

# REVIEW OF OPERATIONS



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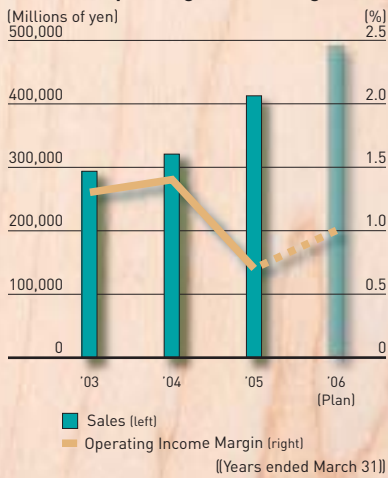
Other  
Businesses

BF (Big Frame) construction method, which requires absolutely no bearing walls, makes possible large openings from which light and air are drawn in to create vast spaces that bring the outdoors indoors.

# TIMBER AND BUILDING MATERIALS BUSINESS

The Timber and Building Materials segment has secured the number one position in Japan for timber and building materials sales thanks to its solution providing ability. Such expertise was brought about by a full range of operations covering products from timber to building materials through the Sumitomo Forestry Group's global network. We even more proactively pursue functionality and service in order to take even greater advantage of our economy of scale.

## Sales and Operating Income Margin



Maple floors: Maple has a pale white tonality on the surface which creates an expansive feeling of openness and clarity and enwraps spaces in an aura of dazzling freshness.

## Segment Performance Highlights

(Millions of yen)

	FY2003	FY2004	FY2005	FY2006(Plan)
Sales	293,220	320,255	412,182	490,000
Operating income	3,813	4,615	2,806	4,800
Assets	146,169	157,840	237,265	—
Capital expenditures	1,723	2,949	5,701	—

Note: The sales figures given include intersegment transactions. Operating income figures include internal profit prior to the deduction of amounts such as intersegment transactions and headquarters expenses that are not apportionable.

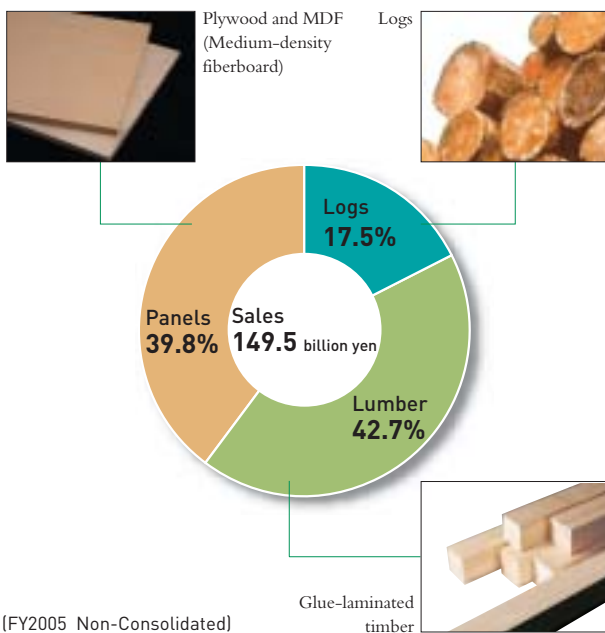
## Operating Income of Main Subsidiaries

(Millions of yen)

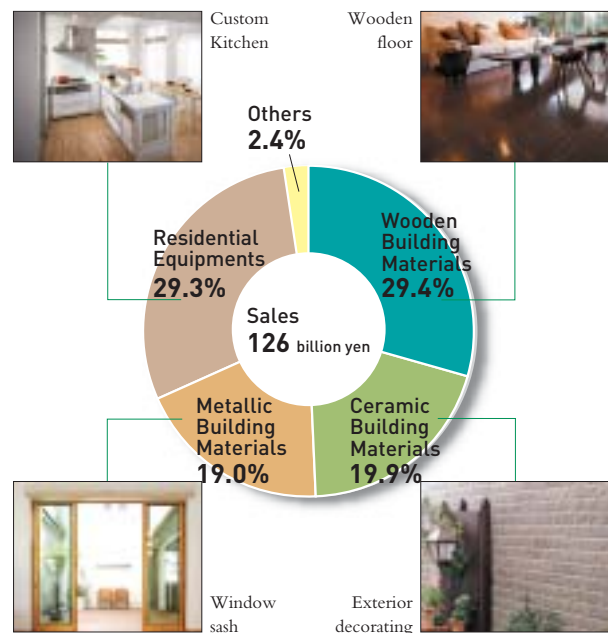
Company name	FY2004	FY2005	FY2006(Expectation)
Sumitomo Forestry Crest Co., Ltd.	841	252	570
<b>Overseas Subsidiaries</b>	<b>FY2004</b>	<b>FY2005</b>	<b>FY2006(Expectation)</b>
PT. Kutai Timber Indonesia (Indonesia)*	620	(56)	(110)
Alpine MDF Industries Pty Ltd (Australia)*	239	84	300
Nelson Pine Industries Limited (New Zealand)*	749	231	900

