

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

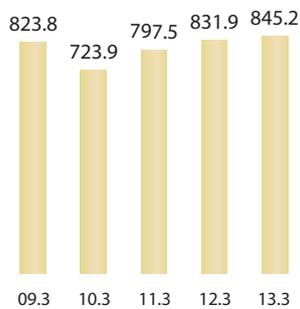
Year ended March 31, 2013

Financial

Net Sales

845.2 billion yen

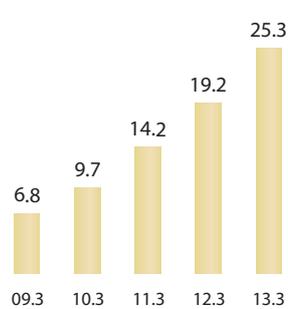
YoY change +1.6%



Operating Income

25.3 billion yen

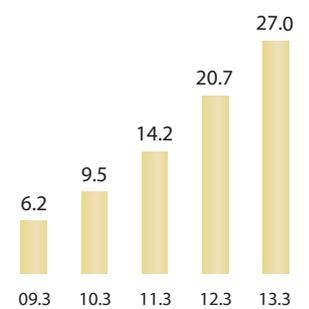
YoY change +32.0%



Recurring Income

27.0 billion yen

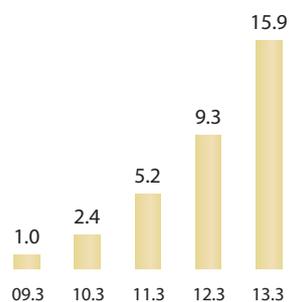
YoY change +30.3%



Net Income

15.9 billion yen

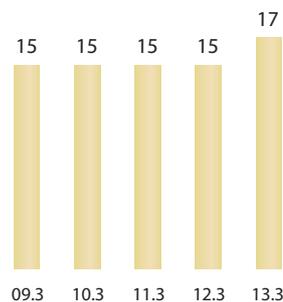
YoY change +71.8%



Dividend per Share

17.0 yen

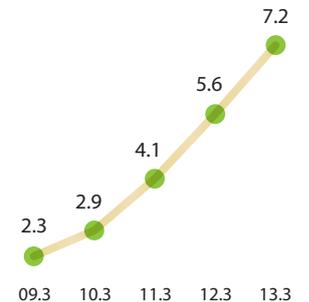
YoY change +2 yen



ROCE* (Return on Capital Employed)

7.2%

YoY change +1.6 points



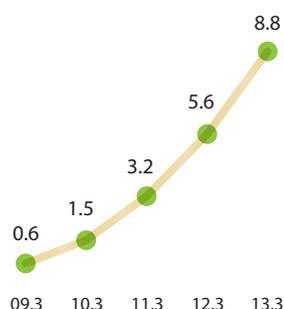
* ROCE = Operating profit / (Interest-bearing debt + Shareholders' equity)
 [Operating profit = (Recurring income + Interest expenses) × (1 - Effective tax rate)]

Sustainability

ROE* (Return on Equity)

8.8 %

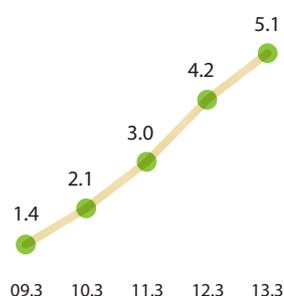
YoY change +3.2 points



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.

