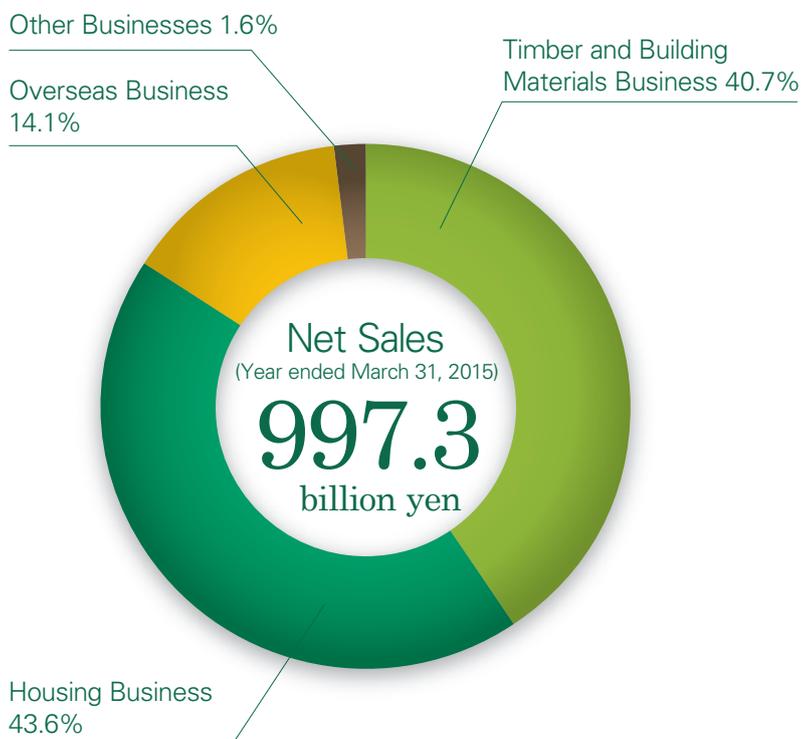


Sustaining
Forests,
Sustaining
Growth

Sustaining Forests, Sustaining Growth

At a Glance

Net Sales by Segment



Note: Segment adjustments are excluded from the percentage of net sales.

Net Sales and Recurring Income by Segment

(Billions of yen)

(Years ended March 31)	2014	2015	2016 (forecast)
Net Sales	973.0	997.3	1,062.0
Timber and Building Materials Business	458.6	423.0	445.0
Housing Business	465.4	453.9	465.0
Overseas Business	76.3	147.0	182.0
Other Businesses	17.3	16.6	17.0
Adjustments	(44.6)	(43.3)	(47.0)
Recurring Income	33.6	36.4	36.5
Timber and Building Materials Business	5.0	4.0	4.8
Housing Business	32.2	28.3	28.0
Overseas Business	(0.1)	6.1	8.3
Other Businesses	0.8	1.2	0.1
Adjustments	(4.3)	(3.2)	(4.7)

Note: Figures are rounded to the nearest decimal.



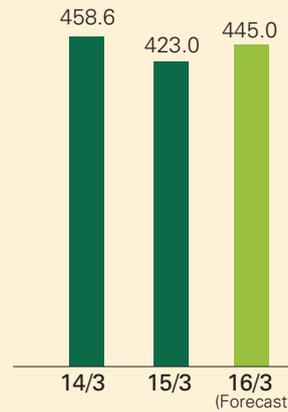


Timber and Building Materials Business

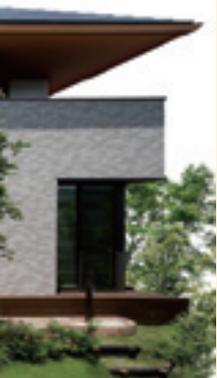
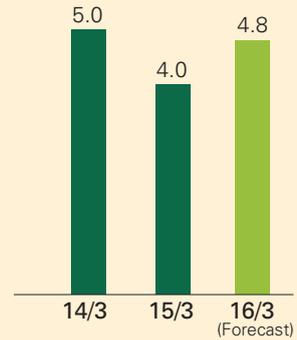
We operate a distribution business that sources high quality timber and building materials from Japan and overseas for marketing to domestic and overseas customers, and a manufacturing business that makes building materials in Japan.

40.7%

Net Sales (Billions of yen)



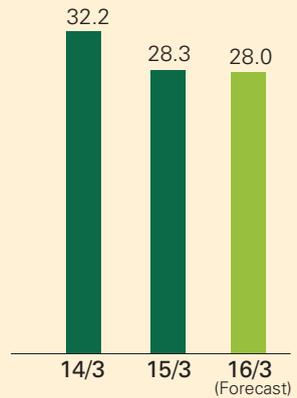
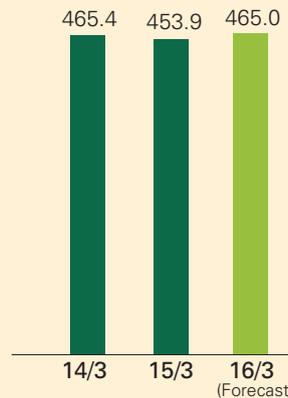
Recurring Income (Billions of yen)



Housing Business

Centered on the Custom-Built Detached Housing Business, we operate a wide range of housing-related businesses. These include the Renovation Business, Apartment Business and the Detached Spec Homes Business, as well as renovation and the resale of used houses, real estate brokerage and management.

43.6%



Overseas Business

We operate the manufacturing business, which is engaged in the building materials manufacturing business, mainly in the Pacific Rim, including Southeast Asia, Oceania and North America, and the housing and real estate business, mainly in the United States and Australia.

14.1%



Other Businesses

We operate the biomass power generation business, the private-pay elderly care facilities business, the lease business, as well as various service businesses including the insurance agency business for our housing business customers. We also manufacture and sell farming and gardening materials, and develop information systems for use by each Group company.

1.6%



Note: Sales and recurring income of each segment shown include inter-segment transactions.

