



To attain our medium-term objective, we will achieve steady growth by further upgrading the earnings fundamentals of our main businesses and accelerating growth businesses.

Akira Ichikawa  
President / Representative Director

Consolidated Performance in Fiscal 2013 (fiscal year ended March 31, 2014)

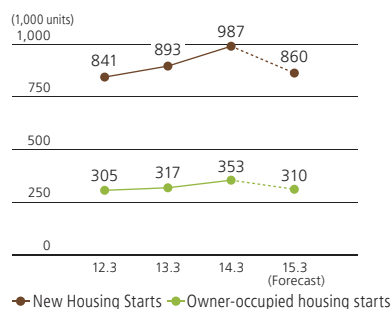
With a strong domestic housing market, our main businesses drove overall performance and both sales and profits increased.

The domestic housing market in fiscal 2013 remained strong, buoyed by continued low interest rates, the effects of government incentives to promote house purchases including an expansion of tax breaks for housing loans, and a last-minute surge in demand prior to the consumption tax increase. Given these factors, new housing starts in Japan increased 10.6% year on year to approximately 987,000 units. Nevertheless, the situation was uncertain as a sharp reactionary decline due to the last-minute surge in demand manifested in the second half.

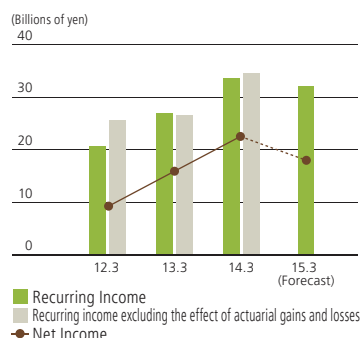
In the Timber and Building Materials Business and Housing

Business, performance was strong due to properly responding to rising domestic demand, which drove overall performance. In the Overseas Business, we focused our efforts on growth fields and improving unprofitable businesses and thereby substantially reduced losses. As a result, in fiscal 2013, consolidated net sales climbed 15.1% year on year to ¥973.0 billion, recurring income increased 24.4% to ¥33.6 billion and net income jumped 41.5% to ¥22.5 billion. Actuarial differences in accounting for retirement benefits had a negative effect due mainly to the decline in long-term interest rates, and if we exclude this effect, recurring income increased

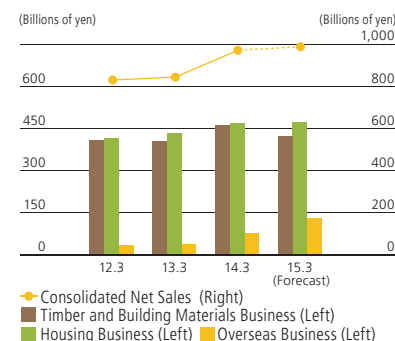
Number of New Housing Starts in Japan



Recurring Income / Net Income



Consolidated Net Sales and Net Sales by Segment



29.9% to ¥34.6 billion.

The first reason for the large increase in net income was the posting as extraordinary gains of a marginal gain on step acquisitions that occurred due to turning an equity-method affiliate into a consolidated subsidiary. The second reason was a decrease in income taxes due to the effects of reversals of deferred tax liabilities recorded in past fiscal years following the Japan-New Zealand Tax Treaty. These had a total positive impact of about ¥4.2 billion.

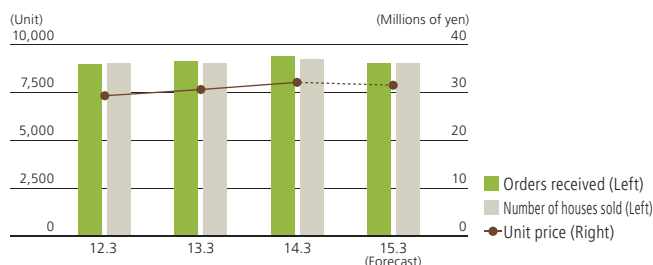
In the Housing Business, an increase in the number of houses sold and a rise in the unit price per house boosted net sales in the Custom-Built Detached Housing Business. The higher unit price per house was due to the increased adoption of solar power systems and greater sales of our proprietary

Big Frame construction method. The Renovation Business, the Wooden Apartment Business also performed well.

In the Timber and Building Materials Business, the domestic timber and building materials distribution business had solid earnings due to an increase in the volume of materials handled and rising unit sales prices of imported products caused by the yen's depreciation. In addition, greater efforts were made to tackle growing markets such as with sales of renovation materials and expansion of the overseas distribution business.

