

Interview with the President

“ Our goal is to rapidly build a balanced portfolio anchored by core businesses to support medium- to long-term growth ”



[On fiscal 2010 (fiscal year ended March 31, 2011) consolidated results]

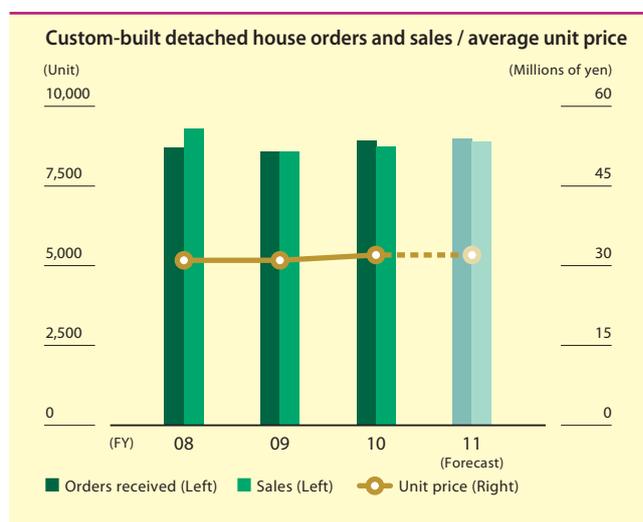
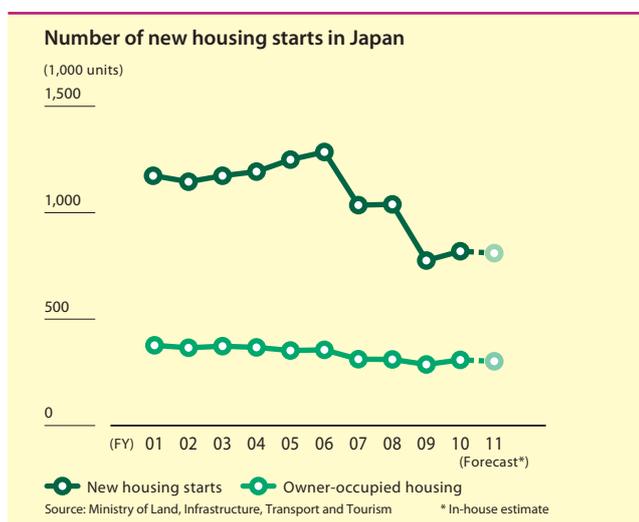
Q Business results improved in fiscal 2010, reflecting an upturn in the business environment. What is your assessment of the Group’s performance for the year?

A Profitability recovered by more than we forecast at the start of the fiscal year thanks to tailwinds in the market, such as a recovery in new housing starts, and ongoing rigorous cost reduction.

In fiscal 2010, new housing starts in Japan, which are closely correlated with the performance of the Group’s businesses, increased 5.6% year on year to 819,000 units, partly reflecting government stimulus measures designed to promote house purchases. Owner-occupied housing starts also increased, up 7.5% to 309,000. Against this backdrop, the Group’s results were solid overall. Sales rose 10.2% year on year to ¥797.5 billion and recurring income increased 50.1% to ¥14.2 billion, driven by the Group’s two core businesses—the timber and building materials business, which benefited from the upturn in housing starts, and the housing business, owing to an increase in average sales prices and progress with the rationalization of building processes. Due to deterioration in the operating environment for the Group’s pension assets amid weakness in the stock market, the Company incurred losses related to an actuarial difference in accounting for retirement benefit obligations. Excluding this factor, recurring income increased 139.4% year on year to ¥17.0 billion, illustrating the sharp improvement in profitability in our core businesses.

The Great East Japan Earthquake affected the Group’s business in a number of ways. The handover of some custom-built homes slipped into fiscal 2011 and we booked extraordinary losses totaling around ¥0.8 billion for repairs to offices, model homes and factories, and for emergency inspections of homes recently handed over to owners in the disaster-affected region. However, damage was limited to a minimum thanks to the support of our business partners.

In our mainstay custom-built housing business, orders and the number of houses completed exceeded fiscal 2009 levels and the average unit price also increased owing to a higher ratio of houses fitted with solar power systems and other energy-saving devices. We also rationalized manufacturing facilities. In the renovation business, we continued to increase headcount to support steady expansion. In the timber and building materials business, sales volume increased overall, with European timber showing particularly strong growth. Overseas, the housing business in Australia performed well and manufacturing



operations in Oceania and Indonesia were steady. However, earnings in overseas business were weak overall due to delays in starting up the plywood business in China and continued weakness in the US housing market. The real estate business

turned profitable at the recurring income level in fiscal 2010. This reflected strong sales in the detached spec homes business amid a recovery in market conditions, and steady sales of leasing properties in the real estate development business.

