 million. This decline was chiefly due to the payment of dividends and repayments of finance lease obligations.

As a result of the above, cash and cash equivalents at the end of the fiscal year stood at ¥75,658 million, an increase of ¥11,819 million from the end of the previous fiscal year.

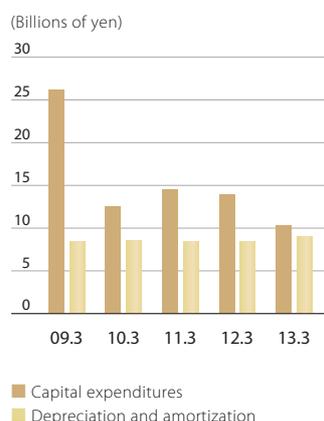
3 Capital Expenditures

Capital expenditures decreased by 26.2%, from ¥13,950 million in the previous fiscal year to ¥10,291 million in the fiscal year under review. Investment in tangible fixed assets declined 35.7% year on year to ¥7,058 million, while investment in intangible assets increased 3.7% to ¥2,890 million. Major investments included ¥3,100 million for system investment, ¥1,700 million for plant equipment in domestic and overseas manufacturing businesses, and ¥1,600 million for investment in reconstructing housing display centers.

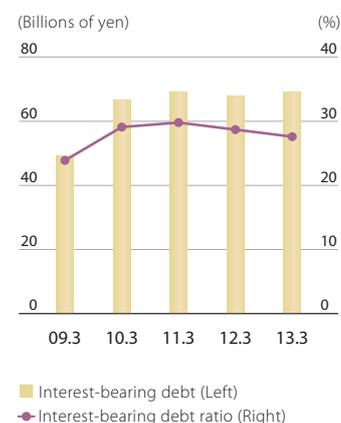
Total Assets and Total Net Assets



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, the scheduled increase in the rate of the consumption tax has the potential to induce last-minute demand in housing purchases and thus temporarily increasing 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, temporary exchange rate fluctuations greater than those expected may occur. Also, there is a chance that fluctuations in the exchange rates of currencies of settlement may impact subsidiaries that sell and manufacture timber and building materials overseas.

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, 2013 and 2012

ASSETS	Millions of yen		Thousands of U.S. dollars (Note 4)
	2013	2012	2013
Current assets:			
Cash and time deposits (Notes 12, 16)	¥ 56,155	¥ 64,870	\$ 597,398
Marketable securities (Notes 5, 12, 16)	11,000	15,000	117,021
Receivables —			
Notes and accounts, trade (Notes 7, 16, 17)	125,933	124,883	1,339,717
Loans and other (Note 16)	84,870	48,279	902,872
Inventories —			
Finished goods, logs and lumber (Note 7)	22,276	20,977	236,978
Developed land and housing for sale	27,894	34,880	296,744
Land and housing projects in progress	27,057	28,397	287,840
Deferred tax assets (Note 9)	8,077	7,971	85,929
Other current assets	5,506	5,004	58,571
Allowance for doubtful accounts	(1,291)	(1,329)	(13,730)
Total current assets	367,478	348,930	3,909,340
Property, plant and equipment, at cost less accumulated depreciation:			
Land (Notes 6, 7, 8)	23,573	24,475	250,781
Buildings and structures (Notes 7, 8)	51,621	49,794	549,158
Machinery and equipment (Notes 7, 8)	68,264	57,363	726,208
Timberland (Note 6)	11,872	11,236	126,301
Construction in progress	1,346	5,973	14,316
Leased assets	8,139	8,330	86,587
	164,815	157,171	1,753,351
Less accumulated depreciation	(78,915)	(71,530)	(839,525)
Net property, plant and equipment	85,900	85,641	913,826
Intangible assets, net of amortization:			
Goodwill (Note 8)	737	924	7,835
Other intangible assets (Note 8)	8,420	7,466	89,578
Total intangible assets	9,157	8,390	97,413
Investments and other assets:			
Investment securities (Notes 5, 7, 16)	59,588	48,487	633,917
Long-term loans and receivables	3,484	5,342	37,060
Deferred tax assets (Note 9)	1,343	1,251	14,290
Other assets	23,243	8,666	247,270
Allowance for doubtful accounts	(2,220)	(3,211)	(23,615)
Total investments and other assets	85,439	60,534	908,922
Total assets	¥547,973	¥503,496	\$5,829,501

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, 2013 and 2012

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2013	2012	2013
SHAREHOLDERS' EQUITY			
Common stock			
Balance at the end of previous period	¥ 27,672	¥ 27,672	\$ 294,384
Changes during the period			
Total changes during the period	—	—	—
Balance at the end of current period	¥ 27,672	¥ 27,672	\$ 294,384
Capital surplus			
Balance at the end of previous period	¥ 26,872	¥ 26,872	\$ 285,867
Changes during the period			
Disposal of treasury stock	—	(0)	—
Total changes during the period	—	(0)	—
Balance at the end of current period	¥ 26,872	¥ 26,872	\$ 285,867
Retained earnings			
Balance at the end of previous period	¥114,223	¥107,584	\$1,215,142
Changes during the period			
Cash dividends (¥15.00 per share)	(2,657)	(2,657)	(2,267)
Net income	15,923	9,271	169,389
Change in scope of equity method	—	26	—
Total changes during the period	13,265	6,639	141,122
Balance at the end of current period	¥127,489	¥114,223	\$1,356,264
Treasury stock at cost			
Balance at the end of previous period	¥ (268)	¥ (267)	\$ (2,848)
Changes during the period			
Purchases of treasury stock	(1)	(1)	(14)
Disposal of treasury stock	—	0	—
Total changes during the period	(1)	(1)	(14)
Balance at the end of current period	¥ (269)	¥ (268)	\$ (2,862)
Total shareholders' equity			
Balance at the end of previous period	¥168,499	¥161,861	\$1,792,545
Changes during the period			
Cash dividends (¥15.00 per share)	(2,657)	(2,657)	(28,267)
Net income	15,923	9,271	169,389
Purchases of treasury stock	(1)	(1)	(14)
Disposal of treasury stock	—	0	—
Change in scope of equity method	—	26	—
Total changes during the period	13,264	6,638	141,108
Balance at the end of current period	¥181,763	¥168,499	\$1,933,653