Timber and Building Materials Business



No. 1 share in Japan
for timber and building materials

Basic Policy Creating new markets and expanding market share

Fiscal 2014

Sales

423.0
billion yen

Recurring Income

4.0
billion yen

Percentage of Total Sales

40.7%

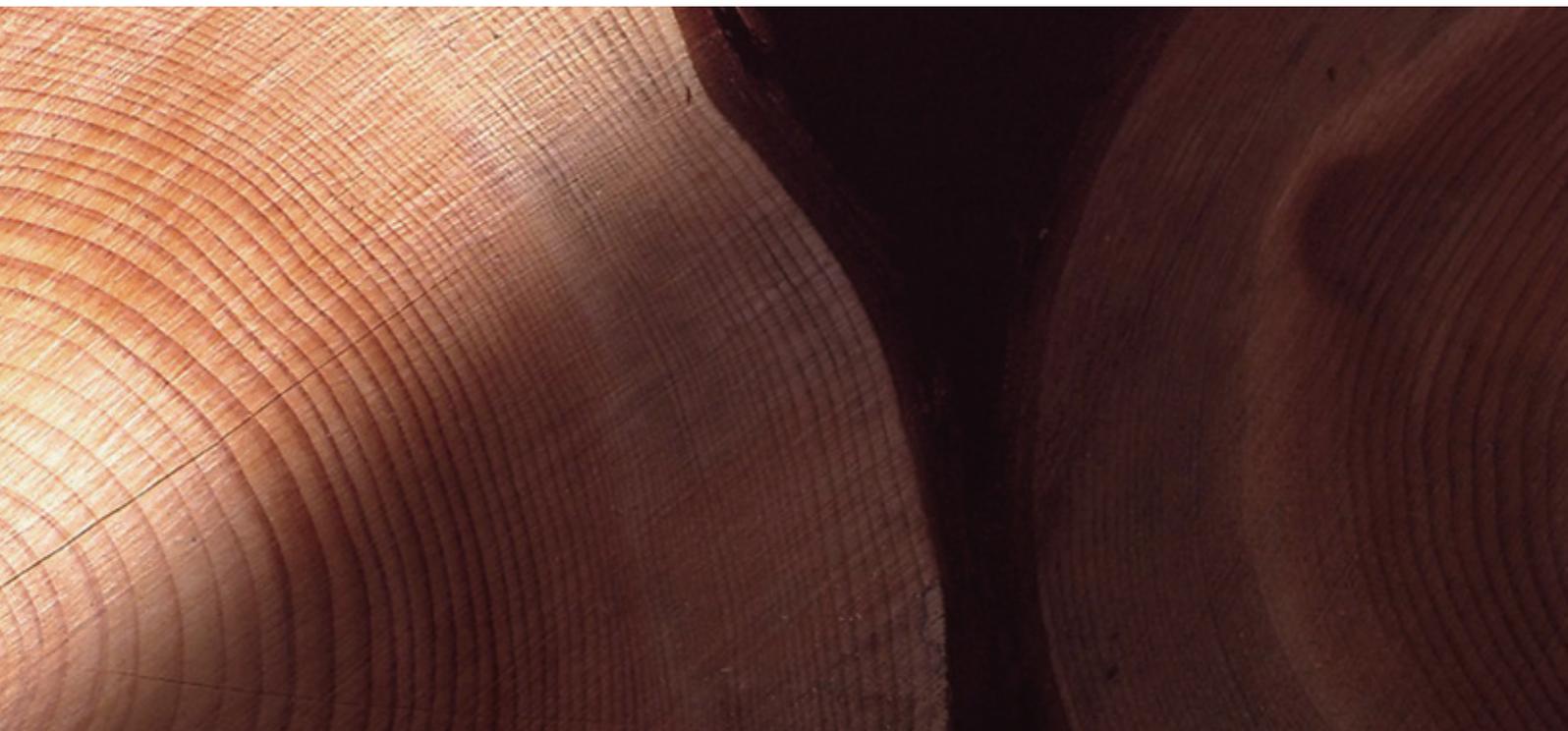
Sumitomo Forestry is No. 1 in Japan in market share for timber and building materials. Our leading procurement capabilities cultivated through the global network constitute the greatest strength of the Group.

Due to the volume of trade, this segment's performance is prone to fluctuate with macroeconomic factors, including trends in new housing starts. Trade is also affected by changes in the market environment, including the last-minute surge prior to the consumption tax hike. It is therefore imperative that we diversify our businesses in anticipation of these changes.

The domestic market for new residential construction is expected to contract in the medium to long term. In light of this, our mainstay timber and building materials distribution business needs to approach the market from a fresh perspective. We plan to expand our handling volume and develop new businesses by capturing the growing market for renovation and environmentally sound equipment, in addition to reinforcing our logistics and distribution system. We will also invest in fields outside of the housing market. We plan to handle greater volumes of domestic timber—demand for which is growing, especially in Asia—for export, fuel wood chips for biomass power generation, and other non-housing products.

In the overseas distribution business, we will continue to increase our presence in Asia and other growing markets by leveraging our global network to swiftly respond to market needs.

While flexibly responding to short-term demand changes, we will carry on developing new businesses guided by our medium- and long-term business strategy.



Domestic Distribution Business

Meeting new demands and maintaining the No. 1 share in Japan



Flooring made of domestic Sakhalin fir

The timber and building materials distribution business has served as a foundation for each of the businesses within the Group, supporting them with the expertise and robust network it has developed over the years. As the business environment changes, our scope of business is expanding beyond distribution to providing added value and efficient logistics. By developing businesses to meet emerging needs, we will strive to maintain and expand our share of the market, even when the overall market shrinks.

In specific terms, we are striving to further expand sales of domestic timber, demand for which is expected to increase. Competitiveness is increasing against foreign timber due in part to the exchange rate changes while needs are growing for exports to China, Taiwan, South Korea and other markets. In addition, the national government promotes the growth of domestic forestry as a measure to revitalize regional economies.

Continued renovation market expansion is expected with government incentives to boost the housing resale market and encourage seismic retrofitting of existing homes. We are therefore focusing our efforts on supplying renovation products as well as products that improve a structure's energy efficiency. Moreover, we are handling more products with high environmental added value, including plantation timber and timber from certified forests. We are also cultivating demand for non-housing products such as wood chips and other biomass fuels.

We seek to streamline the entire industry from upstream to downstream by forming networks with and among business partners in every region. Going forward, we will further expand the range of our businesses and maintain our No. 1 position in Japan in timber and building materials. The business will continue to be the foundation of the Group.

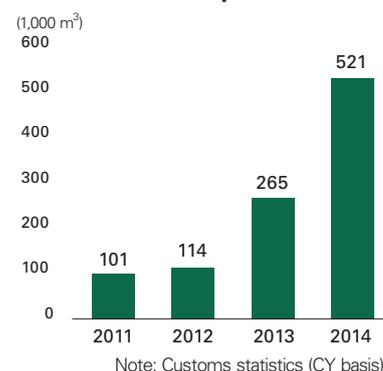
Overseas Distribution Business

Leveraging our distribution network in the global market

While providing a stable supply of products to our business partners via our overseas locations, we are developing an infrastructure to swiftly respond to the surge in demand for timber and building materials mainly in emerging countries. In fiscal 2015, the management functions for the overseas distribution business were transferred and consolidated to our local subsidiary in Singapore. This will help us formulate strategies from a perspective closer to local markets as we continue to expand business along the Pacific Rim.

Looking ahead, we seek to expand trade with Japanese companies expanding overseas, leveraging our extensive distribution network. In addition, we will further promote synergies between our businesses, including expanding global sales of products from the Group's manufacturing bases. We will also actively work to bolster the export and sales of local products as we continue to strengthen our distribution system in each country.

Volume of Timber for Export from Japan



The volume of domestic raw timber for export handled by Sumitomo Forestry is increasing, from 18,000m³ in FY2013 to 72,000m³ in FY2014. Cedar and cypress comprise about 70% and 20% of our exports, respectively. About 60% of them go to China, and the rest goes to elsewhere in Asia including Taiwan and South Korea.



No. 1 share of the timber and building materials market in Japan

Procuring timber from sustainable forests

Our strength as the leading timber and building materials company in Japan lies in our procurement capabilities, which derive from our global network of business partners. We promote the use of timber from certified forests, plantation timber, and domestic timber in line with our Timber Procurement Philosophy & Policy.



Unloading logs at a port

The distribution business—the foundation of the Group’s business

In the 1950s, as the Japanese economy boomed and the domestic timber shortage became pronounced, Sumitomo Forestry began importing foreign timber ahead of other companies. We have since established a global timber and building materials procurement network, which constitutes the greatest strength of the Group. With the timber and building materials distribution business as our foundation, we have diversified into a range of business fields centered on wood, including the Housing Business and the Overseas Business.



Imported timber being stored

Our global procurement network

Our timber and building material procurement capabilities are rooted in our extensive network, which spans more than 20 countries around the world with bases in North America, Southeast Asia, Europe and Oceania. This global network, which we have cultivated over many years, enables a stable supply of fine timber from managed forests. It also allows us to supply high-quality building materials to our business partners in a timely manner according to their needs. The materials include plywood, medium-density fiberboard (MDF), particle board (PB) and laminated veneer lumber (LVL), which we manufacture at factories overseas.



Pure mahogany flooring

A wealth of experience in handling timber

Drawing on a wealth of experience in handling timber we have cultivated over our long history, we develop and procure interior products made from such globally prized woods as teak, oak, maple, cherry, walnut and mahogany. This knowledge also helps us expand the range of offerings in our Custom-Built Detached Housing Business. When it comes to a natural material like wood, it takes a wealth of knowledge and experience to select and procure materials of the best quality. We leverage the unique characteristics of each type of wood to provide timber perfectly suited to each application and need.