[Outlook for fiscal 2011 (fiscal year ending March 31, 2012)]

Q The outlook for fiscal 2011 is particularly uncertain owing to the earthquake. In what direction do you plan to take the Company?

A Our goal is to generate and strengthen earnings by offering homes that people can live in with peace of mind.

The housing market in fiscal 2011 could fluctuate depending on the impact of the earthquake. However, in areas outside the disaster-affected region as well, we see a growing need for homes that are safe and reassuring places to live. In light of those needs, we believe one of the Group's key responsibilities is to offer homes that give people peace of mind. Our start-of-year fiscal 2011 assumptions are for new housing starts of between 800,000 and 820,000 units, and for owner-occupied housing starts of roughly 300,000 units. Based on these assumptions, we forecast sales will rise 2.2% year on year to ¥815.0 billion and recurring income from core operations (excluding the impact of any actuarial difference in accounting for retirement benefit obligations) will increase 8.8% to ¥18.5 billion.

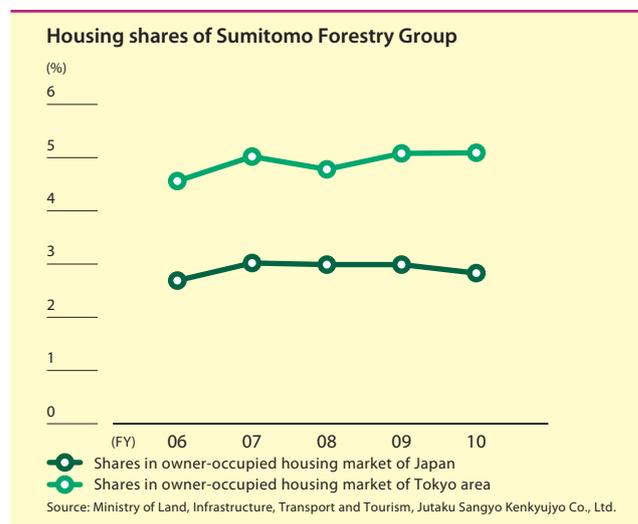
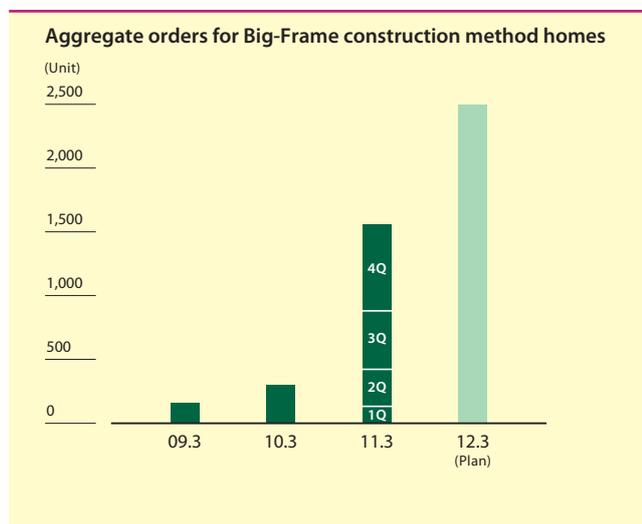
In the timber and building materials business, we intend to use our domestic and international procurement and sales network—one of the most extensive in the sector—to rapidly reduce the supply-demand gap that widened after the earthquake. Leveraging our network, we will ensure stable supply of materials and aim to secure profits in the business. We plan to accelerate the development of new businesses, such as homebuilding materials logistics operations, launched in fiscal 2009, as well as JHOP (Japan Housing Open Platform),

our "cloud-based" business support service for building contractors. We will also target an increase in market share through a localized strategy and develop new products by drawing on the combined strengths of the whole Group.

In the new custom-built housing business, we will work to accurately respond to growing customer needs for safety and earthquake resistance. Sales of homes that employ our proprietary Big-Frame construction method and our *Earthquake Energy-Absorbing Panels (GS Panels)* have risen since the earthquake, and we are targeting further growth. In addition, under our area strategy, we will offer a more segmented product lineup tailored to the needs of customers in each region, targeting the top share in each regional market. In urban areas, especially in Tokyo, where we boast one of the top market shares, we aim to maintain and expand our market share, while in Aichi Prefecture and other areas with high potential demand, our goal is to boost market share by hiring more employees and expanding our model home sites.



Big-Frame construction method
A proprietary approach that offers earthquake resistance and floor plan flexibility.



[Growth strategy]

Q Please tell us about your medium- to long-term growth strategy and progress in the overseas business, renovation businesses, which you are focusing on as priority growth businesses.