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2013	2012	2013
ACCUMULATED OTHER COMPREHENSIVE INCOME			
Unrealized gain on available-for-sale securities			
Balance at the end of previous period	¥ 5,734	¥ 4,876	\$ 60,996
Changes during the period			
Net changes in items other than shareholders' equity	6,399	857	68,070
Total changes during the period	6,399	857	68,070
Balance at the end of current period	¥ 12,132	¥ 5,734	\$ 129,066
Deferred gain on hedges			
Balance at the end of previous period	¥ 192	¥ 154	\$ 2,037
Changes during the period			
Net changes in items other than shareholders' equity	57	37	611
Total changes during the period	57	37	611
Balance at the end of current period	¥ 249	¥ 192	\$ 2,648
Translation adjustments			
Balance at the end of previous period	¥ (5,291)	¥ (4,005)	\$ (56,286)
Changes during the period			
Net changes in items other than shareholders' equity	3,637	(1,286)	38,694
Total changes during the period	3,637	(1,286)	38,694
Balance at the end of current period	¥ (1,654)	¥ (5,291)	\$ (17,592)
Minority interests			
Balance at the end of previous period	¥ 202	¥ 224	\$ 2,146
Changes during the period			
Net changes in items other than shareholders' equity	558	(22)	5,934
Total changes during the period	558	(22)	5,934
Balance at the end of current period	¥ 760	¥ 202	\$ 8,080
Total net assets			
Balance at the end of previous period	¥169,335	¥163,110	\$1,801,438
Changes during the period			
Cash dividends (¥15.00 per share)	(2,657)	(2,657)	(28,267)
Net income	15,923	9,271	169,389
Purchases of treasury stock	(1)	(1)	(14)
Disposal of treasury stock	—	0	—
Change in scope of equity method	—	26	—
Net changes in items other than shareholders' equity	10,651	(413)	113,309
Total changes during the period	23,915	6,225	254,417
Balance at the end of current period	¥193,250	¥169,335	\$2,055,855

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, 2013 and 2012

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2013	2012	2013
Cash flows from operating activities:			
Income before income taxes and minority interests	¥26,148	¥17,683	\$278,170
Adjustments —			
Depreciation and amortization	8,978	8,469	95,507
Impairment loss	211	3,038	2,246
Amortization of goodwill	267	211	2,839
Provision for (reversal of) doubtful accounts	(1,074)	69	(11,427)
Provision for (reversal of) employees' retirement benefits, less payments	(348)	3,892	(3,707)
Interest and dividends income	(1,332)	(1,163)	(14,167)
Interest expense	1,270	1,296	13,509
Equity in losses of affiliates	140	314	1,492
Losses on devaluation of marketable securities and investment securities	235	68	2,497
Losses (gains) on sales of marketable securities and investment securities, net	(30)	94	(320)
Losses (gains) on disposal of fixed assets, net	37	(84)	397
Loss on natural disaster	—	(485)	—
Change in assets and liabilities:			
Notes and accounts receivable, trade	573	(6,257)	6,099
Inventories	10,401	860	110,652
Other current assets	(4,920)	1,622	(52,341)
Notes and accounts payable, trade	11,451	6,073	121,817
Advances received from customers	4,642	794	49,382
Other current liabilities	(484)	1,407	(5,150)
Other	453	(516)	4,816
Total	56,617	37,384	602,311
Interest and dividends income received	1,403	1,760	14,925
Interest paid	(1,316)	(1,347)	(14,002)
Income taxes paid, net	(10,794)	(10,925)	(114,829)
Net cash provided by operating activities	45,910	26,873	488,405
Cash flows from investment activities:			
Payments into time deposits	(74,356)	(34,021)	(791,019)
Proceeds from withdrawal of time deposits	56,021	18,028	595,963
Decrease (increase) in short-term loans receivable	(2,758)	(3,839)	(29,342)
Payments for purchases of fixed assets	(6,692)	(10,454)	(71,193)
Proceeds from sales of fixed assets	2,549	2,578	27,122
Payments for purchases of intangible assets	(2,525)	(2,788)	(26,864)
Payments for purchases of investment securities	(1,047)	(716)	(11,136)
Proceeds from sales of investment securities	86	10	917
Payments for additional acquisition of stock of consolidated subsidiaries	—	(1)	—
Payments for purchase of stock of subsidiary newly consolidated	—	(1,984)	—
Payments for long-term loans receivable	(24)	(260)	(253)
Repayments of long-term loans receivable	706	644	7,513
Other	(623)	(101)	(6,626)
Net cash used in investment activities	(28,662)	(32,903)	(304,918)
Cash flows from financing activities:			
Increase (decrease) in short-term debt	(379)	3,280	(4,031)
Payment of lease obligation	(1,922)	(1,746)	(20,444)
Proceeds from long-term debt	5,630	3,224	59,894
Repayments of long-term debt	(6,715)	(7,721)	(71,436)
Dividends paid	(2,657)	(2,657)	(28,267)
Other	738	(1)	7,847
Net cash provided by financing activities	(5,305)	(5,622)	(56,437)
Effect of exchange rate changes on cash and cash equivalents	(124)	(90)	(1,318)
Net increase (decrease) in cash and cash equivalents	11,819	(11,742)	125,732
Cash and cash equivalents at the beginning of the year	63,839	75,582	679,141
Cash and cash equivalents at the end of the year (Note 12)	¥75,658	¥63,839	\$804,873

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Sumitomo Forestry Co., Ltd. and Consolidated Subsidiaries
As of March 31, 2013 and 2012

1. Nature of Operations

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

2. Basis of Presenting Consolidated Financial Statements

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

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

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

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

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

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

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

As of March 31, 2013, the numbers of consolidated subsidiaries and affiliates accounted for by the equity method were 48 and 22 (47 and 23 in 2012), respectively.