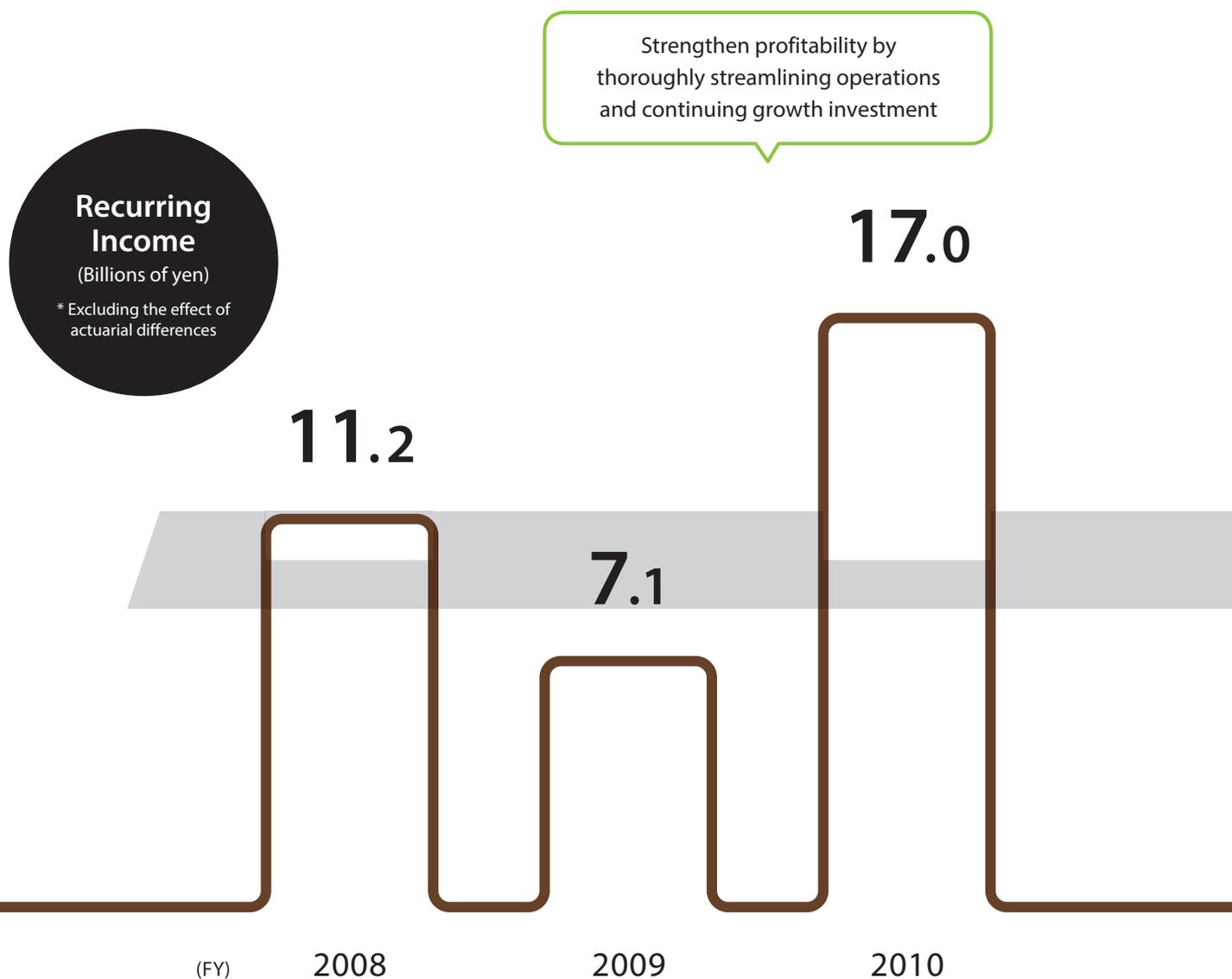
*2. Installation rate of solar power system or *ENE FARM* fuel cell system in *Sumitomo Forestry Home* houses (orders received basis)