A We are continuing to implement the basic strategies of our Long-Term Management Plan, Project SPEED. Our focus is on increasing earnings from priority growth businesses while enhancing the stability of earnings from core businesses.

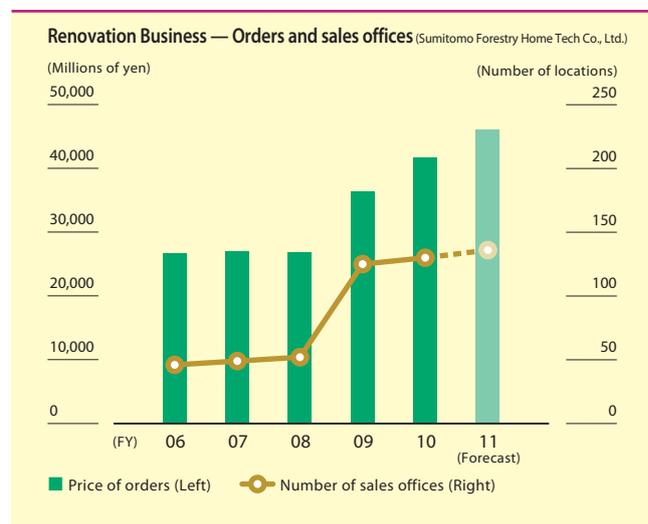
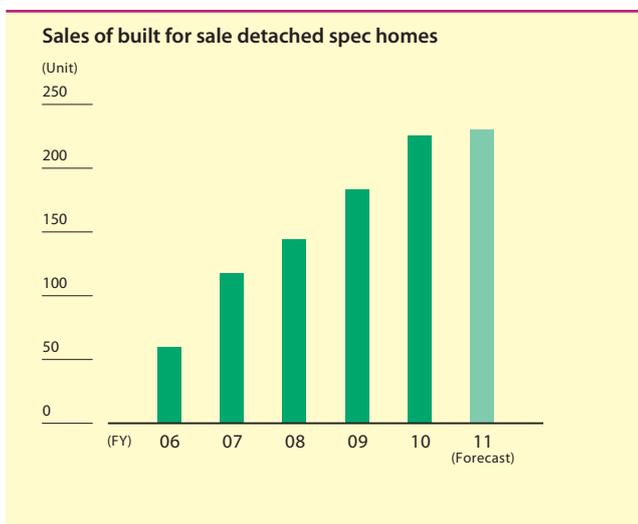


We launched our Long-Term Management Plan, Project SPEED, in May 2007. This 10-year plan is aimed at creating and expanding businesses, and boosting efficiency. Our objective is to build a balanced business portfolio that is not dependant on the number of housing starts in Japan. However, housing starts slumped from around 1.29 million units in fiscal 2006 to about 820,000 units in fiscal 2010. While we have achieved a certain level of stability in our core businesses despite this harsh backdrop, the business environment has shifted dramatically since we formulated our plan. Consequently, while maintaining the fundamental direction of the plan, we have adopted a new near-term goal in response to the changes in our business environment—establish an operating structure capable of consistently generating recurring income of ¥20 billion. We will also revise our medium- to long-term numerical targets at intervals of roughly three years. In addition, decisions on investments to support future growth will put equal emphasis on the Group’s financial position.

In our overseas business, we plan to further expand our housing business in Australia, which is performing well, increase the productivity of our existing building material manufacturing operations, and rebuild the housing business in the United States. We also intend to establish a vertically integrated business in four Pacific Rim regions—Southeast Asia, Oceania,

China / South Korea, and North America—giving us a presence in those markets from plantation operations right through to housing. In addition to our investment in a particle board factory in Vietnam, currently under construction, we intend to bring our plywood manufacturing business in China up to speed as quickly as possible. In the renovation business, we rolled out an integrated home renovation brand, *Reforest*, in fiscal 2010. Under this brand, we aim to tap into a wide range of demand for remodeling and renovating detached housing and homes from traditional Japanese-style houses to condominiums, by leveraging our strong technical skills and ability to flexibly respond to customer needs. In the real estate business, we will focus on the detached spec homes business and leasing business and leverage the combined strengths of the Group to develop them so that they support our entire housing business.

Moreover, effective from fiscal 2011, we established two new teams to accelerate business development under the direct leadership of senior management: the Strategic Business Research Department, which will develop new businesses in Japan and abroad and explore M&A opportunities, and the Wood-Use Integration Department. We also set up the Sumitomo Forestry Business Institute and increased support for education and technical training to raise the skills of our workforce.



[Promote wider use of wood]

Q As a corporate Group focused on timber, what are your plans for new businesses?

A We plan to move into a range of new business areas related to timber and housing. In order to generate added value from wood, we aim to expand its possibilities and promote its wider use, and reinforce environmental businesses in ways unique to Sumitomo Forestry.