Included in the scope of consolidation from the reporting fiscal year under review are Sumitomo Forestry (Shanghai) Ltd., Sumitomo Forestry (Vietnam) Co., Ltd. and SUMIRIN HONG KONG LIMITED., which the Company has newly established during the reporting fiscal year.

On the other hand, excluded from the scope of consolidation from the reporting fiscal year under review are (i) Sumirin Life Assist Co., Ltd., which underwent merger with the Company as a surviving company and was dissolved due to the merger and (ii) Northern Tech Co., Ltd., which underwent merger with Nihei Co., Ltd. as a surviving company and was dissolved due to the merger.

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, 2013, which was included in other current liabilities in the accompanying consolidated balance sheet, was ¥1,711 million (US\$18,204 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, 2013, which was included in other long-term liabilities in the accompanying consolidated balance sheet, was ¥85 million (US\$907 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, 2013, which was included in other long-term liabilities in the accompanying consolidated balance sheet, was ¥1,435 million (US\$15,266 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 carried at fair value with changes in unrealized gain or loss charged or credited to profit or loss, except for those which meet the criteria for hedge accounting.

(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 ¥742 million (\$7,889 thousand) in valuation loss on inventories in cost of sales for the year ended March 31, 2013.

(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, 2012 have been reclassified to conform to presentation in 2013.

(aa) Accounting Change

In accordance with an amendment to the Corporation Tax Law effective April 1, 2012, the Company and its domestic consolidated subsidiaries have changed their depreciation method for property, plant and equipment acquired on or after April 1, 2012, other than certain buildings, to reflect the methods prescribed in the amended Corporation Tax Law. The previously applied 250% declining-balance method was changed to the 200% declining-balance method. The effect of the change was not significant.

(ab) Standards issued but not yet effective

On May 17, 2012, the ASBJ issued "Accounting Standard for Retirement Benefits" (ASBJ Statement No. 26) and "Guidance on Accounting Standard for Retirement Benefits" (ASBJ Guidance No. 25), which replaced the Accounting Standard for Retirement Benefits that had been issued by the Business Accounting Council in 1998 with an effective date of April 1, 2000 and the other related practical guidance, being followed by partial amendments from time to time through 2009. The major changes are as follows:

- i) Treatment in the balance sheet—Actuarial gains and losses and prior service cost that have yet to be recognized in profit or loss shall be recognized within net assets (accumulated other comprehensive income), after adjusting for tax effects, and the deficit or surplus shall be recognized as a liability (liability for retirement benefits) or asset (asset for retirement benefits).
- ii) Treatment in the statement of income and the statement of comprehensive income—Actuarial gains and losses and prior service cost that arose in the current period and have yet to be recognized in profit or loss shall be included in other comprehensive income and actuarial gains and losses and prior service cost that were recognized in other comprehensive income in prior periods and then recognized in profit or loss in the current period shall be treated as reclassification adjustments.

This standard and related guidance are effective as of the end of fiscal years beginning on or after April 1, 2013. The Company is currently evaluating the effect these modifications will have on its consolidated results of operations and financial position.

(ac) Provision for loss on liquidation of subsidiaries and affiliates

A provision for loss on liquidation of subsidiaries and affiliates is provided for the possible losses incurred as a result of transfer of the Company's share in subsidiaries and affiliates.

The balance of the provision at March 31, 2013, which was included in other current liabilities in the accompanying consolidated balance sheet, was ¥344 million (US\$3,660 thousand).

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 ¥94 = US\$1, the approximate exchange rate prevailing in the Japanese foreign exchange market at the end of March 2013. The approximate rate of exchange prevailing at May 31, 2013 was ¥100 = US\$1. This translation should not be construed as a representation that the yen amounts actually represent, or have been or could be converted into, U.S. dollars.

5. Securities

The carrying amounts and estimated fair value of the securities classified as available-for-sale and held-to-maturity at March 31, 2013 and 2012 were as follows:

	Millions of yen			
	2013			
	Carrying amounts	Unrealized gains	Unrealized losses	Estimated fair value
Securities classified as:				
Available-for-sale:				
Equity securities	¥25,601	¥18,066	¥(263)	¥43,404
Debt securities	—	—	—	—
Held-to-maturity:				
Debt securities	1,454	72	—	1,525
Other	¥11,000	¥ —	¥ —	¥11,000

	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

	Thousands of U.S. dollars			
	2013			
	Carrying amounts	Unrealized gains	Unrealized losses	Estimated fair value
Securities classified as:				
Available-for-sale:				
Equity securities	\$272,352	\$192,193	\$(2,799)	\$461,746
Debt securities	—	—	—	—
Held-to-maturity:				
Debt securities	15,464	762	—	16,226
Other	\$117,021	\$ —	\$ —	\$117,021

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

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Proceeds	¥69	¥—	\$733
Gross gains	18	—	195
Gross losses	—	—	—

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, 2013 and 2012 comprised the following:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Standing timber:			
Mature timber	¥11,587	¥11,032	\$123,264
Growing timber	286	204	3,039
	11,872	11,236	126,303
Land	769	732	8,183
	¥12,642	¥11,967	\$134,486

The timberland accounts at March 31, 2013 and 2012 were reduced by ¥242 million (US\$2,576 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, 2013 and 2012 generally represented short-term borrowings which bore interest of 1.77% and 2.33% per annum, respectively.