\* Calculations for overseas affiliated companies have been translated into Japanese yen at the following rates.  
 FY2004 US\$ =108.14 / AU\$=79.59 / NZ\$=71.76  
 FY2005 US\$ =110.17 / AU\$=83.91 / NZ\$=77.56  
 FY2006(Expectation) US\$=115.00 / AU\$=86.00 / NZ\$=78.00

## Sales Share of Wood Products

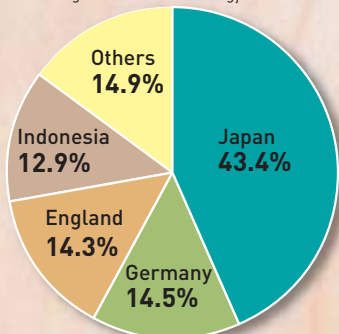


## Sales Share of General Building Materials



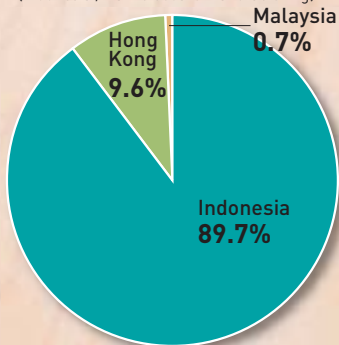
### Overseas Manufacturing Subsidiaries and Affiliated Company (Export Destination)

**KTI\*** (Indonesia / Plywood Manufacturing and Building Materials Processing)



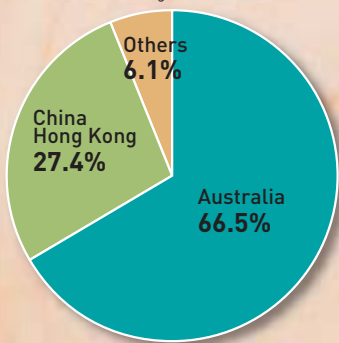
(FY2005 Based on Sales)

**RPI\*** (Indonesia / Particleboard Manufacturing)



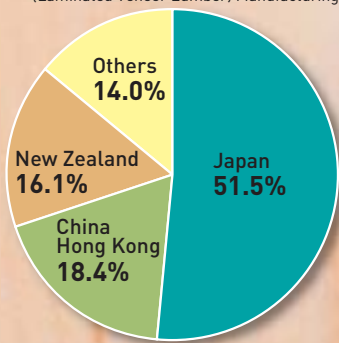
(FY2005 Based on Quantity)

**ALPINE\*** (Australia / MDF [Medium-Density Fiberboard] Manufacturing)



(FY2005 Based on Quantity)

**NPIL\*** (New Zealand / MDF and LVL [Laminated Veneer Lumber] Manufacturing)



(FY2005 Based on Quantity)

Note: KTI (PT. Kutai Timber Indonesia)  
RPI (PT. Rimba Partikel Indonesia)  
ALPINE MDF (Alpine MDF Industries Pty Ltd)  
NPIL (Nelson Pine Industries Limited)

## REVIEW OF FISCAL 2005

### Business Environment — Increasing Worldwide Demand for Timber, while Domestic Demand Stagnated

In the timber and building materials industry in fiscal 2005 there was a contrast between the domestic and overseas environment. In the overseas market the building boom continued and demand increased in China, which is achieving marked development as the “world’s factory,” and in the United States where housing investment was strong. On the other hand, in the domestic market, the number of wooden housing starts, which accounts for 44% of the total number of new housing starts, was at a low level of 545,000 starts, an increase of just 0.6% over the previous fiscal year.

### Summary of Business Results — Increase in the Cost of Raw Materials Leads to Large Decline in Operating Income

Sumitomo Forestry acquired Toyo Plywood Co., Ltd., and Ataka Kenzai Co., Ltd. and augmented its alliance in June 2005 and October 2005, respectively, to provide even more high value-added services than before and to enhance its marketing capabilities. As a result, in the field of domestic timber and building materials distribution business, Sumitomo Forestry became the “No.1 timber and building materials trading company in Japan” in terms of the richness of its product lineup and its transaction volume. On the other hand, the domestic manufacturing business environment, the major source of its sales, became even harsher exemplified by the increased cost of major raw materials, sluggish sales volumes and declining selling prices. On top of that incidents at its overseas manufacturing sites accelerated the decline in earnings. As a result of all these developments, sales in the Timber and Building Materials segment recorded an all-time high, due to the M&A of the two companies, of ¥395.65 billion (a 31.1% increase over the previous fiscal year) but operating income declined to ¥2.806 billion (a 39.2% decline from the previous fiscal year).