Large-scale forestation project currently being implemented with a local Indonesian company

As a company that was originally focused on forest management in Japan, we have created a wide range of added value from timber in the housing-related field through the distribution, manufacture and processing of timber and building materials and through a move into the housing business. We view forests and timber as precious renewable resources that absorb and retain CO₂, rather than as exhaustible resources. We think they will play critical roles in a society in harmony with the environment.

In fiscal 2011, we established the MOCCA (Wood-Use Integration) Department under my direct control in order to expand the possibilities of timber and promote its wider use. This department will oversee our efforts to increase applications for timber through greater use of wood construction and wood materials in building structures. In Japan, we expect timber resources to be used more widely in the future, partly due to the enactment of new legislation aimed at promoting the use of wood in public buildings. Based on this outlook, we will work closely with our Tsukuba Research Institute, which conducts cutting-edge timber research, to promote wider use of wood across all areas of the Group.

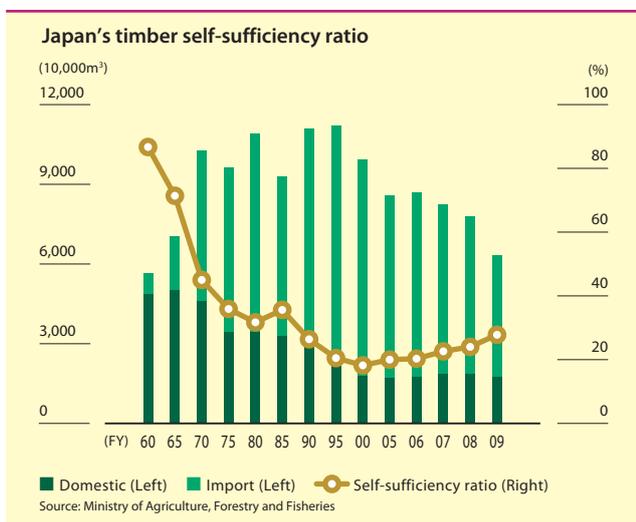
Forest management and forestation is attracting worldwide attention as a new environmental business. In Japan, we are expanding the amount of Company-owned forests we manage, increasing the area of privately owned forest managed by our forestry management outsourcing business, and providing assistance for the acquisition and sale of carbon credits. Overseas, we are pushing ahead

with a major forestation project in Indonesia that will ultimately create 280,000 hectares of forests. Also, in the field of wood biomass power generation, where we already have a track record after installing a system at our Indonesian building material manufacturing affiliate, PT. Rimba Partikel Indonesia, we established Kawasaki Biomass Electric Power Co., Ltd. in Japan in fiscal 2010 and achieved other progress in wood-related environmental business.

This year has been designated as the International Year of Forests by the United Nations. Although Japan is a heavily forested country, with forests accounting for around two thirds of its land area, the forestry industry in Japan has stagnated and less than 30% of our timber needs are met from domestic sources. The government has said it wants to boost this figure to 50% by 2020. Amid rising interest in forest resources in Japan and worldwide, spurred by the International Year of Forests, we plan to leverage our 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. Looking further ahead, we will deepen our involvement in forestry, the foundation of our business, aiming to become the world's leading forestry company with a level of influence in the global timber and building materials market that matches that name.



Wood biomass power plant (Kawasaki Biomass Electric Power Co., Ltd.)





[Policy on Dividends and Retained Earnings]

Q What are your thoughts on the distribution of profits?

A While maintaining the payment of a stable dividend as a basic policy, we will invest in growth fields to respond to future changes in our business environment and build an earnings base for the medium- to long-term.

The payment of returns to shareholders is one of our principal concerns and our basic policy is to pay a stable return. For fiscal 2010, we maintained the full-year dividend at ¥15 per share. We intend to use retained earnings to respond to future changes in our business environment and to conduct effective investment and research that contributes to our long-term management objective of increasing corporate value. 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 fundamentals, financial condition, and investment plans.

Finally, the tragedy of the Great East Japan Earthquake underlined for me again that living in peace and comfort is something we all crave. Housing, which is such an important aspect of our everyday lives, will always remain a key area that

we need to constantly improve. We have provided, and we will provide housing that is secure, safe, comfortable, healthy to live in, and environmentally friendly. Guided by our corporate philosophy, the Sumitomo Forestry Group will strive to create a prosperous society by supplying high-quality housing-related services and homes.

We face constant change, but no matter how much things change, we will always stay true to our roots and fulfill our role as a company 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.” This also requires that we constantly work to improve the quality of our business and maintain and strengthen our earnings base. Our goal is to meet the expectations of all our stakeholders by reinforcing our core businesses and rapidly building the balanced business portfolio envisioned in our long-term management plan.