POSSIBILITY

Promoting greater use of domestic timber

Benefitting from the use of domestic timber

Using domestic timber that has reached the appropriate age for harvesting helps prevent forest degradation and maintains the benefits afforded by forests, such as providing sources of timber, supporting water resources, absorbing carbon dioxide, and preserving biodiversity. Using domestic timber in particular helps revitalize the forestry industry in Japan and lowers the environmental impact of transport.



Company-owned forest (Miyazaki)

Domestic timber: Current state and efforts to promote its use

Although forest covers nearly 70% of total land area in Japan, the country's wood self-sufficiency rate has stagnated at just 28.6% as of 2013. There are a variety of contributing factors, such as the diminished cost competitiveness of domestic timber and the graying of the forest industry workforce. A recent trend has emerged with governments and municipalities encouraging the use of domestic and locally produced timber. We are making greater use of domestic timber in columns, foundations and other main structural elements used in our homes. This effort is underpinned by our procurement and supply system supported by cooperative relationships with suppliers in each region.



Harvested domestic cedar

Expanding exports of domestic timber

Japanese timber had once been exported for use in manufacturing furniture and ships, but export volumes declined due to resource limitation and calls for environmental conservation. Meanwhile, the share of imported timber within Japan also rose. In the 2000s, however, exports of domestic timber, especially logs, to China and South Korea began to grow. Demand for timber is expected to continue growing in emerging countries and elsewhere. We will focus on expanding exports to Asian markets while also responding to growing demand for domestic timber in Japan.



Wood chips

Increasing the supply of wood chips and other biofuels

Although nearly 40 million cubic meters of trees are felled in Japan per year, about half of them remain unused due to its mountainous topography, which pushes up lumbering and transportation costs. There is a growing need to convert this unused timber and other waste wood into fuel chips for biomass power plants. Other waste wood includes forest residue produced in the course of managing forests, offcuts generated in manufacturing processes, and waste scrap from demolished buildings. Sumitomo Forestry is using its networks and Company-owned forests to build a supply system for wood chips, imported palm kernel shell (PKS) chips, and other biofuels.

Housing Business



Custom-built detached houses sold
(cumulative total):

Approx. **280,000** units

Basic Policy Responding to changes in the business environment and expanding the earnings base

Fiscal 2014

Sales

453.9

billion yen

Recurring Income

28.3

billion yen

Percentage of Total Sales

43.6%

The Group entered the housing business in 1975, amid a domestic housing shortage brought on by population growth and urbanization, to make use of the expertise, technology and knowhow in handling wood it had cultivated over many years. As the domestic housing market matured, the Group expanded from custom-built detached houses to other fields including the renovation and apartment businesses.

In the domestic housing market in fiscal 2015, orders are expected to continue to gradually improve. However, there are several complicating factors, including a possible surge in demand prior to the consumption tax hike in April 2017 and higher interest rates.

Amid this environment, the Group will respond to market changes by expanding the potential of trees and raising its added value and continue to cultivate demand in growth fields.

In the Custom-Built Detached Housing Business, we are working to expand our share of the market and increase value added. In the Renovation Business, we will concentrate our management resources on strategic investments as we aim to meet diverse renovation needs and expand business. We are applying our accumulated knowhow to expand the range of business activities in the Apartment Business and the MOCCA (timber solutions) Business, as well as to expand the earnings base of the entire Housing Business.

In Japan, wooden homes make up 90% of all detached homes, of which nearly 10 million do not meet the latest earthquake resistance standards. Need for retrofitting these homes is expected to rise. The Group is also expanding its business areas in the Existing Home Renovation Business that renovates and resells previously owned homes, and the Real Estate Brokerage and Management Businesses in order to meet various housing-related needs that are forecast to expand.



Custom-Built Detached Housing Business

Pursuing design and technical excellence that draws out the full potential of trees



Japanese-style model room displaying superior plasterwork (the Komazawa Model Home)

We aim to increase our market share and raise orders in the Tokyo Metropolitan Area, which is a relatively firm market, by increasing marketing staff, creating new model homes, and expanding sales of fire-proof products.

We will continue to promote the Estate Design Project, which is managed by our top-notch designers, and strengthen our proposals to discerning customers. We are enhancing our lineup of strategic products for urban areas such as a new product employing the Big-Frame (BF) construction method with reinforced earthquake and fire resistance that can be used for buildings up to four stories tall. With the model homes of the Estate Design Project, we showcase our design and technical excellence, as well as the high-quality ambience we can create using wood. Through these efforts, we aim to expand our share in the market.

Renovation Business

Responding to diverse needs with advanced technology

We seek to differentiate ourselves from the competitors and meet diverse needs by leveraging our integrated management that includes post-sale support and our technical capabilities cultivated in the Custom-Built Detached Housing Business.

We utilize our expertise in wooden structures to renovate properties, including those not constructed by the Company and traditional Japanese-style houses built before 1950 that are passed down from generation to generation. We have also strengthened our sales team and consolidated the customer service desks for owners of Sumitomo Forestry homes, looking to capture demand arising from diverse renovation needs. We have established a new specialized base for condominium renovations with a reinforced sales team in order to expand orders in this area as well.

Apartment Business

Strengthening marketing and expanding the scale of business

Demand is increasing for rental housing and partial sublet housing with the revision of the inheritance tax and needs for asset utilization. In urban areas, demand is growing for three- and four-story rental properties. With the aim of expanding orders, we have reinforced our sales bases with more staff and developed a product that brings together the superior earthquake and fire

resistance technologies of our unique BF construction method to build structures up to four stories tall. We seek to obtain greater brand recognition in the rental housing market by rolling out new ad campaigns mainly on TV and radio.



Forest Maison BF-Fireproof (owner-occupied rental units)





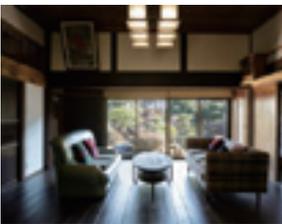
The Company’s three construction methods
 The Group offers three construction methods: Big-Frame (BF), Multi-Balance, and Two-by-Four. We choose the most appropriate construction method for the design to meet customers’ needs. The technology and engineering skills cultivated in the Custom-Built Detached Housing Business are also being applied in the Renovation Business and MOCCA (timber solutions) Business.



Interior of a model BF house

BF construction method: Greater durability and design flexibility

The BF construction method uses Big Columns, which are made from composite wood and have a large surface. This ensures sufficient earthquake resistance with fewer columns and reduced wall surface compared to conventional houses. It allows the construction of homes with spacious rooms and openings with greater design flexibility. In addition, it is easy to change the position of the dividing walls and the floor layout, as well as to make additions. In 2015, we developed the Twin-Bolt Column which reinforces the Big Column by increasing the number of metal joints from two to four. With improved fire resistance, it can now be used in structures up to four stories tall.



A renovated traditional Japanese-style house

Technology to preserve traditional Japanese-style houses

The Group employs a range of proprietary renovation technologies to revive traditional Japanese-style houses. Many of these houses do not have adequate earthquake resistance. We use our original seismic-vibration damper construction method to enable them to withstand a major earthquake and prevent them from collapsing. Refurbishment also dampens shaking of the building, both from the primary quake as well as repeated aftershocks. This minimizes the risk that furniture and other interior decorations will fall and reduces damage to the building. In cases where structural columns have suffered spot decay, we utilize the Successor Construction Method to reinforce the original columns. We thus breathe new life into old houses while preserving their ambience to be passed down from one generation to the next.