### Review of the Operations of Each Business Division

With overseas purchasing prices for timber products being driven upwards backed by increased demands in China and U.S. it remained difficult to pass on 100% of these costs to domestic distribution prices. Due to this difficulty and sluggish domestic demand, timber sales\* declined 2.1% year on year to ¥90.867 billion. The building materials business, however, continued to enhance its relationships with major suppliers, nationwide wholesalers, and regional leading stores, and was able to increase sales for all of the four product lines of general building materials (wooden building materials, ceramic building materials, metal building materials, and housing equipment). As a result, sales of building materials\* increased 3.7% year on year to ¥192.569 billion.

\* Composition of sales: Timber in the form of log, lumber, etc; building materials in the form of wood-based panels, general building materials and INOS, etc.

## PRIORITY POLICIES IN FISCAL 2006

### 1. Responding to Diversifying Customer Needs Using our Abundant Knowledge /Information and Expertise

The Sumitomo Forestry Group is operating its business through an integrated structure starting from log procurement to the sale of wooden housing, so the employees in the Timber and Building Materials segment are not only very well versed in the situation regarding timber and building materials in each region of the world, they are also able to promptly obtain accurate information about the end users. This segment utilizes full of this real-time information on both sides of the demand and supply needs and its advantages as a group of timber and building materials experts to appropriately respond to diversifying customer needs and to expand both its existing trading areas and its customer base acquired through M&A to unprecedented levels.

## Glue-Laminated Timber

Glued-laminated timber effectively utilizes relatively narrow or short logs and when it is bonded with finger joints,\* which have excellent bonding strength, it boasts outstanding dimensional stability and great strength. Currently wood with coarse grain that warps easily is on the increase and there are a growing number of customer complaints about the construction of houses. Also due to the increasing popularity of precutting, in which timber is automatically processed with machines, house construction schedules are shortening and sometimes timber is being delivered to the construction site before it has been sufficiently dried, and this undried timber becomes a problem. Sumitomo Forestry took the lead in creating glue-laminated timber as one solution to these problems. Because of uniform quality and high-strength, the rate of use of glue-laminated timber as a construction material in houses constructed with the wooden post-and-beam architectural method is rapidly increasing. Its rate of use in posts is approximately 70% and its rate of use in beams is approximately 45%.



\* Finger joint (manufacturing process for glue-laminated timber): Parts to be cut are cut into gear-like shapes, and both fingers are firmly joined to make boards of glued-laminated timber.



Overseas manufacturing operations: KTI an Indonesian plywood plant, ships products around the world.



Entranceways proposed by Toyo Plywood Co., Ltd.: These naturally designed entranceways are adorned with attractive vertical lattice sliding doors to impart a modern Japanese taste.

## 2. Expanding Domestic Business through Utilization of our Foreign Product Procurement Capacity

Sumitomo Forestry Group has leverage to procure foreign products through its global network. In particular we aim to expand our handling of glue-laminated timber,\* which is being used more and more due to widespread applications of the wooden post-and-beam architectural method, by about 20% a year. We will provide competitive business development to our distributors, who are our business partners, through dividing roles with timber distributors and precutting factories which have outstanding functionality and facilities.

## 3. Maximization of the Benefits from M&A

Fiscal 2006 is the first year of our unification with Toyo Plywood Co., Ltd. and Ataka Kenzai Co., Ltd. We will focus on maximizing the synergistic effects from these two M&As.

### (1) Enhancement of the business structure of Toyo Plywood

In June 2005, Sumitomo Forestry acquired Toyo Plywood Co., Ltd., a manufacturer of total wooden building materials, by way of Sumitomo Forestry Crest Co., Ltd. which shoulders the work of building materials manufacturing within the group. Toyo Plywood specializes in its unique product development ability to procure and utilize sustainable plantation timber.\* Furthermore, there is very little overlap between the clients and factory locations of the two companies so we are in an ideal complementary relationship. In fiscal 2006 we will prioritize business enhancement of Toyo Plywood. Specifically we will enhance its marketing capabilities outside its base central Japan region, introduce Sumitomo Forestry Crest's follow-up system, and carry out reforms of its production, quality and warranty systems.