Long-term debt at March 31, 2013 and 2012 were summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Loans, principally from banks and insurance companies, due 2013 to 2035 with interest of 1.39%:			
Secured			
Loans from banks or other	¥ 461	¥ 538	\$ 4,907
Unsecured			
Bonds issued	15,000	15,000	159,574
Loans from banks or other	34,299	34,440	364,882
Lease obligation	4,045	3,878	43,034
	53,805	53,856	572,397
Portion due within one year			
Loans from banks or other	10,571	6,693	112,458
Lease obligation	1,067	1,217	11,356
	11,638	7,910	123,814
	¥42,167	¥45,946	\$448,583

The following assets were pledged to secure bank loans and long-term debt at March 31, 2013 and 2012:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Receivables — Notes and accounts, trade	¥ 456	¥ 389	\$ 4,848
Finished goods, logs and lumber	1,659	1,450	17,650
Land	15	14	165
Buildings and structures	459	494	4,882
Machinery and equipment	1,020	994	10,854
Investment securities	68	—	718
	¥3,677	¥3,341	\$39,117

In addition to the above, certificates of deposit as security on entering into tree-planting business agreements at March 31, 2013 and 2012 were ¥11 million (US\$117 thousand) and ¥10 million, investment securities as security for deferred payment of customs duties at March 31, 2013 and 2012 were ¥11,371 million (US\$120,969 thousand) and ¥9,302 million, and investment securities as deposit for housing warranty were ¥1,454 million (US\$15,464 thousand) and ¥1,252 million, respectively.

The aggregate annual maturities of long-term debt and lease obligation at March 31, 2013 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
2013	¥ —	\$ —	¥10,571	\$112,458	¥1,067	\$11,356
2014	10,000	106,383	6,105	64,944	1,468	15,618
2015	—	—	6,996	74,428	996	10,591
2016	5,000	53,191	1,456	15,490	396	4,211
2017	—	—	2,424	25,793	92	975
Thereafter	—	—	7,207	76,675	27	283
	¥15,000	\$159,574	¥34,760	\$369,788	¥4,045	\$43,034

8. Loss on Impairment of Fixed Assets

Loss on impairment of fixed assets for the years ended March 31, 2013 and 2012 consisted of the following:

Location	Major use	Asset category	Millions of yen	Thousands of U.S. dollars		
			2013	2013		
Osaka City, Osaka Prefecture	2 buildings of rental condominiums	Buildings and structures	¥104	\$1,111		
		Land	35	377		
		Total	140	1,488		
Saijo City, Ehime Prefecture	Warehouse	Buildings and structures	8	84		
		Machinery and equipment	1	8		
		Land	17	176		
		Total	25	268		
Ashigara-shimogun, Kanagawa Prefecture	Idle assets	Land	46	490		
				Total	46	490
				¥211	\$2,246	

Location	Major use	Asset category	Millions of yen
			2012
Fuxin, Liaoning, China	Plywood manufacturing facility	Buildings and structures	¥ 471
		Machinery and equipment	201
		Other	402
		Total	1,073
Wangaratta, Victoria, Australia	Mid-density fiber board manufacturing facility	Machinery and equipment	1,345
		Other	54
		Total	1,399
Bellevue, Washington, U.S.A.	Assets for residential housing sales business	Goodwill	53
		Other intangible assets	499
		Other	14
		Total	566
			¥3,038

9. Income Taxes

Income taxes in Japan applicable to the Companies generally comprise Corporation Tax, Enterprise Tax and Prefectural and Municipal Inhabitants Taxes. The effective statutory tax rates for fiscal 2013 and 2012 were 38.0% and 40.0%, respectively.

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

	2013	2012
Statutory tax rate	—%	40.0%
Non-deductible expense for purposes	—	1.8
Per capita portion of inhabitant tax	—	1.7
Amortization of goodwill	—	0.4
Valuation allowance	—	2.7
Equity in losses of affiliates	—	0.7
Taxes on undistributed earnings of overseas subsidiaries	—	0.1
Effect of changes in corporate tax rates	—	0.2
Other	—	0.0
Effective tax rate	—%	47.7%

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

The significant components of deferred tax assets and liabilities at March 31, 2013 and 2012 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Deferred tax assets:			
Allowance for doubtful accounts	¥ 570	¥ 728	\$ 6,062
Accrued employees' bonuses	3,564	3,376	37,913
Accrued legal welfare expense on employees' bonuses	465	440	4,945
Accrued employees' retirement benefits	3,413	3,515	36,306
Enterprise taxes	495	457	5,271
Payable for transition of defined-contribution pension	—	567	—
Warranty reserve for completed construction	685	708	7,287
Devaluation of real estate for sale	677	536	7,205
Devaluation of financial instruments	1,881	1,958	20,009
Devaluation of property	1,743	1,765	18,546
Provision for loss on business liquidation	511	511	5,441
Tax loss carryforwards	2,906	3,117	30,910
Impairment loss	1,201	1,265	12,776
Unrealized profit on fixed assets	553	672	5,881
Other	5,381	3,643	57,249
Gross deferred tax assets	24,045	23,259	255,801
Valuation allowance	(10,567)	(10,584)	(112,415)
Total deferred tax assets	13,478	12,675	143,386
Deferred tax liabilities:			
Deferred gains on sales of property	(799)	(799)	(8,505)
Gain on securities contributed to employee retirement benefit trusts	(1,417)	(1,417)	(15,075)
Unrealized gain on available-for-sale securities	(5,470)	(2,557)	(58,192)
Land revaluation differences	(1,157)	(1,157)	(12,311)
Taxes on undistributed earnings of overseas subsidiaries	(2,430)	(1,885)	(25,848)
Other	(2,982)	(2,953)	(31,726)
Gross deferred tax liabilities	(14,256)	(10,770)	(151,657)
Net deferred tax assets (liabilities)	¥ (778)	¥ 1,906	\$ (8,271)