Architect’s rendering of a hybrid building

Expand the joy of living with trees: MOCCA (timber solutions) Business

As the Act for Promotion of Use of Wood in Public Buildings etc. came into effect in October 2010, we are promoting greater use of wood in non-housing structures and interiors, such as business, education and welfare facilities. The MOCCA (timber solutions) Business is making steady achievements in this area. Moreover, we formed a business alliance with Sumitomo Mitsui Construction Co., Ltd. last year in order to develop new businesses targeting medium- and large-scale wooden buildings. By joining our expertise in handling timber with their design and construction capabilities, we will respond to an increasing need for wooden buildings in society.



Introducing the Sumitomo Forestry Group to many customers

The Estate Design Project

The project offers high-end homes for customers with discerning taste for layout, design and materials. Our architects have a wealth of experience and expertise in designing custom-built detached wooden homes. They leverage this to produce successful outcomes that satisfy even the most demanding customers.



A miniature of the Komazawa Model Home

Design excellence that makes a dream home come true

Every customer has a different idea of what the ideal home is. It takes repeated dialogue with a customer to draw out the answers. The sales person and designer meet face to face with the customer. As customers describe their preferences, the designer makes sketches. The process is repeated over and over until a final plan is sketched out. We have around 700 architects stationed in Japan. They employ flexibility, responsiveness and insight in reflecting each customer's unique preferences and creating ideal homes with them.



Making a proposal

Actively investing human resources in growth businesses

We are responding to market changes by actively investing human resources in growth areas and businesses. In the Custom-Built Detached Housing Business, we are increasing the number of sales people in the Tokyo area, where orders remain firm. In the Renovation Business, we have centralized the customer service center for owners of Sumitomo Forestry homes and, to strengthen our customer service, we have transferred sales people to this center. In the Apartment Business, we are boosting both the number of sales locations and sales people in response to burgeoning demand arising from revisions to the inheritance tax and needs to utilize assets.



A renovated condominium

The Existing Home Renovation Business offers new options for homes

With the growing social need to utilize existing housing stock, we seek to raise the value and performance of detached homes and condominiums for resale through our Existing Home Renovation Business. By supplying high quality renovated homes, we seek to spur an emerging market and help build a low-carbon, recycling-oriented society.

The Existing Home Renovation Business offers new options for home acquisition, an alternative to buying either new or old homes. By employing our existing design and construction expertise, we strive to supply safe and comfortable homes that provide added value.

Overseas Business



Number of homes sold annually overseas:

Approx. **4,000** units

Basic Policy

Further raising profitability as one of the Company's main businesses

Fiscal 2014

Sales

147.0

billion yen

Recurring Income

6.1

billion yen

Percentage of Total Sales

14.1%

The Overseas Business comprises the Overseas Building Materials Manufacturing Business, which produces wooden building materials in manufacturing sites mainly located in Southeast Asia, Oceania and other Pacific Rim regions, and the Overseas Housing and Real Estate Business, whose main operating areas are the United States and Australia.

The Group has recently been actively investing management resources in the Overseas Business, where growth is expected for the future. The aim is to nurture it into one of our mainstay businesses that make a major contribution to the Group in terms of earnings. Recently, we have been fine-tuning our manufacturing technology for high-quality products and expanding the production volume and business areas for the Overseas Manufacturing Business. We have managed to significantly increase the number of houses sold in the Overseas Housing and Real Estate Business thanks to a recovery in the U.S. and Australian housing markets and beneficial effects from M&A. As a result, the Overseas Business as a whole turned a profit and has grown to support the Group's profitability.

Even as we continue to pursue improved profitability for existing businesses, we will seek to expand the scale of our business through entry into new business areas, M&A, and other means. We are accelerating growth as we work to expand the profits of this business to account for approximately 30% of the entire Group's earnings.



Overseas Manufacturing Business

Boosting profit through differentiation with high-quality products and improved productivity



Plywood manufacturing plant in Indonesia

Our overseas manufacturing business started in 1970 with the establishment of a plywood manufacturing base in Indonesia. The business supplies a wide variety of wooden building materials for global distribution at its sites along the Pacific Rim including New Zealand, Australia and Vietnam. With a history stretching back over 40 years, the Group has managed to overcome various challenges by partnering with local suppliers of raw materials and developing high-quality products that can compete in the global market. Although competition has been severe in recent years, we seek to differentiate ourselves from competitors by improving productivity and bringing together the Group's strengths to market high value-added products.

Going forward, we will meet demand for timber and building materials, especially in emerging countries where economic growth is anticipated, with high-quality products and fulfill our responsibility as

a global provider of timber and building materials by operating businesses rooted in local communities.

Overseas Housing and Real Estate Business

Expand our business territory with local partners



Model homes in Australia

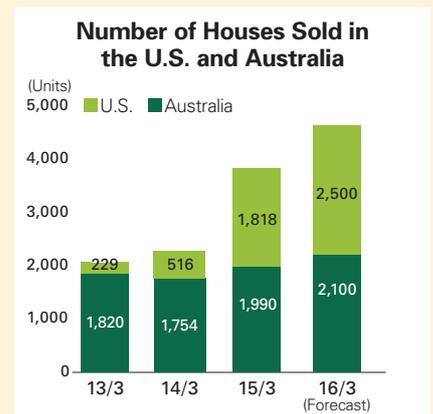
In recent years, we have expanded the scale of our business through M&A and other measures, especially in the United States and Australia, where wooden housing dominates. We are greatly expanding our profits and increasing the number of houses sold.

In the United States, the number of houses sold more than tripled thanks to joint management with partners who share our management stance. We expanded the area of operation from Seattle, Washington to the state of Texas, where the population is rising at a high rate. Going forward, we aim to be one of the top builders in the United States and expand our annual home sales to 5,000 as we enter new business areas and pursue additional M&A.

The Australian housing market remained firm backed by state support for housing purchases, in addition to persistently low interest rates for housing loans. Forecasts call for sustainable growth due to the growing population.

The Sumitomo Forestry Group has increased the number of houses sold year over year along with the Henley Group, which was made a consolidated subsidiary in fiscal 2013. The Henley Group was selected as the No. 1 builder in Australia in fiscal 2015 for its superior products and contributions to local communities. Going forward, we aim to achieve the top share of the Australian housing market and expand the annual number of houses sold to 3,000 by expanding our business area through the Henley Group, while pursuing further M&A and other possibilities.

In addition, we are participating in projects for condominium complexes in Hong Kong and other regions. As such, we seek to pursue business in areas of robust housing demand.



QUALITY

Creating high-quality products that make a difference

Standing out with high-quality products

The Group manufactures wooden boards, building materials and other products along the Pacific Rim, including in Indonesia, New Zealand, Vietnam and Australia. We are one of the largest producers in Asia and Oceania. We aim to secure a competitive advantage in each sales area by supplying high value-added, eco-friendly products with reduced risk of exposure to chemical substances.



Production line at KTI



Overview of NPIL



Manufacturing plant of VECO

PT. Kutai Timber Indonesia (KTI)

KTI was established in 1970 and began manufacturing plywood in 1973, eventually diversifying its product line-up to include wooden building materials and particle board (PB). As export restrictions on logs came into force, the company also began planting forests. Because the company manufactures a wide range of products in an integrated manner, it can respond to a variety of orders. The company actively uses plantation timber, and its plywood also meets Japan's stringent environment-quality standards. KTI will continue to be the leading general timber company that handles everything from planting forests to producing finished products.

Nelson Pine Industries Ltd. (NPIL), New Zealand

Established in 1984, NPIL produces medium-density fiberboard (MDF), which is used in interior materials, and laminated veneer lumber (LVL), which is used in structure materials. The company's MDF production capacity is one of the world's highest. In addition, its MDF meets Japan's stringent quality standards and about half of its buyers are in Japan. The company will work to expand sales of its high-quality products to other countries, mainly targeting markets in Southeast Asia and the Middle East.