\* Plantation timber: It is not natural timber such as tropical rainforests but timber from planned afforested trees such as poplar in China.

### (2) Synergistic effects generated by fusion with the community-based marketing expertise of Ataka Kenzai

In the timber and building materials distribution business, in April 2006 we merged with building materials trading company Ataka Kenzai Co., Ltd. (¥123.3 billion in fiscal 2005 sales, ¥600 million in operating income). Sumitomo Forestry is superior in handling wooden building materials whereas Ataka Kenzai is superior in handling ceramic building materials. Furthermore, we also enjoy complementary relationships in the customer bases of the two companies. Of course the benefits of the merger go beyond just scaling up the size of our business. Ataka Kenzai's marketing approach of being community-based and providing service in order to build long-term trusting and close relationships with a wide range of clients has been highly respected in the industry. For Sumitomo Forestry Group, whose priority issue is to enhance its marketing capabilities, it is anticipated that extremely large synergistic effects will be realized from this merger with Ataka Kenzai, a company with a tradition of community-based marketing. Going forward, we will integrate the Sumitomo Forestry Group's global network and Ataka Kenzai Co., Ltd.'s community-based marketing. In the current fiscal year we will divide Japan into four area divisions and aim for higher value-added services in each division.

## 4. Enhancement of our ability to meet the market demand for reassurance and safety

As a result of last year's scandal over buildings built based on fabricated earthquake-resistance data, demand for reassurance and safety has rapidly grown stronger. We are enhancing our capability to respond to these demands through the INOS Group Business.\* Specifically we provide a system for reas-

**[INTERVIEW WITH A PERSON AT THE FOREFRONT OF THE NEW ORGANIZATIONAL STRUCTURE]**

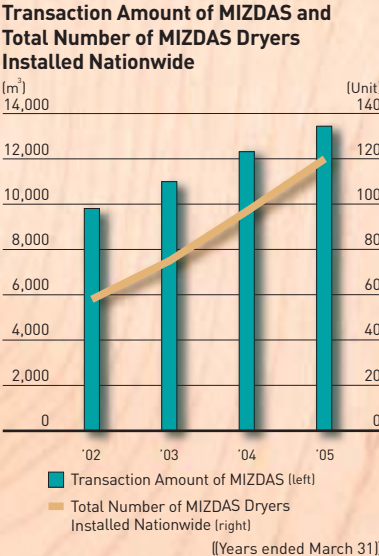
I have worked at Ataka Kenzai for 20 years, dealing not only in plywood but also a wide range of building materials products while maintaining a stronger and more substantial relationship with suppliers and clients. Now I have assumed a manager position of the Domestic Plywood Team which has been newly established on the occasion of the merger. When competing with other companies, sophisticated expertise and abundant information about each of the timber products the company handles are important advantages. Now as a member of the Sumitomo Forestry Group, we are able to exchange information with the Log Group which sells logs to our clients, the domestic plywood manufacturers. Furthermore, we are working on the development of applications for domestic plywood jointly with the Imported Plywood Team and Medium-Density Fiberboard (MDF) Team, and I strongly feel that now we have various functions and advantages that Ataka Kenzai could not have had alone. Now we intend to fully utilize these advantages, meet the needs of customers with greater value-added services than ever before, and aim to be number one in the industry in terms of domestic plywood transaction volume.



Team Manager  
Panel Group Plywood Team  
Wood Products  
Trading Division,  
Business Headquarters  
**Tsunekatsu Kubota**



MIZDAS drying system: Whole materials are completely opened to allow exposure to air, and sawn timber is piled up and then put into the dryer.



insurance and safety based on our CAD system based-design, construction date, and technical expertise to INOS member(local housing construction companies) throughout Japan as an effective solution for end users. We aim for the expansion of the INOS business network.

\* A business that has built a network consisting of outstanding local housing construction companies (INOS member companies) throughout Japan which are in partnership with Sumitomo Forestry. Sumitomo Forestry Group aims to establish a new distribution system that not only offers materials but also provides technology and expertise through this network.