Net deferred tax assets were included in the consolidated balance sheets at March 31, 2013 and 2012 as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Current assets —			
Deferred tax assets	¥ 8,077	¥7,971	\$ 85,929
Investment and other assets —			
Deferred tax assets	1,343	1,251	14,290
Current liabilities — Other	(1)	—	(5)
Long-term liabilities —			
Deferred tax liabilities	(10,198)	(7,316)	(108,485)
Net deferred tax assets (liabilities)	¥ (778)	¥1,906	\$ (8,271)

10. Other Gains (Losses), Net

Other gains (losses), net, for the years ended March 31, 2013 and 2012 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Gain on foreign exchange	¥ 941	¥ 777	\$10,009
Loss on foreign exchange	—	—	—
Gain on sales of property, plant and equipment	88	295	941
Loss on disposal of property, plant and equipment	(98)	(211)	(1,047)
Provision for loss on liquidation of subsidiaries and affiliates	(344)	—	(3,660)
Other, net	706	1,094	7,510
	¥1,293	¥1,955	\$13,753

11. Research and Development Expenses

Research and development expenses charged to selling, general and administrative expenses for the years ended March 31, 2013 and 2012 were ¥1,352 million (US\$14,382 thousand) and ¥1,261 million, respectively.

12. Cash and Cash Equivalents

Cash and cash equivalents at March 31, 2013 and 2012 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Cash and time deposits	¥56,155	¥64,870	\$597,398
Short-term investments	11,000	15,000	117,021
Cash equivalents included in short-term loans receivable	28,598	—	304,233
Less: Cash deposits and short-term investments which mature or become due over three months after the date of acquisition	(20,095)	(16,030)	(213,779)
Cash and cash equivalents	¥75,658	¥63,839	\$804,873

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
	2012
Current assets	¥1,666
Non-current assets	1,689
Goodwill	975
Current liabilities	(939)
Long-term liabilities	(290)
Acquisition cost	3,101
Cash and cash equivalents	(1,117)
Net disbursement of acquisition	¥1,984

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, 2013 and 2012, which were included in retained earnings in the accompanying consolidated balance sheets, were ¥2,857 million (US\$30,395 thousand) and ¥2,857 million, respectively.

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

14. Finance Leases

(Lessee)

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

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

15. Contingent Liabilities

Contingent liabilities as at March 31, 2013 and 2012, for loans guaranteed amounted to ¥31,199 million (US\$331,900 thousand) and ¥25,178 million.

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Guarantee on loans from financial institutions			
Kawasaki Biomass Electric Power Co., Ltd.	¥ 1,980	¥ 2,212	\$ 21,066
Cascadia Resort Communities LLC	43	39	461
Guarantees of housing loans to customers	29,023	22,763	308,757
Other	1	1	10
Guarantee on rent payment			
Sumikyo Co., Ltd.	151	163	1,606
Total	¥31,199	¥25,178	\$331,900

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

	Thousands of U.S. dollars		
	2013		
	Carrying amount	Fair value	Unrealized gain
Cash and time deposits	\$ 597,398	\$ 597,398	\$ —
Receivables-notes and accounts, trade	1,287,798	1,287,798	—
Marketable securities and investment securities			
Held-to-maturity	15,465	16,226	761
Available-for-sale	578,767	578,767	—
Receivables-loans and other	901,986	901,986	—
Total	\$3,381,414	\$3,382,175	\$761
Payables-notes and accounts, trade	\$1,804,505	\$1,804,505	\$ —
Total	\$1,804,505	\$1,804,505	\$ —
Derivatives*			
Hedge accounting not applied	\$ 3,349	\$ 3,349	\$ —
Hedge accounting applied	4,295	4,295	—
Total	\$ 7,644	\$ 7,644	\$ —

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

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.

(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
	2013	2012	2013
Unlisted equity securities	¥ 1,380	¥1,357	\$ 14,681
Preferred stock	3,000	3,000	31,915
Investment in affiliates	10,350	8,513	110,111

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

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

	Thousands of U.S. dollars			
	2013			
	1 year or less	5 years or less but more than 1 year	10 years or less but more than 5 years	More than 10 years
Cash and time deposits	\$ 591,011	\$ —	\$ —	\$—
Receivables-notes and accounts, trade	1,287,797	—	—	—
Marketable securities and investment securities				
Government bonds	—	1,176	14,289	—
Other	117,021	—	—	—
Receivables-loans and other	901,986	—	—	—
Total	\$2,897,815	\$1,176	\$14,289	\$—

17. Derivatives and Hedging Activities

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

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

	Thousands of U.S. dollars			
	2013			
	Contract notional amount	Contract amount due after one year	Fair value	Unrealized gain
Currency-related				
Forward foreign currency exchange contracts:				
Sell (Yen)	\$16,516	\$2,591	\$3,254	\$3,254
Buy (NZ dollar)	23,728	—	95	95
Buy (U.S. dollar)	480	—	(0)	(0)
Total	\$40,724	\$2,591	\$3,349	\$3,349

