

# Interview with the President

## On Fiscal 2009 (Fiscal year ended March 31, 2010) Consolidated Results

**Q1** Reflecting the business environment, results were much lower than expected. What is your assessment of them?

**A1** The impact of poor market conditions could not be avoided, but we saw the beginning of a recovery in the second half and we aim to take our next steps by building on the measures we initiated in Japan and abroad.

Fiscal 2009 began under the ongoing cloud of the previous year's Lehman Shock and, with the Japanese economy in retreat, new housing starts came to only about 775,000 units for the year. Owner-occupied housing starts, which are intimately related to the Group's businesses, also reflected a further decline year-on-year, totaling only about 287,000 units. These developments hit both our housing and timber and building materials businesses hard. Lower unit sales of custom-built detached housing and stagnant timber and building material sales volumes caused consolidated net sales to fall 12.1%, compared to the previous year, to ¥723.9 billion for fiscal 2009. Operating income increased by 42.6% to ¥9.7 billion with the help of thorough cost-cutting, but would have declined year-on-year without the benefit of an actuarial difference in accounting for retirement benefits obligations. Such stinging results re-emphasize the importance of swiftly restoring the profitability of our core businesses — distribution and manufacturing of timber and building materials, and new custom-built housing — and developing a balanced business portfolio.

Conditions, however, seem to be improving. Housing loan tax benefits aimed at stimulating housing demand, housing investment tax benefits, expansion of the gift tax exemption, and other government policies supporting the housing market appear to have halted the decline in owner-occupied housing starts in the second half of fiscal 2009. Orders received in our new custom-built housing business also took a turn for the better with



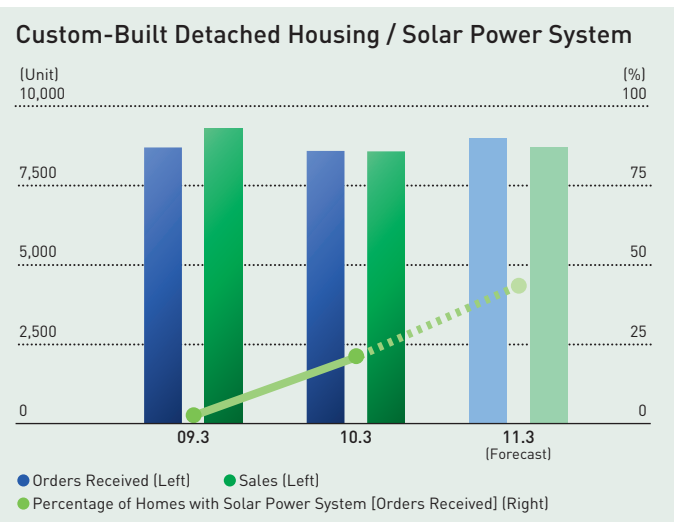
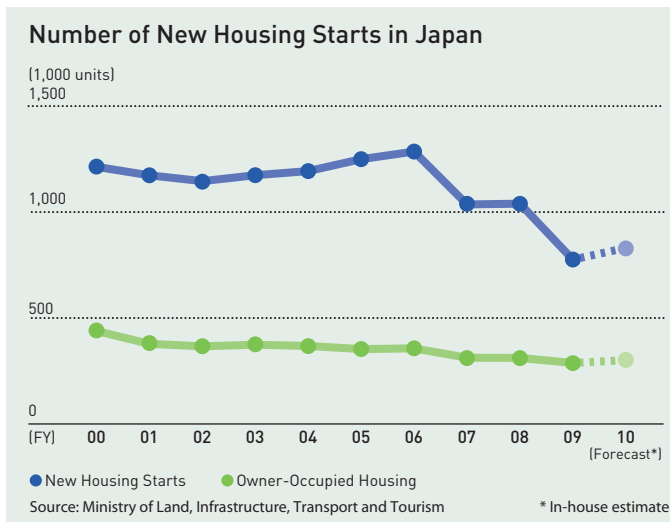
Housing product of the Henley Properties Group, an Australian concern in which Sumitomo Forestry holds a 50% stake.



Kodachi custom-built home

the introduction of our new attractively priced *Kodachi* product line and the impact of Web-based and other promotional efforts. Separately, we increased the percentage of homes we equip with solar power systems, and worked to develop new demand through Excellent Long-Term Housing promotions and other initiatives.