The Overseas Business had substantially higher sales due to actively investing management resources in mergers and acquisitions in the housing business in the United States to increase the scale of its business.

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



Structural framework of Big-Frame construction method

## Outlook for Consolidated Performance in Fiscal 2014 (fiscal year ending March 31, 2015)

### While dealing with a sharp reactionary decline in demand following consumption tax increase, we execute growth strategy focused on next fiscal year and beyond.

Regarding the business environment in fiscal 2014, amid the recovery of corporate earnings and improved employment conditions, the Japanese economy overall is expected to be stable, with consumer spending remaining firm. On the other hand, the outcome of the housing market's sharp reactionary decline following the last-minute surge in demand before the consumption tax increase is uncertain. Furthermore, if the consumption tax rate is raised from 8% to 10% as planned on October 2015, a last-minute surge in demand could occur again at around the end of fiscal 2014, the cutoff point for transitional measures. Therefore, future market trends forecast instability. At Sumitomo Forestry, we expect new housing starts in fiscal 2014 to decrease 12.9% year on year to 860,000 units. The new housing market in Japan is expected to suddenly shift from the upsurge of the previous fiscal year to a standstill.

Under these business circumstances, the point for business operations in fiscal 2014 is, in the main Timber and Building Materials Business and Custom-Built Detached Housing Business, to deal with the reactionary decrease in demand following the consumption tax increase while accelerating the progress of growth businesses such as the Overseas Business and the Renovation and Leasing Housing Business.

The outlook in fiscal 2014 is for net sales to increase 1.8% year on year to ¥990.0 billion and recurring income to slip 4.7% to ¥32.0 billion.

In the Timber and Building Materials Business, we will focus on increasing its market share in the distribution business in Japan. In order to raise its presence in each region, the Company will promote a regional-based sales strategy and cooperate more closely with its business partners. With rising energy-saving awareness, we will increase sales of heat-insulation materials and environmentally sound equipment such as solar power systems, for which demand is expected to grow, and continue to strongly capture the expanding renovation market. In the overseas distribution business, we will focus on expanding sales of products manufactured in overseas subsidiaries, to the Asian market and beyond.

In the Housing Business, we will aggressively invest our management resources in major metropolitan areas and develop exhibition strategies in the Custom-Built Detached Housing Business. At the same time, in the business engaged in stock housing, we will focus on further business expansion by developing the three largest urban markets and increasing orders for condominium renovations in the mainstay

Renovation Business.

In the Overseas Business, we will build a stable production system in the Overseas Resources and Manufacturing Business and improve profitability. Meanwhile, in the Overseas Housing and Real Estate Business, we will increase the number of

detached houses sold in the U.S. and Australia, further disseminate our accumulated housing business knowhow to Group companies, and raise efficiency. Through these efforts, we expect the Overseas Business to substantially increase sales and become profitable.



Environmentally sound equipment (solar power systems) which is growing in demand



Condominium renovation

### Toward the Achievement of the Medium-Term Objective

**We seek to create a structure for realizing net sales of ¥1 trillion and recurring income of ¥30 billion along with an optimal business portfolio.**

The Sumitomo Forestry Group sets medium-term objective every three years and implements its business strategy from a long-term perspective. During the three years from fiscal 2010 through fiscal 2012, with “strengthening profitability” as its top priority, the Group focused on rigorous cost cutting and improving business efficiency under the goal of “building a business structure capable of posting recurring income of ¥20 billion on a constant basis,” and gained a foothold for the next growth phase.

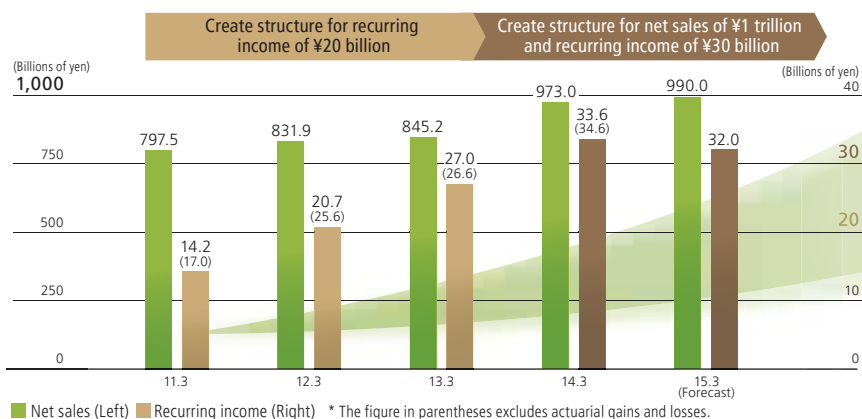
Furthermore, we have set a new goal of “building a business structure capable of posting net sales of more than ¥1 trillion and recurring income of more than ¥30 billion on a constant basis” within about a three-year period from the previous fiscal year through fiscal 2015. Fiscal 2014 marks the second year toward this goal. With its existing earnings

foundation as a base, the Company seeks even higher profits through the expansion of its business scale.