**RESEARCH AND DEVELOPMENT**

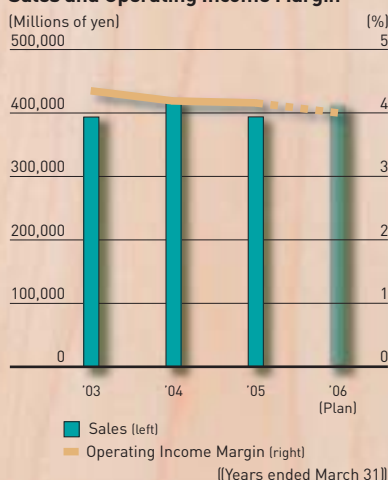
**Development of New Functionality for MIZDAS, our Timber Drying System**

Sawn timber from Japanese cedar or Japanese cypress tends to have many cracking during the drying process. Sumitomo Forestry's Tsukuba Research Institute has been conducting research into a solution to this problem. In October 2000, it completed development of the timber drying system MIZDAS. This system uses sensors attached to the timber to measure how dry the timber is in real time and to create appropriate temperature, humidity, and air flow conditions inside the drying kiln. MIZDAS provides us with high-quality, dried timber with a moisture content of 15% or less within a short period of time. Then in March 2006, we added a new functionality of controlling the drying conditions to the MIZDAS and succeeded in development of a high-accuracy drying technology that controls timber cracking even better than ever before. This new technology directly measures the contraction and expansion of the timber and reduces the incidents of cracking by predicting the timing of cracking during the drying process. Thanks to these technical developments not only will cracking be reduced but also there will be fewer irregularities such as twisting, warping and less discoloration in the timber than before. Improvement in the yield rates and quality of dried timber can also be expected. Going forward we will disseminate the new and improved MIZDAS among timber processing companies and sawmills across Japan and will establish a stable supply structure for low cost and high quality domestically-produced dried timber. We will also work to increase the volume of our MIZDAS timber.

# HOUSING AND HOUSING-RELATED BUSINESSES

In this segment, as a leading company in the custom-built wooden housing market, we provide the high-quality “wooden house” with the benefit of “wood”. That beauty is derived from our unique technology built on our knowledge of everything there is to know about “wood” and our comprehensive strength stemming from our capacity to integrally cover the whole process from materials procurement to design, construction and after-sales service. On the back of this strength, we are also striving to reinforce our business domains such as collective housing and housing stock businesses.

## Sales and Operating Income Margin



## Segment Performance Highlights

	(Millions of yen)			
	FY2003	FY2004	FY2005	FY2006(Plan)
Sales	393,616	418,313	393,868	410,000
Operating income	17,150	17,530	16,370	16,500
Assets	108,160	108,705	105,579	—
Capital expenditures	3,162	4,403	3,737	—

Notes: The sales figures given include intersegment transactions. Operating income figures include internal profit prior to the deduction of amounts such as intersegment transactions and headquarters expenses that are not apportionable.

## Operating Income of Main Subsidiaries

	(Millions of yen)		
	FY2004	FY2005	FY2006(Expectation)
Sumitomo Forestry Two-By-Four Homes Co., Ltd.	(586)	(487)	20
Sumitomo Forestry Home Service Co., Ltd.	406	423	540
Sumitomo Forestry Home Tech. Co., Ltd.	711	195	350
Sumirin Construction Co., Ltd.	522	515	780
Sun Step Co., Ltd.*	351	281	400

\* Because the accounting year ended March 2005 was changed from the year ended in December to the year ended in March, the settlement of accounts for the year ended March 2005 posts the results for a 15-month period.

## REVIEW OF FISCAL 2005

### Business Environment

#### —the Owner-Occupied Housing Market Remains Stagnant

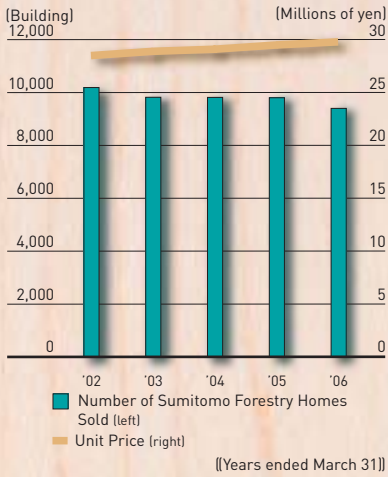
Amid firming prospects for an economic recovery in Japan, the number of new housing starts increased 4.7% over the previous fiscal year to 1,249,000 units, driven by apartments and rental housing. However, starts of owner-occupied houses, which are closely related to our Housing and Housing-Related Businesses segment, declined 4.0% to 352,000 units, due mainly to reduced tax breaks for housing loans. Meanwhile, the market for houses to rent rose 10.8% to 510,000 units to post the positive growth for the third consecutive year, spurred by increased asset management by landowners and rising demand for units for single-person households. In the remodeling market, we saw not only replacement demand from owners of aging houses but also rising demand for higher-quality housing against the backdrop of an aging society.