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

	Hedged item	Millions of yen		
		2013		
		Contract amount	Contract amount due after one year	Fair value
Forward foreign currency exchange contracts:				
Accounting in principle				
Sell (U.S. dollar)	Accounts amount payable	¥ 3,501	¥ —	¥ 34
Sell (Euro)		2,302	—	44
Sell (Yen)		38	—	2
Buy (U.S. dollar)	Accounts amount payable	10,317	—	152
Buy (Euro)		7,138	—	171
Appropriated accounting for foreign currency				
Sell (U.S. dollar)	Accounts amount receivable	46	—	*
Buy (U.S. dollar)	Accounts amount payable	348	—	*
Buy (Euro)		114	—	*
Total		¥23,804	¥ —	¥404
Interest rate swaps:				
Accounted for by short-cut method				
Receive floating pay fixed	Long-term bank loans	11,000	4,400	(92)
Total		¥11,000	¥4,400	¥ (92)

Thousands of U.S. dollars				
2013				
	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	\$ 37,243	\$ —	\$ 367
Sell (Euro)		24,488	—	471
Sell (Yen)		399	—	19
Buy (U.S. dollar)	Accounts amount payable	109,760	—	1,621
Buy (Euro)		75,936	—	1,817
Appropriated accounting for foreign currency				
Sell (U.S. dollar)	Accounts amount receivable	487	—	*
Buy (U.S. dollar)	Accounts amount payable	3,707	—	*
Buy (Euro)		1,215	—	*
Total		\$253,235	\$ —	\$ 4,295
Interest rate swaps:				
Accounted for by short-cut method				
Receive floating pay fixed	Long-term bank loans	117,021	46,809	(981)
Total		\$117,021	\$46,809	\$ (981)

* 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, accounts receivable 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, 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

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	

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, 2013 and 2012 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Projected benefit obligation	¥(55,782)	¥(52,598)	\$(593,426)
Fair value of plan assets	46,103	42,565	490,456
Unrecognized actuarial loss	—	—	—
Unrecognized prior service cost	—	—	—
Prepaid pension cost	—	—	—
Net liability for retirement benefits	¥ (9,679)	¥(10,033)	\$(102,970)
Net liability for retirement benefits consist of:			
Prepaid pension cost	¥ 41	¥ —	\$ 435
Accrued employees' retirement benefits	(9,720)	(10,033)	(103,405)
	¥ (9,679)	¥(10,033)	\$(102,970)

The components of net periodic benefit cost for the years ended March 31, 2013 and 2012 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Service cost	¥2,795	¥2,615	\$29,729
Interest cost	926	965	9,850
Expected return on plan assets	(1,098)	(1,474)	(11,680)
Recognized actuarial loss	(352)	4,916	(3,742)
Amortization of prior service cost	—	49	—
Expense of changing accounting method	—	—	—
Net periodic benefit cost	¥2,271	¥7,072	\$24,157
Gain on transition to defined-contribution pension plan	(19)	(156)	(202)
Gain on abolishment of retirement benefit plan	—	—	—
Other	703	687	7,484
Total periodic benefit cost	¥2,955	¥7,603	\$31,439

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

Assumptions used for the years ended March 31, 2013 and 2012 were set forth as follows:

	2013	2012
Discount rate	1.6%	1.8%
Expected rate of return on plan assets	2.6%	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, 2013 and 2012 were ¥615 million (US\$6,538 thousand) and ¥904 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	
	2012	Increase / (Decrease)	2013	2013
	Carrying amount	Fair value	Carrying amount	Fair value
	2012	2013	2013	2013
	¥12,166	¥(2,858)	¥9,308	¥9,026
			\$99,017	\$96,020

20. Segment Information

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

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

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

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

Other: leasing, insurance agent business, management of residential care facilities for the elderly and other

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

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

Year ended March 31, 2012	Millions of yen							
	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
Segment assets	157,929	147,361	56,292	361,583	17,123	378,706	124,790	503,496
Other items								
Depreciation and amortization	¥ 918	¥ 3,731	¥ 2,189	¥ 6,837	¥ 943	¥ 7,781	¥ 688	¥ 8,469
Amortization of goodwill	(11)	53	169	211	—	211	—	211
Interest income	75	54	78	207	1	208	61	269
Interest expense	700	1,056	962	2,717	22	2,739	(1,443)	1,296
Equity in earnings of affiliates	177	0	(492)	(315)	—	(315)	0	(314)
Investments in affiliates	267	4	8,253	8,523	—	8,523	(11)	8,513
Increase in tangible and intangible fixed assets	¥ 710	¥ 5,073	¥ 6,618	¥ 12,401	¥ 1,079	¥ 13,481	¥ 469	¥ 13,950

Thousands of U.S. dollars

Year ended March 31, 2013	Timber and Building Materials	Housing	Overseas	Subtotal	Other	Total	Adjustments	Consolidated
Sales and contract revenues:								
Unaffiliated customers	\$4,054,903	\$4,579,030	\$277,307	\$8,911,240	\$ 70,667	\$8,981,907	\$ 9,414	\$8,991,321
Intersegment transfers	213,887	3,673	133,938	351,498	93,226	444,724	(444,724)	—
Total	4,268,790	4,582,703	411,245	9,262,738	163,893	9,426,631	(435,310)	8,991,321
Segment income (loss)	50,039	279,008	(19,576)	309,471	8,026	317,497	(30,462)	287,035
Segment assets	1,671,507	1,542,316	698,527	3,912,350	194,172	4,106,522	1,722,979	5,829,501
Other items								
Depreciation and amortization	\$ 8,216	\$ 43,865	\$ 24,090	\$ 76,171	\$ 9,122	\$ 85,293	\$ 10,214	\$ 95,507
Amortization of goodwill	(117)	83	2,873	2,839	—	2,839	—	2,839
Interest income	638	564	1,963	3,165	4	3,169	925	4,094
Interest expense	6,899	8,595	10,480	25,974	932	26,906	(13,397)	13,509
Equity in earnings of affiliates	557	0	(2,053)	(1,496)	—	(1,496)	4	(1,492)
Investments in affiliates	3,560	43	99,712	103,315	—	103,315	(112)	103,203
Increase in tangible and intangible fixed assets	\$ 11,697	\$ 59,020	\$ 21,467	\$ 92,184	\$ 12,124	\$ 104,308	\$ 5,171	\$ 109,479