Although we already reached the goal for recurring income in fiscal 2013, our target is to build a business structure that is capable of consistently exceeding profit targets, even in a business environment where new housing starts decreases in Japan.

To achieve this goal, we need to create a business portfolio that is not unduly affected by trends in the new housing market in Japan by fully leveraging while optimally allocating our management resources. To that end, we will further solidify the existing earnings structure in the main Timber and Building Materials Business and Custom-Built Detached Housing Business on the one hand, and accelerate progress in growth businesses on the other.

### Medium-Term Objective and Performance



**Achieve medium-term objective and seek further growth**

## Growth Strategy that Aims for Further Business Expansion

# Overseas Business and Renovation and Leasing Housing Business are viewed as core growth businesses and business expansion will be accelerated.

To grow in the years ahead, it is important to show the Group's strengths in markets with growth prospects. Among a wide range of business domains, the Overseas Business and the business involved in stock housing centered on the Renovation Business are currently investing management resources on a priority basis and steadily growing.

In the Overseas Business, the Overseas Resources and Manufacturing Business is raising the production capacity of the manufacturing business for wood-based panels and other building materials, and absorbing demand from emerging countries where growth continues. Meanwhile, the Overseas Housing and Real Estate Business is accelerating business expansion in the United States and Australia, the world's leading markets for wooden homes. These efforts form the pillar of its growth strategy.

The overseas building materials manufacturing business has grown over a long period of time. For instance, it began the plywood manufacturing business in Indonesia in the 1970s, and has become well established in local communities. At present, its production capacity of wood-based panels such as MDF, particle board and plywood, its main products, is one of the largest in Asia and Oceania. Leveraging this production capacity, as we responds to global demand trends for wood-based panels, we will continue to set up a production system capable of meeting emerging country demand, which is expected to grow.

In the overseas housing business, we continue to expand business assessing market trends in each region with a focus on M&As. In the United States, we started our business in Seattle, but in June 2013 and May 2014, we acquired equity interest in two local home builder groups in Texas, where the economy is strong with a high population growth, in order to expand our business area. With these acquisitions, the number

### Overseas Business Segment Performance

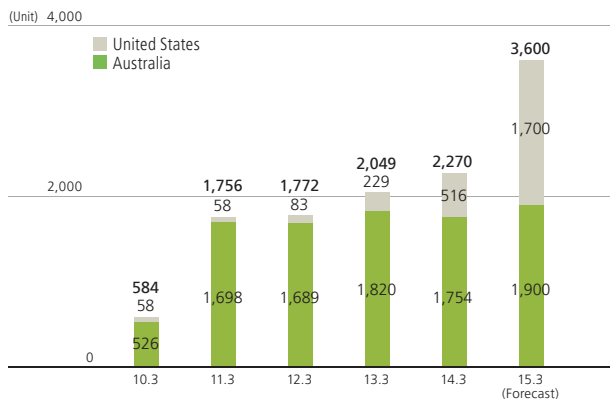


### Wood-based panels manufactured overseas



MDF manufacturing company in New Zealand

### Number of homes sold per year in the United States and Australia



\*The number of units sold in Australia in FY2009 and in the United States in FY2013 and FY2014 are the number of units corresponding to the time that equity interest was acquired in the local home builder companies.



Model house in Texas, USA

of homes sold per year in the United States comes to 2,000 units, and our target of 3,000 units will soon be reached. In the years ahead, we have set our sights on joining the ranks of the leading home builders in the United States, by expanding to new areas and selling more homes. Australia is also a growth market where continuous population growth is expected. We expect to sell 1,900 homes in Australia in fiscal 2014, exceeding the previous year's sales. We will speed up the pace of our business with an eye on entering new regions in the years ahead.