*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

30 billion yen

25.6

26.6

28.0

20 billion yen

10 billion yen

2011

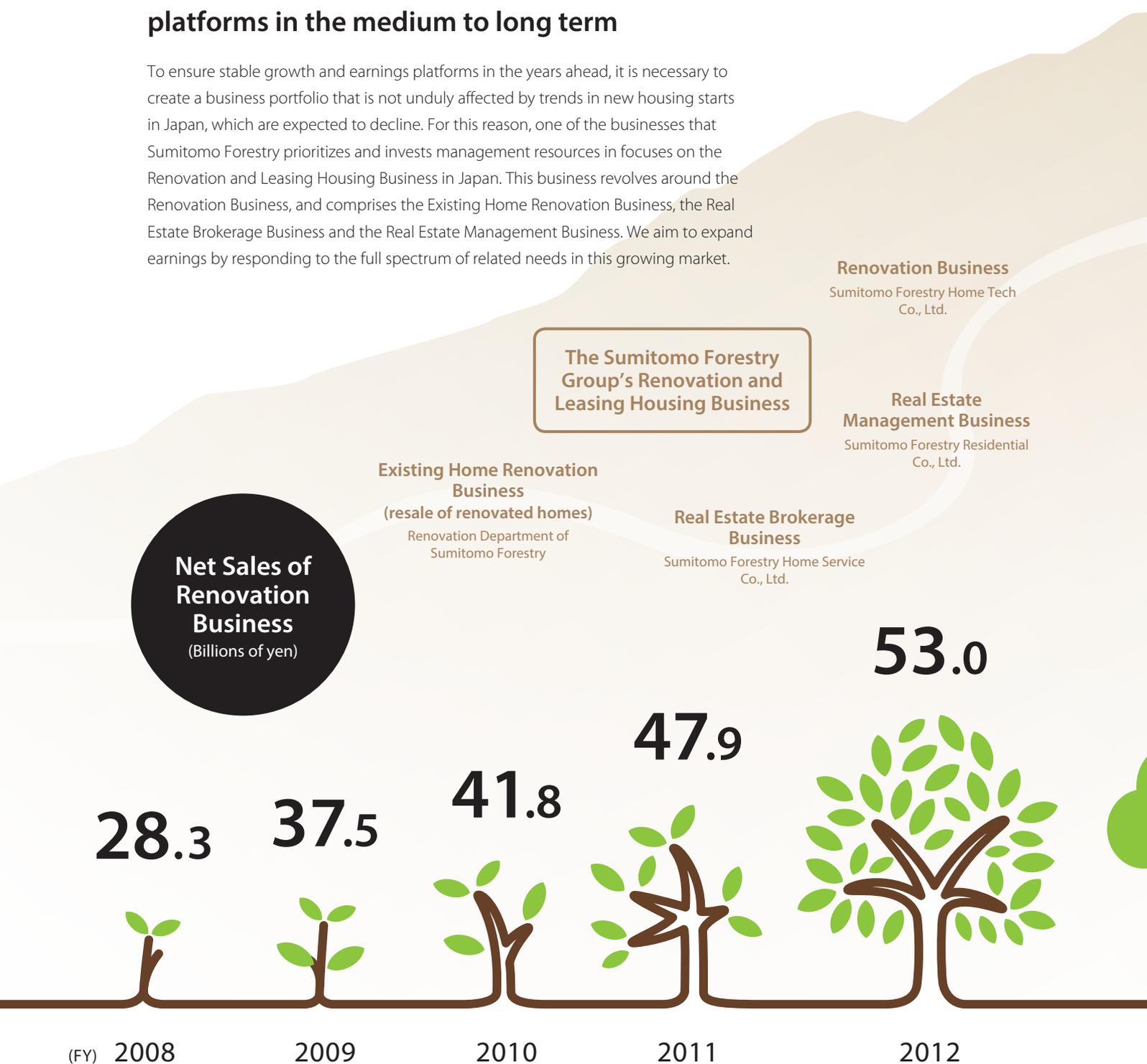
2012

2013
(Forecast)

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.



Contents

1 Our Way to Growth	29 Business Strategies by Segment	39 Sustainability
12 Message from the Chairman	30 At a Glance	45 Governance
14 Message from the President	32 Timber and Building Materials Business	51 Financial Section
16 Interview with the President	34 Housing Business	83 Sumitomo Forestry Group at a Glance
21 Special Feature: Unlocking the Potential of Wood to Boost the Growth of the Sumitomo Forestry Group	36 Overseas Business	86 Organization Chart
	38 Other Businesses	87 Investor Information



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.