(Related information)

(1) Products and services information

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

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

Year ended March 31, 2013	Thousands of U.S. dollars			
	Timber and Building Materials	Housing	Other	Total
Sales and contract revenues to unaffiliated customers	\$4,293,069	\$4,645,355	\$52,897	\$8,991,321

(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:

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

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

Year ended March 31, 2013	Thousands of U.S. dollars				
	Japan	Oceania	Asia	Other	Total
	\$614,560	\$172,014	\$115,738	\$11,514	\$913,826

(3) Customer information

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

(Information of loss on impairment of fixed assets)

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

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

Year ended March 31, 2013	Thousands of U.S. dollars					
	Timber and Building Materials	Housing	Overseas	Other	Elimination and/or Corporate	Total
Loss on impairment of fixed assets	\$268	\$1,978	\$—	\$—	\$—	\$2,246

(Amortization and balance of goodwill)

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

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

Year ended March 31, 2013	Thousands of U.S. dollars					
	Timber and Building Materials	Housing	Overseas	Other	Elimination and/or Corporate	Total
Amortization of goodwill	\$(117)	\$ 83	\$2,873	\$—	\$—	\$2,839
Balance of goodwill	(2)	226	7,611	—	—	7,835

21. Net Income per Share

The computation of net income per share for the years ended March 31, 2013 and 2012 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Numerator for net income per share:			
Net income	¥15,923	¥9,271	\$169,389
Income not available to common stockholders	—	—	—
Income available to common stockholders	15,923	9,271	169,389
Denominator for net income per share:			
Weighted average number of shares issued	177,137,337	177,138,651	

The diluted net income per share for the years ended March 31, 2013 and 2012 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, 2013 and 2012 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Unrealized gain on available-for-sale securities			
Amount incurred during the year	¥ 9,093	¥ 614	\$ 96,734
Reclassification adjustments for gains and losses included in net income	216	—	2,301
Amount before tax effect	9,309	614	99,035
Tax effect	(2,911)	243	(30,972)
Unrealized gain on available-for-sale securities	6,398	857	68,063
Deferred gain on hedges			
Amount incurred during the year	90	(2)	959
Reclassification adjustments for gains and losses included in net income	2	22	27
Amount before tax effect	93	20	986
Tax effect	(36)	17	(380)
Deferred gains on hedges	57	37	606
Translation adjustments			
Amount incurred during the year	2,866	(1,077)	30,486
Reclassification adjustments for gains and losses included in net income	—	—	—
Amount before tax effect	2,866	(1,077)	30,486
Tax effect	—	—	—
Translation adjustments	2,866	(1,077)	30,486
Share of other comprehensive income of affiliated companies accounted for by the equity method			
Amount incurred during the year	799	(257)	8,505
Reclassification adjustments for gains and losses included in net income	—	42	—
Share of other comprehensive income of affiliated companies accounted for by the equity method	799	(214)	8,505
Total other comprehensive income	¥10,120	¥ (396)	\$107,660

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 0.20% to 2.15% and the anticipated future useful lives ranging from 5 years to 29 years.

The balance of these obligations at March 31, 2013 and 2012 are included in other current liabilities and other long-term liabilities in the accompanying consolidated balance sheet.

Breakdowns of the total amount of the asset retirement obligations for the years ended March 31, 2013 and 2012 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Balance at beginning of the year	¥1,380	¥1,395	\$14,679
Liability incurred for assets acquired	95	76	1,009
Accretion expense	11	12	118
Liabilities settled	(104)	(104)	(1,106)
Balance at end of the year	¥1,382	¥1,380	\$14,700

24. Related Party Transactions

Not applicable in the year ended March 31, 2013.

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

2012			
Name	Title	Transactions	Millions of yen Amounts
Shigeru Sasabe	Director of the Company	Sales of housing	¥45

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 are as follows:

	Millions of yen
	2012
Restoration of damaged assets to their original state	¥ 8
Loss on disappearance and disposal of inventories	21
Inspection charge for houses the company constructed	39
	¥68

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 sheets as at March 31, 2013 and 2012, and the consolidated statements of income, comprehensive income, changes in net assets, and cash flows for the years 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, 2013 and 2012, and their consolidated financial performance and cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

Convenience Translation

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

June 14, 2013
Tokyo, Japan



Sumitomo Forestry Group at a Glance

(As of July 1, 2013)

Domestic

Timber and Building Materials Business Segment

1 Sumitomo Forestry Wood Products Co., Ltd.	Forest management; various forestry businesses; procurement and sales of Japanese timber, etc.
2 Sumitomo Forestry Crest Co., Ltd.	Manufacture and sales of various types of plywood, building components for housing, furniture, etc.
3 Sumirin Sash Co., Ltd.	Secondary processing and sales of aluminum sashes; exterior finishing
4 Sumikyo Wintec Co., Ltd.	Sales of door and window sashes for housing and low- and mid-rise buildings; sales of exterior finishing materials
5 Sumikyo Co., Ltd.	Sales of door and window sashes for housing; sales and installation of sidings; sales of exterior finishing materials
6 Igeto Co., Ltd.	Sales of housing materials and 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