Overseas, we actively invested in businesses, marking our full-blown entry into the Australian housing market, building a particleboard manufacturing plant in Vietnam, launching a large-scale forestation project in Indonesia, and making other investments, as well. Meanwhile, we took other steps like increasing our renovation business manpower by shifting personnel.



**Outlook for Fiscal 2010 (Fiscal year ended March 31, 2010)**

**Q2** With harsh business conditions expected to continue, in what direction do you plan to take the company?

**A2** Plans are to secure stable earnings, with our highest priority on achieving recoveries in our core businesses.



While we cannot predict what will happen in fiscal 2010, the downturn in the Japanese economy has stopped, corporate capital investment appears to be climbing once again, and overseas timber and housing demand is gradually recovering, particularly in emerging markets. Within the Group, we believe the moderate recovery in new housing starts that began in the second half of fiscal 2009 will continue and are forecasting a figure of 830,000 units for fiscal 2010. More time is necessary before a robust recovery can take place, but we are not the only ones affected by the harsh business environment, so I think it is important for us to have faith and steadfastly do what we can.

To restore profitability in the near term, our top priority will be leveraging our core businesses — distribution and manufacturing of timber and building materials, and new custom-built housing. For these two businesses, we will work to secure earnings not through significant increases in net sales but by improving our earnings structure, cutting costs and expenses, and strategically building a workforce that is right for our needs.

In distribution and manufacturing of timber and building materials, we will stabilize earnings while focusing on fundamentals like inventory management, quality management and delivery management, while making the most of our intelligence-gathering capabilities and distribution network, which are among the industry's best. In more specific terms, we will improve our usage of domestic timber and our line of environmentally friendly products, strengthen our ability to respond to renovation demand, and take other measures that will enable us to swiftly

capitalize on areas of demand within an overall environment of lackluster housing starts. We will help to reform industry distribution practices by establishing a distribution infrastructure business that streamlines and improves the efficiency of distribution in housing construction, and makes it possible to simultaneously reduce CO<sub>2</sub> emissions and costs.

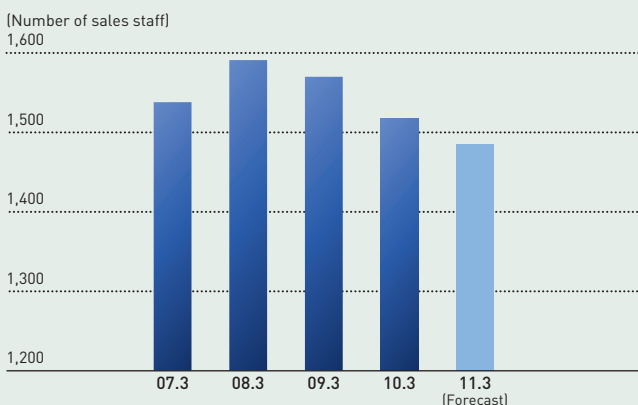
In the new custom-built housing business, we will strive to further improve efficiency by, for example, accelerating the transition to a high-return business profile that is not influenced by the number of houses completed, consolidating and merging model homes, and reassigning personnel to the renovation business, on which we are focusing for future growth. Furthermore, responding to growing environmental awareness, we will publicize our use of domestic timber, which differentiates our housing products, and our response to the Excellent Long-Term Housing system, while tapping primarily reconstruction demand by developing products like *BF-Si*\* custom-built houses, which use a proprietary construction method. As sales initiatives that do not rely on model homes, we are focusing on *Web Sumai Haku* housing fairs and other IT-based strategies.

\* *BF-Si*: These custom-built houses are characterized by their use of Sumitomo Forestry's Big Frame construction method to allow large passageways and interior spaces, and simplify future floorplan changes.