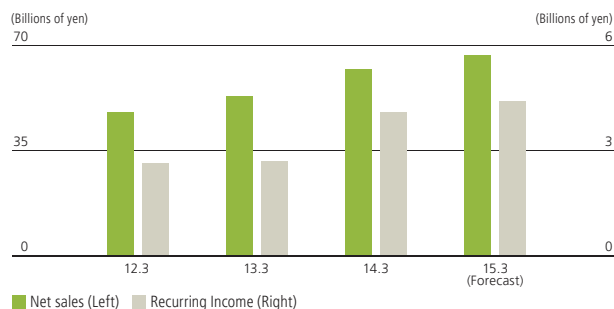
In the Renovation and Leasing Housing Business in Japan, the domestic renovation market is a field which the Japanese government is trying to expand more and is also a field where the Sumitomo Forestry Group can display its high technological capability, one of its strengths. One example of this is in the renovation of traditional Japanese-style houses.



Renovation of traditional Japanese-style house

The Group renovates more than 100 such traditional Japanese-style houses per year that are over 100 years old. Among wooden homes, what we call "traditional Japanese-style houses" use large quantities of quality timber, and making full use of our technology, we leverage that value and renovate the home to achieve seismic resistance and interior comfort for today's needs while preserving the old tradition. Taking advantage of our best-in-class technology and knowhow developed in our custom-built wooden detached housing, we intend to strengthen our presence in this growing market, and soon raise our current net sales of approximately ¥60 billion to ¥100 billion. In the business involved in stock housing, not only are we focused on the Renovation Business, but also on the Existing Home Renovation Business, which involves resale of renovated homes including detached housing and condominiums.

### Renovation Business Performance (Sumitomo Forestry Home Tech Co., Ltd.)



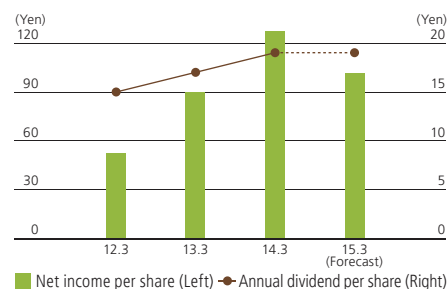
## Shareholder Returns

### Stable and continuous returns to shareholders.

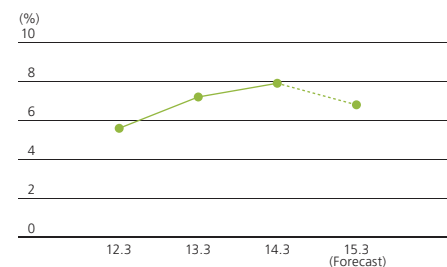
The payment of returns to shareholders is one of our most important management tasks and our basic policy is to pay a stable, and continuous return. Based on this policy, we paid an annual dividend of ¥19 per share in fiscal 2013, a ¥2 dividend increase. In fiscal 2014, the half-way point to our medium-term objective of creating a structure for net sales of ¥1 trillion and recurring income of ¥30 billion, Sumitomo Forestry plans to again pay an annual dividend of ¥19.

The Company plans to use retained earnings for R&D to raise corporate value, for effective growth investments and for other purposes. 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 an overall balanced consideration of factors such as our business fundamentals, financial condition and investment plans.

### Annual dividend per share / Net income per share



### Return on capital employed (ROCE)



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

## To Our Stakeholders

# With a new brand message, aiming for continuous growth while contributing to people and society.

The Sumitomo Forestry Group seeks sustainable growth by developing its business around wood, a renewable, healthy, and environmentally friendly natural resource. In addition to the Overseas Business and Renovation and Leasing Housing Business, we have a wide range of growing businesses that are ever expanding and include the MOCCA (timber solutions) Business, which promotes wooden construction and timber use in non-residential buildings and creates a new culture for wood use; the Apartment Business provides wooden apartments and share houses that blend in with the streetscape and provide the comfort that only wooden buildings can offer; biomass power generation, a renewable energy business that is attracting much attention; and the Elderly Care Facility Business that provides space made with quality wood.

The founding of the Sumitomo Forestry Group dates back to 1691. From our founding and up until this very day, we have fostered a business spirit of contributing to a sustainable society through the planting and nurturing of trees. In more than 320 years, we have expanded our business domains from the forestry business, the Timber and Building Materials Business, the Housing Business, to the Overseas Business, and today we are operating all types of housing-related businesses. While pursuing profitability is important, our guiding principle has always been that we must benefit people, communities, and society first.

To clarify our future direction and to plan for further growth by putting this business spirit into practice, the Sumitomo Forestry Group has decided to develop a new brand strategy.

“Happiness Grows from Trees”

The aspiration of the Sumitomo Forestry Group is embodied in this phrase. According to our business spirit, our businesses shall benefit people and society and we will also strive to contribute to an abundant global environment. We look forward to your continued cooperation and support.

Akira Ichikawa  
President / Representative Director



Happiness Grows from Trees