Housing Business Segment

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

Other Businesses Segment

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

Overseas

Timber and Building Materials Business Segment

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

Overseas Business Segment

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



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

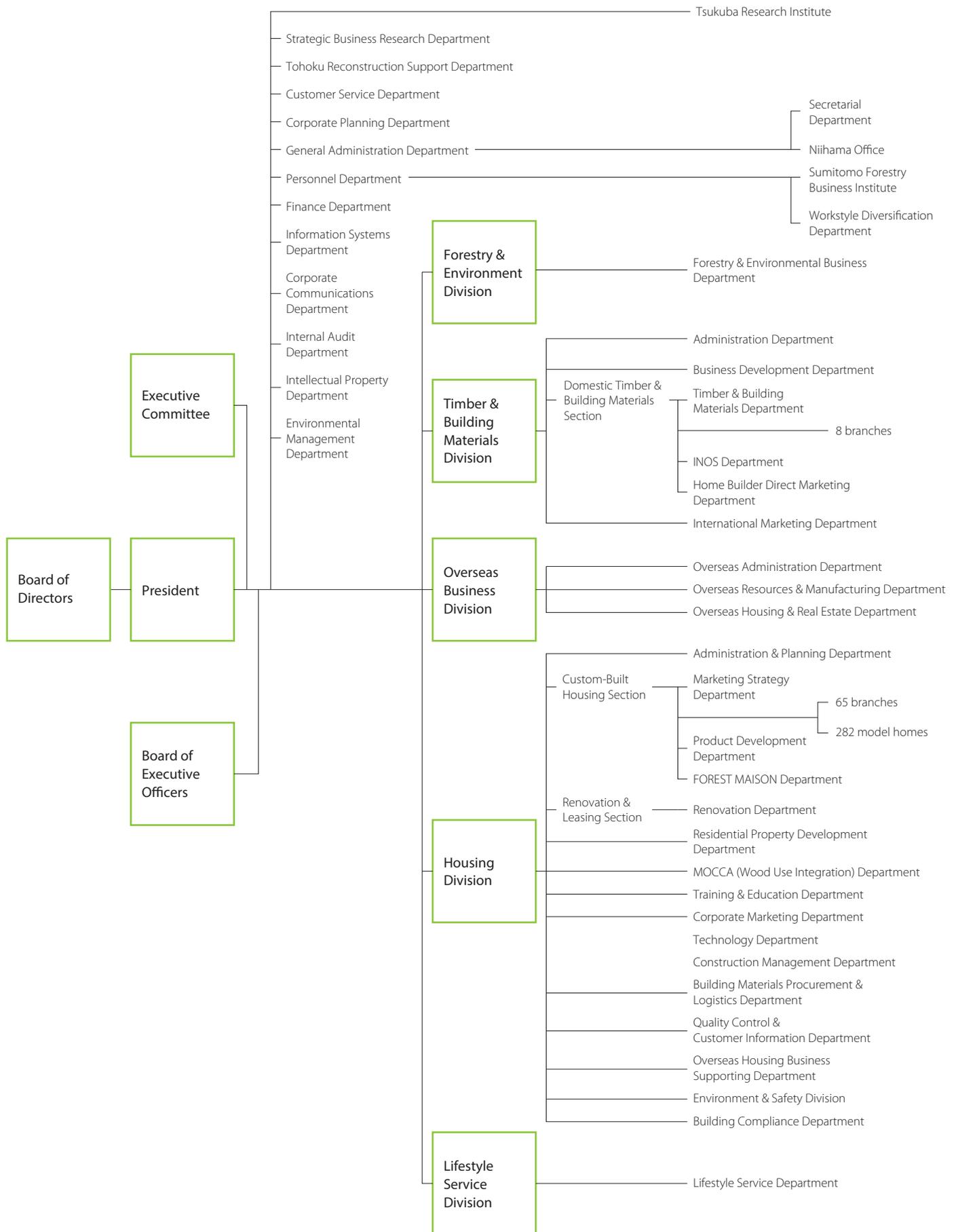
Housing Business Segment

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

(As of April 1, 2013)



Investor Information

(As of March 31, 2013)

Company Outline

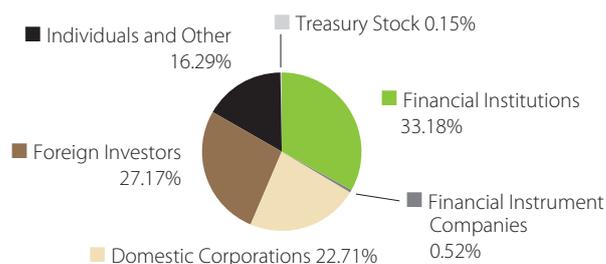
Company Name	Sumitomo Forestry Co., Ltd.
Founded	1691
Incorporated	1948
Paid-in Capital	¥27,672 million
Stock Exchange Listing	Tokyo*
Total Number of Authorized Shares	400,000,000
Total Number of Shares Issued	177,410,239
Ordinary Shareholders' Meeting	June
Number of Shareholders	12,124
Head Office	Keidanren Kaikan, 3-2, Otemachi 1-chome, Chiyoda-ku, Tokyo 100-8270, Japan
Consolidated Subsidiaries	48 (Overseas 23)
Associated Companies	22 (Overseas 20)
Number of Employees (Consolidated)	14,890
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, 2013)

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)	8,120	4.57
Japan Trustee Service Bank, Ltd. (trust account)	6,690	3.77
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	4,042	2.27
Sumitomo Mitsui Trust Bank, Ltd.	3,408	1.92

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

Breakdown of Shareholders (As of March 31, 2013)



Stock Price and Trading Volume (Former Osaka Securities Exchange*)



* The former Osaka Securities Exchange was integrated into the Tokyo Stock Exchange on July 16, 2013 with the establishment of Japan Exchange Group, Inc.



Corporate Communications Department IR team
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URL: <http://sfc.jp/english/>