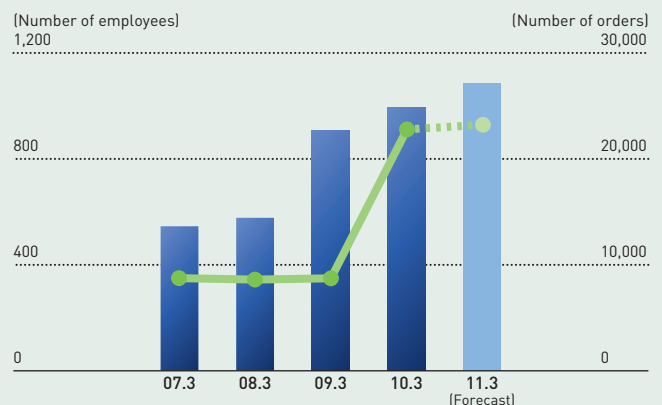


*BF-Si* custom-built home

**Custom-Built Detached Housing — Sales Staff**



**Renovation Business — Orders and Employees**



● Number of Employees in Sumitomo Forestry Home Tech Co., Ltd. (Left) ● Number of Orders (Right)  
 \* Figures after March 2009 include Sumirin Maintenance Co., Ltd. (absorbed in October 2008).



**Medium- to Long-Term Growth Strategy**

**Q3** What are the strategies for those businesses that are being looked to for medium- to long-term growth?

**A3** Efforts will focus on turning growth businesses into full-fledged earnings contributors.

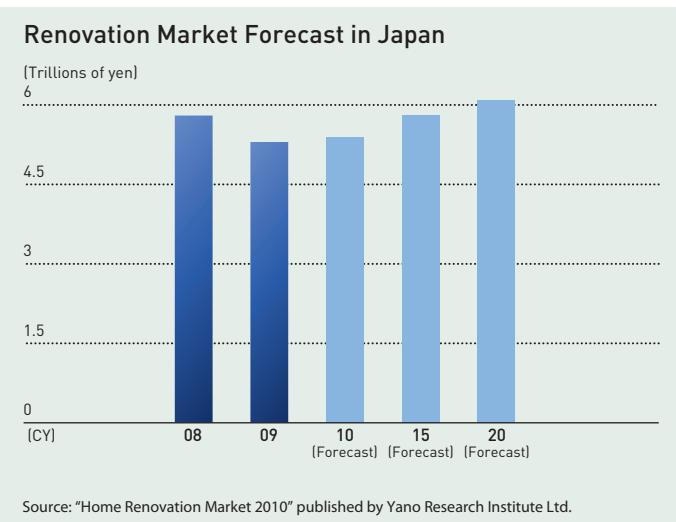
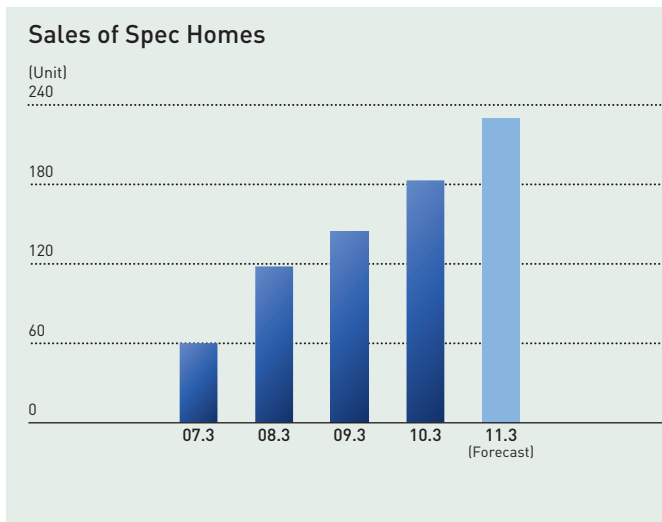
The turbulent business environment following the subprime loan problem and Lehman Shock caused greater-than-expected growth setbacks for the overseas, real estate, and renovation businesses that we have positioned as priority growth businesses. Nevertheless, we are confident that our decisions to develop these three businesses and use them to build a balanced business portfolio are correct, and we are steadily moving forward with investments in capital and people. Going forward, we will work to ensure these up-front investments steadily produce results in the form of businesses that contribute to Group earnings.

