

Interview with the President

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

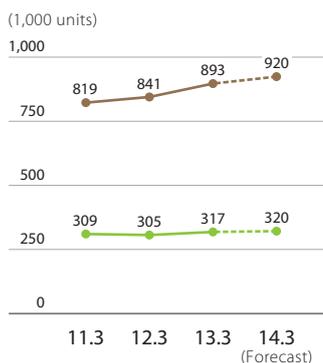
Akira Ichikawa,
President / Representative Director



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

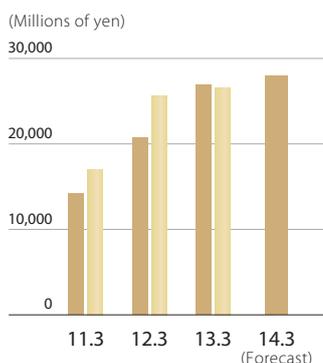
Against the backdrop of a robust domestic housing market, the Group's performance was driven by the Housing Business, leading to an increase in both sales and profits.

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.

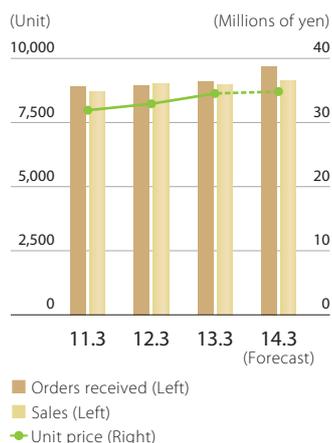
In the Timber and Building Materials Business, results for the domestic logistics operation were unchanged from the previous fiscal year despite deteriorating market conditions that contrasted a surging demand in fiscal 2011 centered on imported plywood following the Great East Japan Earthquake.

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.

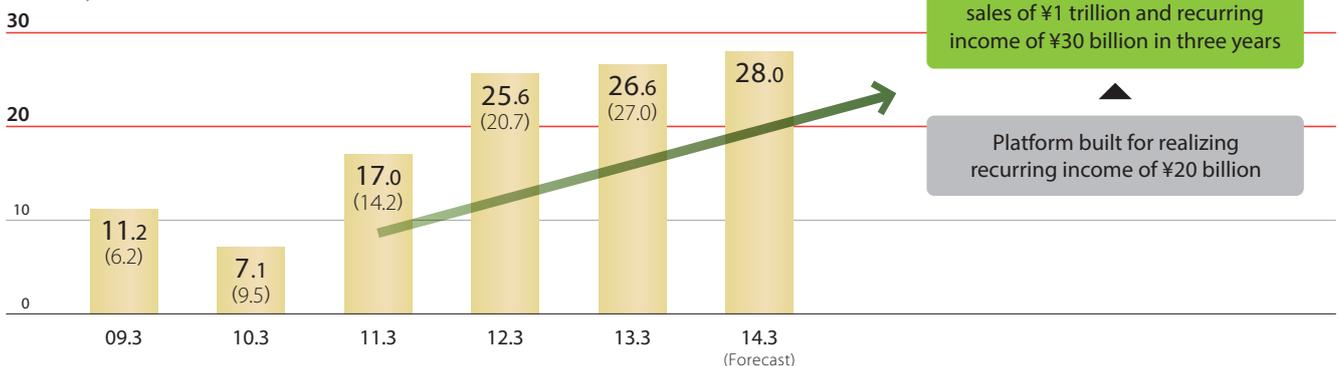
In the Overseas Business, we will accelerate business growth that includes M&A by restructuring business portfolios while keeping a close eye on market conditions in individual countries. Particularly in the United States, where the housing market is rebounding, we plan to establish a business base capable 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.



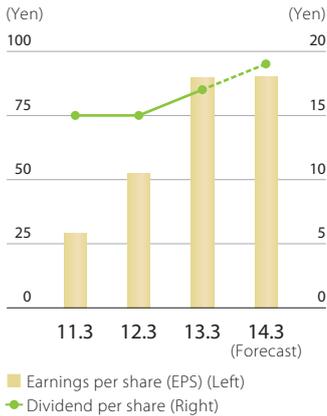
The Group promotes overseas timber procurement and upgrades nationwide timber and building materials distribution networks



▶▶ 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.

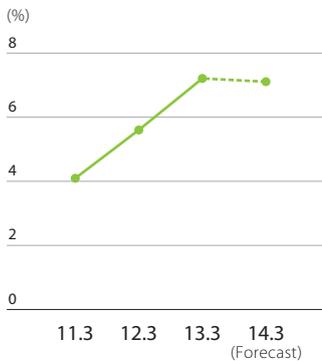
Dividend per Share/
Earnings per Share (EPS)



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)]

