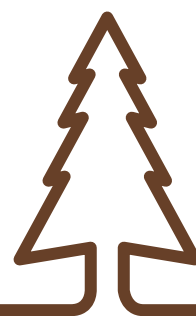
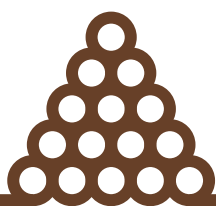
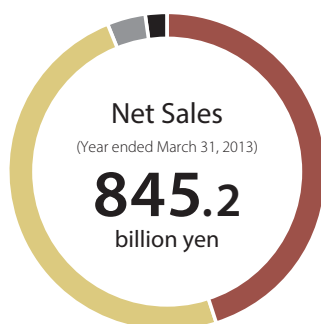


# Business Strategies by Segment



# At a Glance

## Net Sales by Segment



Timber and Building Materials Business	<b>45%</b>
Housing Business	<b>49%</b>
Overseas Business	<b>4%</b>
Other Businesses	<b>2%</b>

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

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

\* Figures are rounded when less than one unit.

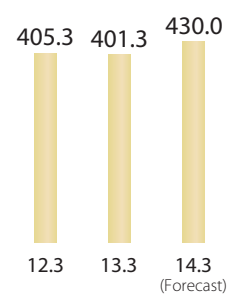
\* Sales and recurring income of each segment shown include inter-segment transactions. For the years ended March 2012, figures for new segments are calculated based on the old segments, for reference only.

## Timber and Building Materials Business

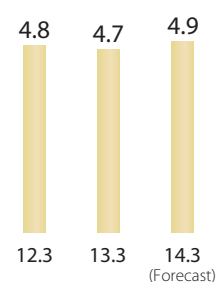


We operate a distribution business that sources high quality timber and building materials from Japan and overseas for marketing to domestic and overseas customers, and a manufacturing business that makes materials for wooden buildings in Japan.

Net Sales (Billions of yen)



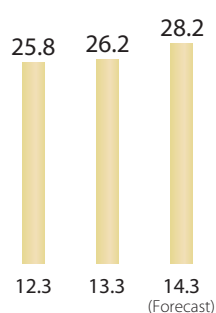
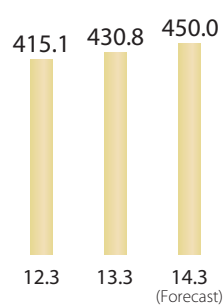
Recurring Income (Billions of yen)



## Housing Business



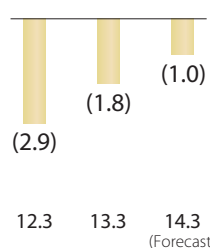
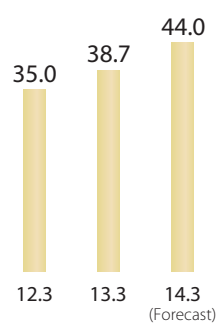
Centered on the Custom-Built Detached Housing Business, we operate a wide range of lifestyle-related businesses. These include the Renovation and Leasing Housing Business, which focuses on renovation, real estate brokerage and management, and the new Detached Spec Homes Business.



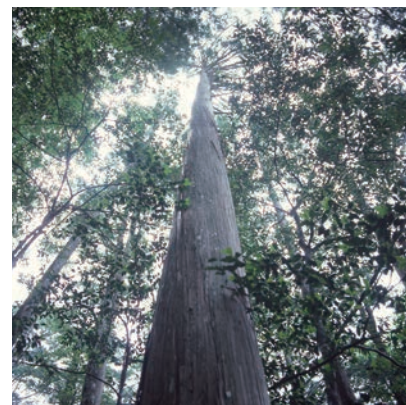
## Overseas Business



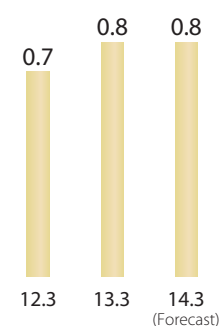
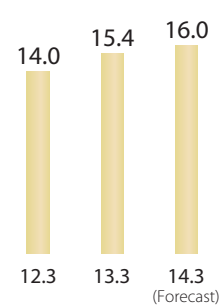
We operate the resources business, which is centered on plantation forestry, the building materials manufacturing business, and the housing and real estate business mainly in the Pacific Rim, including Southeast Asia, Oceania, North America and China.



## 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



Woodchips for wood biomass power plant

### 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



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

#### Ryounbou 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 *Ryounbou* 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.

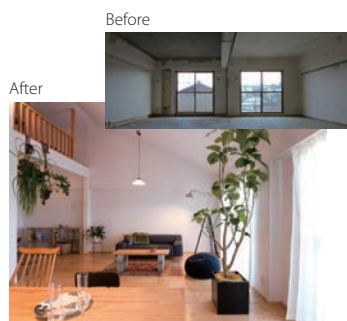
In other businesses—which encompasses the resale of renovated homes undertaken by the Existing Home Renovation Business as well as real estate brokerage and management—we are deepening and strengthening inter-Group cooperation to build a stable earnings structure.

## 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.

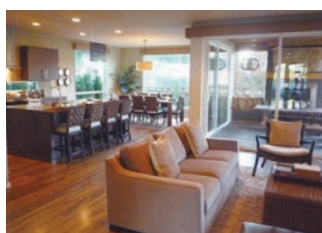


A plantation forest in Indonesia

## 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.



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

### 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.



Private-pay elderly care facility *Grand Forest Hikawadai*



*Karuido* lightweight growing medium for rice seedlings