Vina Eco Board Co., Ltd. (VECO), Vietnam

Established in 2010, VECO began commercial production of particle board (PB) in 2012. The company boasts the largest production capacity in Vietnam and is working to expand sales to local furniture and other manufacturers. As competition has recently been intensifying, VECO seeks to differentiate itself through its high-quality products, which contain less formaldehyde* and other chemical substances. It is also expanding sales to countries outside of Vietnam. Although it has not been long since the launch of production, the company is steadily increasing the output and aims to further improve production efficiency.

* Formaldehyde is a substance that gives rise to sick building syndrome and is often included in adhesives for wallpaper, furniture and construction materials.



EXPANSION

Expanding business areas with our partners

Aiming to be in the top ten in the United States and No. 1 in Australia

The Group is expanding its Overseas Housing and Real Estate Business, especially in the United States and Australia, where wooden housing dominates. We have been working with local partners who share our management stance to enter new areas and adapt to different cultures. In the future, we will expand the number of houses sold per year to 5,000 in the United States and 3,000 in Australia.



Model home in Seattle

The U.S. Housing Business

In 2002, we entered the detached spec home business in Seattle and have gradually expanded the number of homes sold, overcoming the setback of the 2008 global financial crisis. We made a full-scale entry into Texas in 2013 with the equity acquisition of Bloomfield Homes Group, which operates a housing business in the state. Then in May 2014, we acquired an equity stake in Gehan Homes Group, which operates a housing business in Texas and Arizona. The housing market in Texas is forecast to stably grow, backed by robust population growth in Dallas (increasing by around 100,000 persons per year) as well as the availability of new housing lots. We strive for further growth by firmly grasping the local housing needs while deepening our relationships of trust with the two companies based on our shared management stance. At the same time, we will constantly monitor trends in the U.S. economy and housing market to carrying out thorough risk management.

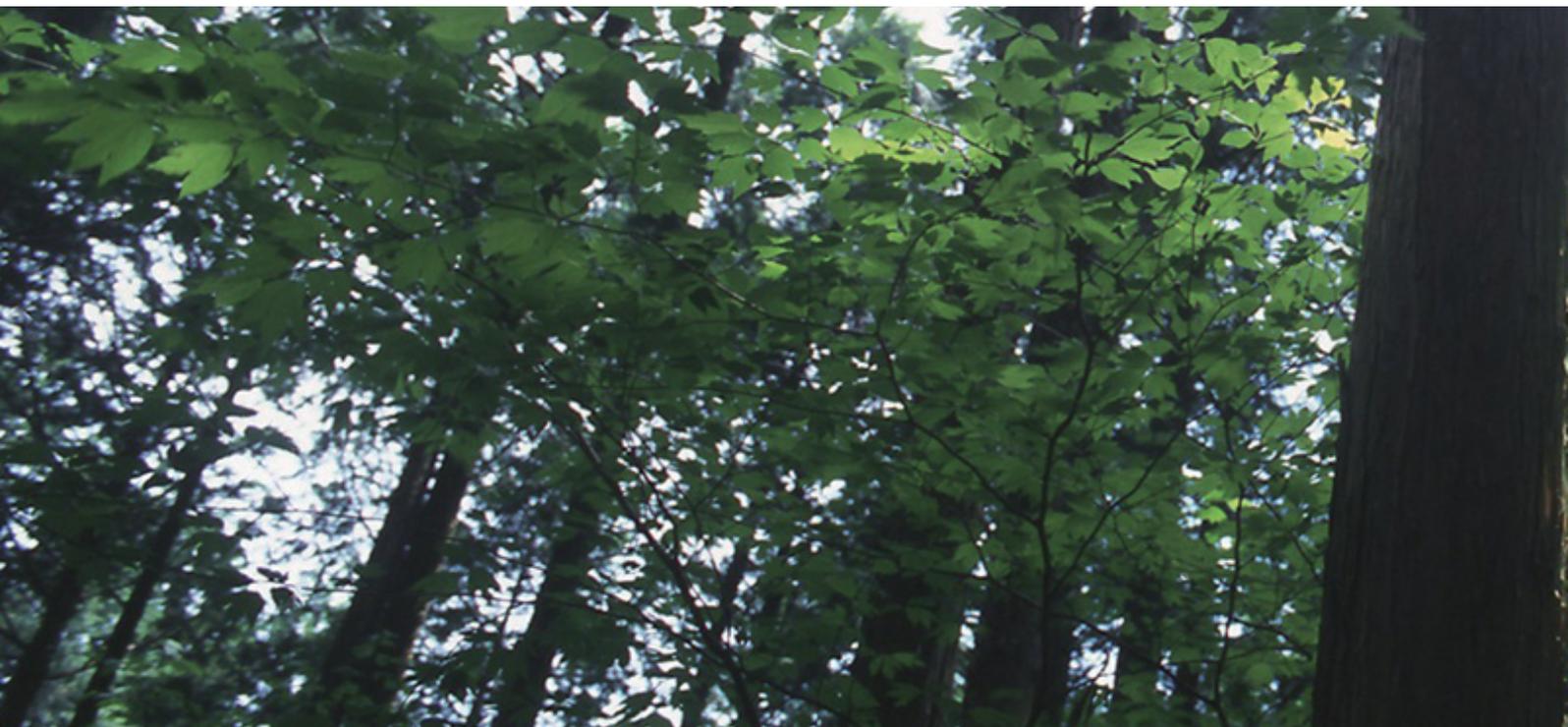


Interior of a model home

The Australian Housing Business

Australia possesses an abundance of natural resources and has developed a service industry that extends to finance and transportation. Although the mining businesses are currently slowing down, the economy as a whole has grown an average of 3% per year since 2000. And with the population continuing to rise due to the government's accommodating immigration policies, housing demand is steadily growing. The Group entered the Australian housing market by forming a joint venture with the Henley Group in 2008 and subsequently made Henley Group a consolidated subsidiary in 2013. The Henley Group's strengths lie in its ability to develop products incorporating new ideas and designs, as well as its management strength in streamlining construction, reinforced by knowhow we have introduced from Japan. It also stands out in terms of social contribution activities, including donations to children's hospitals. In fiscal 2015, the Group won the No. 1 Professional Major Builder award from the country's Housing Industry Association (HIA).

Other Businesses



The area of forest owned in Japan:
Approx. **1/900** of Japan's land area

Basic Policy

Pursuing the possibilities of wood based on sustainable forest management

Fiscal 2014

Sales

16.6
billion yen

Recurring Income

1.2
billion yen

Percentage of Total Sales

1.6%

In addition to the Timber and Building Materials Business, the Housing Business and the Overseas Business, the Group operates a variety of other businesses centered on wood, including the Domestic Forestry Business, Biomass Power Generation Business and Lifestyle Service Business such as the management of private-pay elderly care facilities.

In the Domestic Forestry Business, we uphold a sustainable forestry philosophy, whereby we continue the cycle of planting, harvesting and using into the future. Under this philosophy, we promote sustainable forestry management in an efficient and environment-conscious manner to nurture renewable forest resources. We are also using the knowhow cultivated over years of forest management in providing related consultation services to public and private entities.

In the Biomass Power Generation Business, we are promoting the use of construction waste and unused timber found in surrounding woodlands as wood chips to fuel nearby power stations.

Our private-pay elderly care facilities provide high-quality nursing services customized to each resident's care needs and requests. They also feature a comfortable living space with a wood interior, drawing on the unique characteristics of wood.

We will continue to expand the possibilities of businesses leveraging the potential of trees as the Group prepares to expand its business in new fields.

* In this annual report, the Group's domestic forestry business, which is included in adjustment items in the Financial Section, is described within the Other Businesses section.