#### Earnings Overview—Upfront Investment for Future Growth Lowers Income

In the business environment described above, net sales for this segment fell 6.2% from the previous year to ¥392,131 million and operating income declined 6.6% to ¥16,370 million. Sales of detached houses, our main line of business, dipped 5.0% to 9,807 units. The lower income on lower net sales resulted chiefly from our proactive upfront investment for securing future growth, including an augmentation of our sales force and business networks.

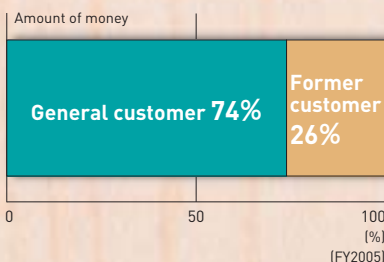
Maple floors: Maple has a pale white tonality on the surface which creates an expansive feeling of openness and clarity and enwraps spaces in an aura of dazzling freshness.

### Number of Sumitomo Forestry Homes Sold and their Unit Price



These original tiles developed by Sun Step accentuate design.

### Ratio of General Customers in Total Contracts Made by Sumitomo Forestry Home Tech Co., Ltd.



## Business Overview by Sector

### New Detached house business—efforts made to strengthen competitiveness

In the post-and-beam detached house business, we strove to enhance our competitiveness by proactively emphasizing our unique strength in order to secure future sales of a stable number of houses even within the maturing market.

First of all, in a bid to strengthen competitiveness in urban areas which still have high potential even within the maturing market, we revamped our organization and boosted manpower in the Tokyo metropolitan area. Next, we launched the new product, MyForest, which puts a maximum emphasis on the mastering of the full beauty of “wood” in order to have customers clearly understand the “way of living” we are proposing. Furthermore, regarding contracts with customers, we sought a qualitative change in sales efforts through a thorough review of contract details in a manner that would lead to increased construction starts.

Since we were still only halfway through our efforts to enhance competitiveness, however, the number of orders decreased 9.3% from the previous year to 8,890 units, with the value of completed units dipping 3.2% to ¥280,312 million. Nonetheless, the ratio of gross income to net sales remained at a high level as we made continued efforts to reduce production costs, and the value of order per unit rose 5.7% over the previous year to ¥30.9 million thanks to beefed-up sales efforts and the introduction of new products.

In our two-by-four housing business undertaken by Sumitomo Forestry Two-By-Four Homes Co., Ltd., order receipts increased by a sharp 31.3% over the previous year to ¥11,561 million, while the value of completed units also expanded 22.8% to ¥10,222 million as a shift in strategy toward mid- and high-end products paid off.

### Collective housing business—personnel development took much time

In the collective housing business, we tried to increase order receipts by boosting personnel and making strategic investments. But we faced a very tough market environment as it took much time to train personnel hired for reinforcement, and competition with major general contractors became more intensified in the market for big-ticket transactions. Consequently, orders received dropped 21.5% from the previous year to ¥13,733 million, while the value of completed housing also declined 31.2% to ¥11,492 million. However, the backlog of orders at the end of the year rose 16.5% over a year before, with a higher ratio of orders for construction to be completed in the next fiscal year. Going forward, we will seek to increase orders and raise the rate of return by taking a business strategy that makes better use of the Group’s comprehensive strength, such as improving our information-gathering capability through community-based business collaboration with group companies and putting particular emphasis on the cost performance of post-and-beam houses.

### Housing-related businesses

#### —Housing stock business— We continued proactive upfront investment

In the remodeling business, Sumitomo Forestry Home Tech Co., Ltd. actively increased staff with a view to expanding order receipts. This pushed up selling and administrative expenses by ¥900 million from the year-before level. With gross income rising only ¥400 million over the previous year, however, operating income declined by ¥500 million.

Going forward, we aim for operational efficiency with the beefed-up logistical support system and for higher value added to our services in order to capitalize on our specialist strength that almost all of our employees in the sales and design sections are at least second-class registered architects. By making better use of our technological prowess accumulated in the detached house business, we will seek to expand order receipts, needless to say from our for-

mer customers who ordered housing to Sumitomo Forestry, but also from other general customers for remodeling wooden housing.

—Property development business division—

**We entered the built-for-Sale detached house market**

In December 2005, we entered the build-for-sale detached house market in earnest by establishing the “Property Development Business Division” as an independent organization to push ahead with the built-for-sale detached house business. We will promote the building of communities by valuing harmony with ambient surroundings while setting great store by our mid- to high-end product image and introducing products with particular emphasis on design. We will build our business structure that allows us to approach first-time home buyers from both fronts of owner-occupied houses and built-for-sale houses.