Within its business territory, which includes Southeast Asia, Oceania, China, South Korea, and North America, the overseas business is working to establish vertically integrated operations spanning everything from forestry to housing construction. The overseas housing-related and timber and building material markets began turning upward after bottoming out in the first half of fiscal 2009. The building material manufacturing businesses we are developing primarily in Oceania and Indonesia have prepared themselves for full-scale production in the expectation of a demand recovery. In our overseas housing business, results have been good particularly in Australia, where the Henley Properties Group, in which we acquired a 50% interest in 2009, has been growing steadily. To gain additional market share in the future, that company will streamline its operations using Sumitomo Forestry know-how, and work to create synergies with MDF\* manufacturing plants in Australia and New Zealand.

The real estate business is working to diversify risk and improve profitability through purchases and sales aimed at adjusting its portfolio of apartment buildings and other properties, and ultimately increasing earnings without increasing investments. New investments in condominiums are being avoided while efforts focus on selling existing units, and the spec home operations will be expanded based on strong expectations that this solidly performing business will continue to grow. Sumitomo Forestry has been highly praised for its urban development and housing construction endeavors and, given the mild market recovery, mainly in central Tokyo, we intend to expand our sales activities based on the concept of development that emphasizes value for the local community. As for our other business interests in real estate brokerage, apartment management, and management of private-pay elderly care facilities, all of which are pursued primarily through consolidated subsidiaries, efforts will be made to secure and expand earnings here, as well.

For the renovation business, we are expecting continued market expansion and will use a consultative sales approach leveraging our outstanding technical capabilities and rich experience to focus on gaining orders mainly for medium- and large-size renovation projects. Toward that end, we will continue to increase staffing and have established "Realise Reform Team" comprised of sales, design, construction, and other representatives to collaborate on large renovation projects.

\* MDF (Medium Density Fiberboard): An engineered wood product made by forming wood fibers into panels.



Source: "Home Renovation Market 2010" published by Yano Research Institute Ltd.

**Q4** The idea of strengthening environmental businesses has been put forth. Would you talk about their characteristics and specific themes?

**A4** We aim to develop comprehensive solution businesses to address forestation and forest management consulting, biodiversity preservation, and other growing needs concerning forest resources and protection of the global environment.

There have been various attempts to calculate the size of the environmental business market. In a March 2009 announcement, a British government agency estimated the global environmental business market for fiscal 2007/08 at approximately ¥605 trillion\*1, 30% of which was attributable to the renewable energy sector and 50% to the low-carbon sector. The agency also forecast that the market would grow by 45% to ¥878 trillion\*1 by fiscal 2014/15. Thus, forestry and forestation, one of our main businesses, will likely be a new environmental business sector.

Given such opportunities, we established our Environmental Business Department in April 2010 to provide cross-sectional support for and advance the Group's existing environmental businesses, and focus on developing new businesses. The major forest management and forestation activity successes we have achieved in Japan and abroad, and our pioneering initiatives in wooden biomass, CO2 emission credit, and other wood-related environmental endeavors can be counted as critical strengths.

More specifically, our activities in Japan have included working to expand the amount of Company-owned forest we manage, increasing the area of privately owned forest handled by our forestry management outsourcing business, and providing assistance for the acquisition and sale of CO2 absorption credits. Overseas, we have embarked on a massive forestation project in Indonesia that will ultimately create 280,000 hectares of forests. Forestation consulting and consulting for the application of logging residue and other unused resources are examples of businesses we are pursuing both in Japan and abroad.

In the future, we will also embark on CO2 reduction projects overseas. As a CDM project\*2, we will undertake a UN-registered project to provide consulting based on the wooden-biomass power generation expertise of our Indonesian affiliate, Rimba Partikel Indonesia, recover wooden biomass residue and other unused resources in Southeast Asia, and manufacture and sell fuel.



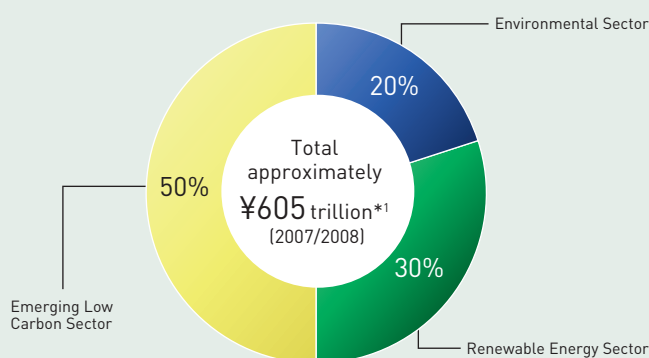
Large-scale forestation project scheduled for implementation together with a local Indonesian company.