Domestic Forestry Business

Sustainable forest management and revitalization of forestry

The Group owns approximately 46 thousand hectares of forests in Japan. Every five years, we formulate a management plan for these forests based on the types of trees, the ages of the forests, the management record, and other pertinent information. Under the plan, we systematically plant forests and harvest timber while being mindful of local ecosystems. All Company-owned forests have been certified by the Sustainable Green Ecosystem Council (SGEC)* in 2006. Under this forest certification system unique to Japan, related third-party organizations routinely verify that sustainable forest management is undertaken in our forests.

We are also working to help revitalize Japan's forestry industry through the provision of consultation services to public and private entities. We share knowhow related to forest management and make suggestions for new forestry business creation. In 2014, we launched the Forest and Landscape Research Center as a general help desk for forestry, landscaping and the environment for the greater convenience to our customers.



Measuring the growth of trees

Biomass Power Generation Business

Generating eco-friendly energy and giving back to local communities



Construction under way in Mombetsu, Hokkaido

The biomass power generation business promotes the use of unused wood such as forest residue as fuel, which will raise the value of forest resources and lead to a revitalization of the forest industry in Japan. Wood biomass also shows significant promise as a renewable source of energy. Because stable fuel procurement is indispensable, this is a business field where we can leverage our networks in the timber and building materials distribution business and forestry business, which we have built up in both Japan and overseas over the Company's long history.

Amid growing concerns about global warming and domestic energy (both supply and demand), we are using the accumulated knowhow in this field to expand beyond biomass power generation into related consulting services and other ancillary businesses.

Lifestyle Services Business

Expanding the scope of housing-related services

In the Lifestyle Services Business, we are targeting changes to the social structure and people's values. We are developing businesses for an aging society and for different types of lifestyles that utilize the Group's customer base, supporting people's daily lives from various perspectives.

Through private-pay elderly care facilities, we provide personalized, high-quality care to ensure lively, fulfilling days while also supporting the independence of our residents. We've also started elderly day care services and other new caregiving businesses, and are working to further raise the quality of our services.

In addition, the Sumitomo Forestry Group engages in a wide range of services primarily for our housing business customers, including a non-life insurance agency. The Group also handles leasing operations, the manufacture and sales of farming and gardening supplies, and a variety of other businesses. We are focused on creating new services that enrich everyday living.



GranForest Mejiro



COMFORT

Enriching everyday living with the comfort of wood

Improving the Quality of Life

Wood has superior performance that cannot be replicated by manufactured products. The sense of comfort is one such example. We are using wood in various aspects related to living to help improve the quality of people's daily lives.



Private-pay elderly care facility (GranForest Hikawadai)

Operating private-pay elderly care facilities

The Sumitomo Forestry Group operates 10 private-pay elderly care facilities that provide specialized services for senior citizens across Japan. The number of new residents is growing and the facilities' occupancy remains high. Using the management knowhow we have cultivated, we will continue providing high-quality care services and facilities. We will create spaces with the comforting feeling of wood to offer rooms where residents can relax just like they're at home. We will offer numerous programs to provide services with a high degree of freedom. We are striving to differentiate ourselves with our unique services, helping senior citizens to lead fulfilling lives.



Interior of a day care service facility (Day Forest Mizonokuchi)

Starting our Day Care Business for seniors

The Sumitomo Forestry Group launched the Day Care Business for seniors in May 2015, and is expanding the range of its senior citizen care business. Our Day Forest centers have already been opened at two locations in Kanagawa, with another center slated to open in Tokyo during fiscal 2015. Employing the knowhow cultivated in housing construction, we procure wooden floors and furniture and offer barrier-free interior spaces imbued with the comforting feel of wood. We also offer rehabilitation services that incorporate a range of activity programs to provide high-quality day care services. By expanding business in tandem with private-pay elderly care facilities, we seek to increase the range of care options, tailored to the needs of each patient, while building a system to support the daily lives of patients in the local community.



ENERGY

Pursuing the potential of trees

A material that's kind to the planet and to people

Wood is not just a building material. It also possesses great potential as a renewable energy source. Envisaging the creation of new businesses, we are working on the research and development of new applications to unlock wood's full potential.



Periodic forest maintenance (thinning)

The consulting business for forest management and maintenance

Capitalizing on the knowhow cultivated by managing the Company-owned forests, we have developed a consulting business for forest management and maintenance nationwide. For example, in the Totsukawa Village, Nara Prefecture, we are supporting the creation and implementation of a basic forest plan. In Gifu Prefecture, we have concluded an agreement with the prefectural government to produce 200,000 tree seedlings over the next three years, temporarily using some of its facilities.

Going forward, we anticipate regional municipalities will need additional support as the population in forest areas continues to decline and the forestry industry weakens. The national government has been launching policy packages to counter these trends in recent years. Leveraging our experience managing Company-owned forests, we actively pursue the consulting business for managing and maintaining forests.



Kawasaki biomass power plant

The Biomass Power Generation Business

The Sumitomo Forestry Group is participating in the biomass power generation business at four locations in Japan. Wood chips used as fuel are mainly made of construction waste and unused timber found in surrounding forests. Biomass power generation is therefore expected to contribute to the effective use of forest resources, the revitalization of the forestry industry and new job creation. It is also expected to facilitate periodic forest maintenance. The Kawasaki biomass power plant, which we have been operating jointly with three other companies since 2011, mainly uses wood scraps (from the construction and demolition of homes) and wood pellets gathered in the Tokyo Metropolitan Area. It proposes an urban solution to the energy supply issue by effectively using industrial waste as fuel.

Promoting Sustainable Businesses

The corporate philosophy of Sumitomo Forestry Group is to utilize timber as a renewable, healthy, and environmentally friendly natural resource, and contribute to a prosperous society through all types of housing-related services. In line with this philosophy, we are implementing sustainable forest management, promoting the use of timber from sustainable forests and providing homes with low-environmental impact. We will continue to promote sustainable businesses as we contribute to addressing issues confronting the global environment and society.



Sustainable Forest Management Procuring and Supplying Timber from Sustainable Forests

The Sumitomo Forestry Group promotes eco-friendly, sustainable forest management in Japan and overseas to preserve forests, which serve the public good, while enabling the perpetual use of timber resources. Based on the Timber Procurement Philosophy & Policy and Action Plan established in fiscal 2007, we are promoting the procurement of timber from appropriately managed forests. Increasingly, we are also handling timber from certified forests and plantation forests as well as domestic timber.



Managing Company-owned Forests to Maintain and Expand Timber Resources

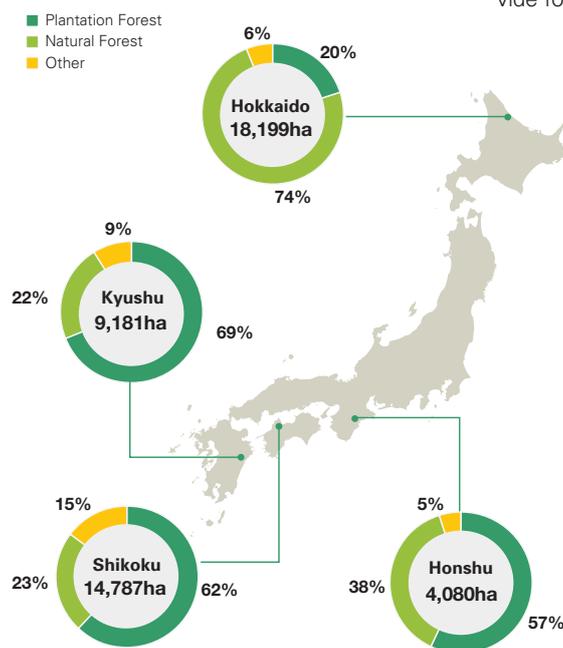
The Group owns a total of 46,247 hectares of forests within Japan as of April 1, 2015. To step up our sustainable forest management, we are considering further acquisitions of forested land, with an eye on revitalizing Japan's forestry industry and ensuring the availability of renewable timber resources.