**PRIORITY POLICIES IN FISCAL 2006**

**Key Objectives**

**Marketing the Allure of “MyForest” to a Broad Range of Customers**

We launched the new product, MyForest, in October 2005 with the concepts of “harmonious coexistence with the global environment” and “mastering of the wood and mastering of living.” The new product, MyForest, is the culmination of our technology through wooden custom-built housing business, as well as Sumitomo Forestry Group’s comprehensive strength. MyForest is the embodiment of livable, healthy, reassuring and safe house that makes the most of the strength of wood with the traditional Japanese wooden house design approach, not driven chiefly by air-conditioning requirements. Already, MyForest has found a favorable reception with mid- and high-end customers at our model home display centers, and we will now strive to receive orders from a broader range of customers by expanding the product lineup for the young and first-time homebuyers.

For the interior of MyForest, a variety of trees with distinct characteristics, such as oak, teak, maple and bamboo, which only the Sumitomo Forestry Group with an extensive global network can procure stably, are used to suit varied modes of the way of living. One of the features of the wooden house, for example, is that the face of the interior space changes in response to sunlight or lighting. Further-



MyForest

**Sales Performance by Business Divisions**

(Millions of yen)

			2003	2004	2005	2006	2007(Expectation)
Detached housings in total	Sumitomo Forestry	Amount	283,798	285,513	289,564	280,312	290,000
		Unit	9,824	9,817	9,805	9,401	9,300
	Sumitomo Forestry Two-By-Four Homes	Amount	10,905	10,297	8,325	10,222	12,700
		Unit	446	394	279	338	410
	Sumitomo Forestry system house	Amount	5,538	6,970	4,711	—	—
		Unit	223	285	191	—	—
	Detached order housings in total	Amount	300,242	302,780	302,600	290,534	302,700
		Unit	10,493	10,496	10,275	9,739	9,710
	Detached sales housings in total	Amount	1,119	973	907	1,421	1,900
Unit		59	46	44	68	80	
Detached housings in total		Amount	<b>301,362</b>	<b>303,753</b>	<b>303,507</b>	<b>291,955</b>	<b>304,600</b>
		Unit	<b>10,552</b>	<b>10,542</b>	<b>10,319</b>	<b>9,807</b>	<b>9,790</b>
Collective housings in total	RC apartment	Amount	7,415	11,086	13,163	6,670	9,400
		Unit	720	856	1,134	461	870
	Wooden apartment	Amount	4,129	3,346	3,534	4,822	7,300
		Unit	500	410	437	621	810
Collective housings in total		Amount	<b>11,545</b>	<b>14,432</b>	<b>16,697</b>	<b>11,492</b>	<b>16,700</b>
		Unit	<b>1,220</b>	<b>1,266</b>	<b>1,571</b>	<b>1,082</b>	<b>1,680</b>

((Years ended March 31))



## [INTERVIEW WITH THE MANAGER OF A MODEL HOME]

In this area 70% of new owner-occupied housing is newly-built. Most of our customers are young first-time buyers so their total budgets including land acquisition cost are concentrated within a certain price range. The feature of visitors for consultations at our center is that most of them are appreciative of authenticity of housing and have very distinguished tastes about even the smallest details of their future homes. In response we proudly promote our products by appealing to the wonderful “homes fully accentuating the warmth of wood” which are the advantage of Sumitomo Forestry and provide advice to them about all aspects of housing life including floor plans that take maximum advantage of limited floor space, and tax strategy.

We are also making steady efforts to cultivate demand so that when prospects actually make up their mind to rebuild their houses, they will choose Sumitomo Forestry without question. Likewise, we are actively playing the role of a mediator for building land allocation by maintaining close relationships with local real estate agent and gathering information efficiently. As manager of this model home, I will make this center the No.1 housing company in our region through formulating and implementing a more specific regional strategy, and encourage everyone on the team to challenge themselves and have satisfaction with his or her job.



Manager of the  
Kamitsuruma  
Model Home  
Southern Tokyo Branch  
Housing Headquarters

Taku Ogihara



An experiment in concrete foundation reinforcement using band steel and aramid fiber: Aramid fiber is extremely strong and has excellent durability, and is used in cutting-edge fields such as the aerospace industry and aviation.

more, Japanese cedar is used as an “accent” for the exterior, which makes the house blend with the cityspace and gives out a sense of nostalgia but yet maintains the air of substance and superior quality that the genuine wood can only provide. We truly take pride in the MyForest as the “wooden house” with high property that can be built only by the Sumitomo Forestry Group.