Furthermore, we will undertake efforts to develop untapped markets in areas related to biodiversity preservation and the REDD (Reducing Emissions from Deforestation and Forest Degradation) scheme, in which reductions in CO2 emissions are converted into credits that can be traded, as we pursue new solutions that simultaneously address resource and environmental problems.

\*1. The fiscal 2007/08 market estimate as announced was £3.046 trillion. The fiscal 2014/15 market estimate as announced was £4.417 trillion. The exchange rate as of March 31, 2008 was £1 = ¥198.75.

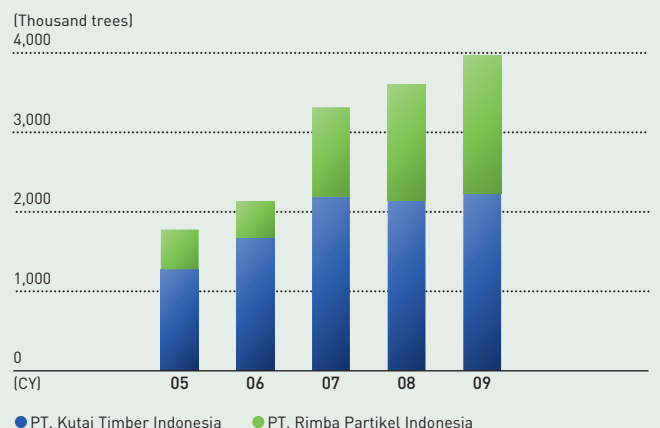
\*2. CDM (Clean Development Mechanism): Under the CDM, an industrialized country may use financial capital or technical support to pursue a project that helps to reduce the greenhouse gas emissions of a developing country, and then receive emission credits for all or a portion of the resulting emissions reduction.

**Global Market Value of the LCEGS\*3 Sector**



\*3. LCEGS: Low Carbon and Environmental Goods and Services  
Source: Excerpted from the report of Department for Business Enterprise & Regulatory Reform (now Department for Business Innovation & Skills) published in March 2009.

**Trees Planted in Indonesia**



**Stable Shareholder Returns and Increased Corporate Value**

**Q5** Given an uncertain business environment, what are your thoughts on how earnings should be apportioned between dividends and the implementation of growth strategies?

**A5** Maintaining the payment of a stable dividend as a basic policy, we will make strategic investments in growth businesses to boost our corporate value over the long term.

The payment of returns to shareholders is one of our principal concerns and our basic policy is to pay a stable return. Going forward, we will continue working to improve our ability to generate earnings as reflected in a rising return on capital employed (ROCE) — a key management indicator — as we pay appropriate shareholder returns that are in line with our earnings and reflect a balanced consideration of factors like our business base, financial condition, and investment plans.

For fiscal 2009, net income remained at the low level of a year ago, but, in respect of our basic policy of paying a stable dividend, we kept the dividend at ¥15 per share. Regarding internal reserve funds, our plans are to use them for investments, R&D, and other purposes that will effectively help to boost our corporate value as called for in our long-term management plan.

When I was appointed President, in April of this year, I told the Group’s employees that I wanted them to have confidence, pride, and aspirations regarding their work and the work of the Sumitomo Forestry Group. I also said that I wanted them to perform work that elicits the admiration and approval of customers and everyone else with whom they come into contact. These words express my personal values regarding my work and are based on the Sumitomo Spirit, which urges that “We conduct business that is beneficial to society based on the principles of integrity and sound management.”

Seriously addressing global environmental issues for the benefit of future generations is now commonly considered an



important corporate social responsibility. Our businesses are based on the Sumitomo Spirit, which has taken shape over the 300+ years of our history, and the roles these issues can play in meeting that corporate social responsibility are enormous. We have a wealth of experience and expertise in matters related to forestry and the uses of wood, and we are in the important and uniquely fortunate position of being able to grow as a business and have a positive impact on the global environment through the very pursuit of our business activities. To continue and expand these business activities, we will do everything within our power to restore our profitability and establish a stable foundation for future growth.