Our Company-owned forests in Japan are divided into two categories: "economic forests" with timber production prioritized and "environmental forests" where environmental protection is the main priority. In 2006, we acquired certification from Japan's Sustainable Green Ecosystem Council (SGEC)*1 for all Sumitomo Forestry-owned forests*2. In forestry management, we undertake periodic thinning that takes into consideration the local ecosystem and other environmental aspects in each area, in the interest of maintaining and expanding timber resources. Making use of our knowhow developed through management of Company-owned forests, we also provide forestry management consulting services.

*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. Excludes the land held under lease by Kawanokita Development Co., Ltd., a Group company, which manages a golf course.

Distribution of the Company-owned Forests



Consulting in Totsukawa Village, Nara Prefecture

The village of Totsukawa in Nara Prefecture contains about 64,000 hectares of forest. The local government and the forest cooperative are collaborating in their efforts to reinvigorate the forest industry, such as by setting up a timber processing and distribution site.

Since 2011, we have been providing consulting services to the village on how to stimulate economic activity using the village's forest resources. Applying our original technology and knowhow, we introduced vehicle-mounted tower yarders to collect timber on forest inclines and helped develop forest roads to better deploy them.



A local study group watching a tower yarder in action



Developing a forest road along steeply inclined land

Percentage of legally verified directly imported timber and wood building materials

(Fiscal 2014)

100%



(Fiscal 2013)

100%

Ensuring the Traceability and Legality of Timber

To prevent the disappearance and degradation of forests, legal frameworks are being created around the world to eliminate illegal logging. The Group confirms that the timber it handles was appropriately managed and harvested in compliance with the laws of each country and region, based on documentation submitted by suppliers confirming the legality of the timber and on-site inspection by the Company's overseas representatives. The Group's Timber Procurement Committee meets three times a year to examine the legality of timber. In fiscal 2014, it confirmed our imported timber was 100% legal for the third consecutive year. We will continue these efforts to ensure the procurement of timber and timber products from sustainable forests.

The Sumitomo Forestry Group's Legality Confirmation System

Request the submission of documentation confirming legality

We require that suppliers submit documentation confirming the legality of their timber. The Company determines the content that must be included in the documents according to the laws and regulations of each country and region.

Conduct on-site inspection

Procurement department managers and local representatives visit logging sites and the offices of suppliers to investigate the timber's legality by conducting interviews and acquiring evidence.

Review the confirmation of legality

The Timber Procurement Committee assesses the legality of timber for each supplier based on the comprehensive documents (including the results of on-site inspections) filed by the procurement department.

Percentage of directly imported timber from certified forests and plantation forests

(Fiscal 2014)

62%



(Fiscal 2013)

62%

Promoting the Use of Timber from Certified Forests, Plantation Forests and Domestic Forests

The Sumitomo Forestry Group is working to increase the proportion of timber from certified forests and plantation forests among directly imported timber. In fiscal 2014, the figure was 99% for raw material for medium density fiberboard (MDF). As for raw material for plywood, however, soaring prices for falcata plantation timber led to a decrease in volumes handled. As a whole, we maintained the previous-year level of 62% for all types of imported timber. In fiscal 2015, we plan to increase the ratio of timber from certified forests and plantation forests used in plywood by developing and marketing new products using timber from certified forests and plantation forests.



Flooring made of domestic timber

Initiatives Undertaken by Sumitomo Forestry Crest Co., Ltd.

Our subsidiary Sumitomo Forestry Crest Co., Ltd., which manufactures building materials in Japan, has set a target to raise the ratio of timber it uses from certified forests, plantation forests and domestic forests to 64% by fiscal 2015.

In fiscal 2014, the Company promoted the sale of products made with domestic timber in addition to increasing the ratio of plantation timber used for subfloor boards and the hardwood in fixtures. As a result, the ratio of timber the company uses from certified forests, plantation forests and domestic forests rose to 65%, achieving its target a full year ahead of time.

Promoting Use of Unused Wood

The increased use of forest residue and other unused wood, which had previously been underutilized, is helping to reinvigorate the forestry industry in Japan while also maintaining and improving the benefits that forests provide. The amount of unused wood handled in fiscal 2014 jumped 372% compared to fiscal 2011 due to the Sumitomo Forestry Group's efforts to collect unused wood to fuel the wood biomass power plant being constructed in Mombetsu, Hokkaido. Moreover, our subsidiary Sumitomo Forestry Wood Products Co., Ltd., which specializes in the distribution and sale of domestic timber, has supplied over 111,000 cubic meters of unused wood primarily to electric power operators. We will continue to increase the volume of unused wood we handle in fiscal 2015 as we increase the volume we supply to the wood biomass power plant in Mombetsu and other biomass power plants.

Use of unused wood compared to fiscal 2011

(Fiscal 2014)

+372%

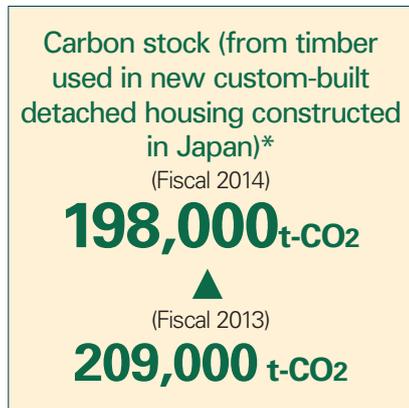


(Fiscal 2013)

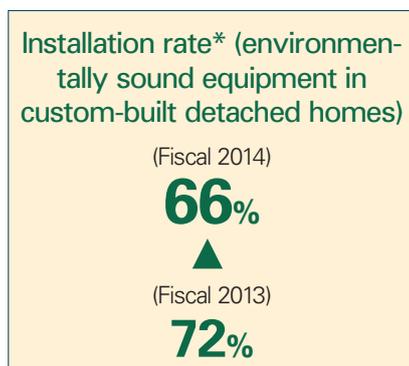
+68%

Countering Global Warming through Our Business

We are undertaking various business activities to help stem global warming. These include CO₂ absorption and fixation through our forest management, CO₂ emission reduction during housing construction and habitation, as well as our Biomass Power Generation Business. In addition, we offer energy-saving and eco-friendly renovations and are working to improve the energy efficiency of homes through the sales of our low-impact “Green Smart” houses.



* Sumitomo Forestry homes fix about 22.6 t-CO₂ per unit.



* Installation rate of solar power system and/or ENE-FARM fuel cell system in Sumitomo Forestry homes (orders received basis).



Green Smart Solar Z

■ Expanding Carbon Stock

Carbon stock is the volume of CO₂ that is absorbed by trees and fixed as carbon. The Group is working to expand the carbon stock through the sustainable management of Company-owned forests in Japan and through overseas plantation forestry. The Group also helps counter global warming by increasing timber-based carbon stocks mainly by building high-quality, long-lasting wooden homes and promoting the wider application of timber resources in non-housing structures. In fiscal 2014, carbon stock derived from timber used to build custom-built detached housing decreased by approximately 11,000 t-CO₂ from the previous fiscal year due to a decrease in unit sales.

The Sumitomo Forestry Group's Carbon Stock (Fiscal 2014)

Company-owned forests in Japan: **12.19 million t-CO₂**
(11.96 million t-CO₂ in previous year)

Plantation forests overseas: **4.54 million t-CO₂**
(3.87 million t-CO₂ in previous year)

■ Promoting “Green Smart” Houses

Sumitomo Forestry's “Ryouonbou” natural heating and cooling design optimizes natural ventilation, sunlight, landscaping and greenery to enable comfortable living throughout the year while reducing the need for heating and air-conditioning. To further reduce energy consumption, our “Green Smart” houses combine this design with next-generation insulation technology, environmentally sound equipment to use energy more intelligently, and such smart technology as a Home Energy Management System (HEMS) that enables homeowners to visually track energy usage.