On top of this, the quake-resistance of MyForest is the product of the combination of high-performance materials (please see P.33 for explanations about respective materials) and optimum basic foundation design for each house. Full-scale oscillation tests have confirmed that the structural skeleton of MyForest can withstand the oscillation 1.2 times as strong as the maximum ground acceleration observed in the Great Hanshin-Awaji Earthquake without sustaining any damage. This is the “reassuring and safe” housing even under the circumstance of natural disasters.

We also launched the three-story house Prodio-BF that adopts a “Wooden Continuous Beam Type rahmen Structure” for the first time in Japan in the Kinki and Chukyo regions following its debut in the Tokyo metropolitan area. We hope the Prodio-BF will help us gain a bigger share of the three-story housing market where demand is fairly strong particularly in city centers with limited availability of residential land.

## RESEARCH AND DEVELOPMENT

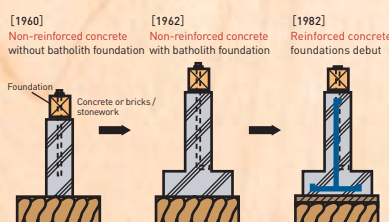
### Developed Breakthrough Quake-Resistant Remodeling Technology

In the housing stock business, the remodeling company Sumitomo Forestry Home Tech. Co., Ltd. has developed a new quake-resistant remodeling technology, the Sumirin REP method, which makes it possible to build a structure with strong quake-resistance by reinforcing walls without dismantling existing floors or ceilings while creating expansive open space and securing enough daylight.

In particular, the Sumirin ARC method, a construction technique for foundation reinforcement, is a breakthrough technology that realizes both the enhanced quake-resistance as well as shorter work periods and lower costs by reinforcing the house with band steel and aramid fiber. We are hoping the new technology will promote the growth of our remodeling business. According to an estimate by the Ministry of Land, Infrastructure and Transport\*, of about 24.5 million wooden detached houses in 2003, some 10 million units (about 40% of the total) were built in 1981 or before and are believed to lack sufficient levels of quake-resistance, with many of them having weak foundations based on unreinforced concrete.

\* The ministry of land, infrastructure and transport made the estimate based on the housing and land survey conducted in 2003 by the ministry of internal affairs and communications.

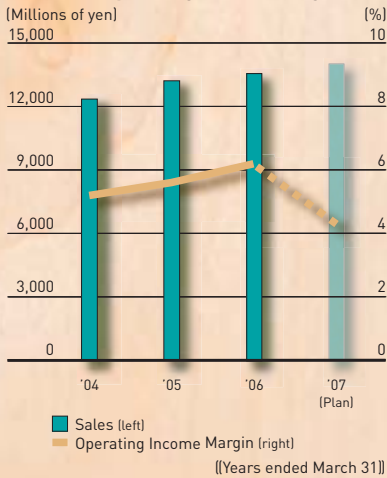
### Changes in Building Foundations



## OTHER BUSINESSES

In addition to providing comfortable homes, the Sumitomo Forestry Group offers multi-faceted services in order to help customers enjoy rich residential lives and to contribute to their community environment. These services include the production and sales of farm and garden materials, insurance brokerage, and information systems and leasing services.

### Sales and Operating Income Margin



The Company manages the Takinomiya Country Club for effective use of land unsuitable for forestry management at Niihama in Ehime Prefecture where the Company started forestry business.

### Segment Performance Highlights

(Millions of yen)

	FY2003	FY2004	FY2005	FY2006(Plan)
Sales	12,350	13,185	13,549	14,000
Operating income	644	738	841	600
Assets	7,893	8,650	9,139	—
Capital expenditures	999	754	980	—

Notes: The sales figures given include intersegment transactions. Operating income figures include internal profit prior to the deduction of amounts such as intersegment transactions and headquarters expenses that are not apportionable.

### REVIEW OF FISCAL 2005

Sales of this segment increased 2.8% year on year to ¥13,549 million. These revenue gains were attributable to healthy sales of fire insurance to housing customers by Sumirin Enterprises, Ltd., which provides services including insurance agency business and leasing, and also due to a sharp increase in customers visiting a golf course managed by Kawanokita Development Co., Ltd. at Niihama in the Ehime Prefecture. Operating income rose 13.9% year on year to ¥841 million.

### PRIORITY POLICIES IN FISCAL 2006

In this segment, the services are aimed primarily at the Group. For this reason, effort is being channeled into systems development in order to contribute to the smooth implementation of business activities within the Group and to enhance the profitability of the Group as a whole. With regard to Sumirin Enterprises, Ltd., we aim to increase its profitability by expanding its share of the fire insurance sold to Sumitomo Forestry housing customers, which was about 40% in fiscal 2005.