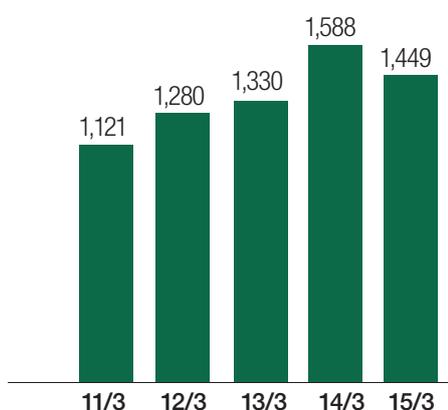
Although the proportion of homes with our environmentally sound equipment decreased in fiscal 2014 year on year, we maintained a level close to 70%.

■ Life Cycle Carbon Minus (LCCM) Housing

Sumitomo Forestry has been involved in the development of Life Cycle Carbon Minus (LCCM) housing, which produces a net negative volume of CO₂ emissions over its entire life cycle: from construction to use, renovation, demolition and disposal. This is accomplished with the use of solar power systems and environmentally sound equipment.

In fiscal 2014, we confirmed a reduction in energy consumption for each type of technology introduced at the pilot structure, which was completed in 2013, in both the winter and summer periods. We also installed sensors on the interior and exterior of the pilot structure to monitor changes in humidity, sunlight and other conditions. The sensors were used to develop and test methods, such as automation, to more effectively use air conditioners and lighting equipment. We have already launched a product based on one of these tests and will continue to develop new technologies that realize LCCM housing.

Number of orders for energy-saving and eco-friendly renovations



Chip yard built next to the biomass power plant

■ Offering Energy-Saving, Eco-Friendly Renovations

Our subsidiary Sumitomo Forestry Home Tech Co., Ltd. specializes in renovations. It promotes energy-saving and eco-friendly renovations, receiving over 1,000 orders every year. When planning a renovation, the company creates a performance evaluation chart to visualize the enhanced performance provided by earthquake resistance technology, energy saving equipment, modifications for universal access and other improvements. The company offers renovations that will reduce the environmental footprint over the lifetime of the residence.

■ Biomass Power Generation

The Sumitomo Forestry Group engages in biomass power generation, primarily using as fuel previously unused timber resources and recycled wood chips from construction waste. The volume of CO₂ released by combustion of timber is equivalent to that of atmospheric CO₂ absorbed through photosynthesis. Therefore, atmospheric CO₂ does not increase throughout a tree's total life cycle. For this reason, the Group is developing biomass power generation as a new business that makes effective use of timber and reduces CO₂ emissions.

In addition, we began a joint venture in Tomakomai, Hokkaido in October 2014 and another in Hachinohe, Aomori Prefecture in December 2014. Including the Kawasaki plant (already in operation) and the Mombetsu plant (currently under construction), the Group's biomass power business now operates in four locations across Japan. We continue to develop businesses using renewable energy in a way that best serves the interest of each region.

Creating an Environment that Encourages the Active Participation of People of Diverse Backgrounds

Based on its Action Guideline of "Respect for Humanity," the Sumitomo Forestry Group seeks to create an open and inclusive corporate culture that values diversity. The Group will aim for the highest standards of excellence in the field of housing through global initiatives to ensure that Group's employees demonstrate a positive spirit of willingness to take on challenges at all times. We will do this by maintaining fair and effective personnel systems and providing employees with essential development and training. We also actively promote work life balance by creating workplaces that support the professional and private lives of employees.

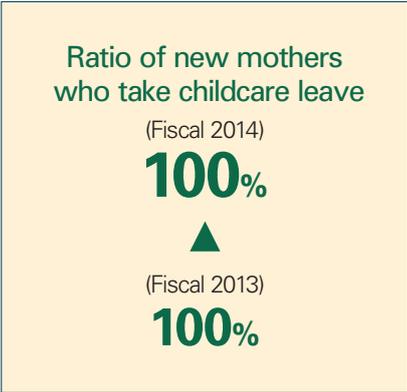
Employment breakdown

(Sumitomo Forestry non-consolidated, as of March 31, 2015 and 2014)

	2015	2014
Management level:	2,047	2,053
Non-management level:	2,297	2,292
Contract employees:	125	111
Secondment from other companies:	30	30
Average years of service:	14 years and 6 months	14 years and 3 months
Ratio of female employees (includes contract employees):	19.2%	18.4%
Ratio of newly hired female university graduates:	26.8%	28.7%
Ratio of employees with disabilities:	2.2%	2.2%
Ratio of locally hired employees at overseas Group companies:	99.3%	99.2%

The Sumitomo Forestry Group
Three policies in our declaration on empowering women

- 1 Create a workplace which is comfortable for women to work in**
- 2 Leverage the female angle**
- 3 Foster fresh innovation by expanding the role of women**



Practical training at the Sumitomo Forestry School of Professional Building Techniques

Promoting Employee Diversity

With regard to the hiring and treatment of employees, the Group’s non-discrimination policy respects equality of opportunity and diversity, making no distinction based on gender, age, nationality, race, religion or disability. Based on this policy, we aim to create a workplace in which highly motivated employees can make full use of their abilities. We are also engaged in various initiatives to create a workplace that provides a wider range of professional opportunities for female employees, offers support for child care, and is geared to the needs of those with disabilities. As of April 1, 2015, the percentage of female employees (including contract employees) was 19.2%, compared with 18.4% in the previous fiscal year, and the percentage of newly hired female university graduates was 26.8%, compared with 28.7%. The average years of service was 14 years and six months, compared with 14 years and three months in the previous fiscal year. Overseas Group companies are actively engaging in local hiring and, at 99.3%, the rate of local employment remained roughly level from the previous fiscal year. The ratio of employees with disabilities in fiscal 2014 remained at 2.2%, higher than the legally mandated level of 2.0% for private enterprises in Japan.

Establishment of the Declaration on Empowering Women

In Japan, demographic change is expected to lead to a decline in the working population. Promoting greater workforce participation by women at all kinds of enterprises is crucial to creating a sustainable society and economy. The Group has already committed itself to human resource management that respects the diversity of every individual to enhance the competitiveness of the Company. To reinforce this effort, the Group has compiled a declaration on empowering women as it seeks to encourage their broader participation in the workforce.

Initiatives to Encourage a Better Work-Life Balance

Recognizing the importance of work-style diversity, Sumitomo Forestry has taken the initiative in arranging childcare and nursing leave systems, as well as reducing overtime, with the aim of creating a fulfilling workplace and ensuring a rich family life. We have established the Workstyle Diversification Department within the Personnel Department, where employees can find a comprehensive career support desk dedicated to such matters as childcare, nursing, career development, mental health and reemployment after retirement. In fiscal 2014, we established a working group to look into approaches to balance work and childcare. The group examined issues related to working while caring for young children and ways to improve working conditions for such employees in the Housing Division Branch Offices, where it is difficult to control work schedules due to client needs. The working group will continue its examinations in fiscal 2015 and promote the creation of workplaces that are better suited to employees with young children.

Preserving Traditional Building Techniques for Wooden Houses

The Sumitomo Forestry School of Professional Building Techniques was established in 1988 as an in-house training center to pass down the traditional Japanese wooden post-and-beam construction method to future generations. To master carpentry skills, new employees at Sumitomo Forestry Home Engineering Co., Ltd. train for a year at the school. The training starts with lectures and continues with practical training on the use and maintenance of tools, ink-marking and other traditional techniques, material handling, and safety. In fiscal 2014, 58 individuals were accepted for enrolment and 56 graduated. At the start of fiscal 2015, the school welcomed 64 new trainees including employees of partner companies.