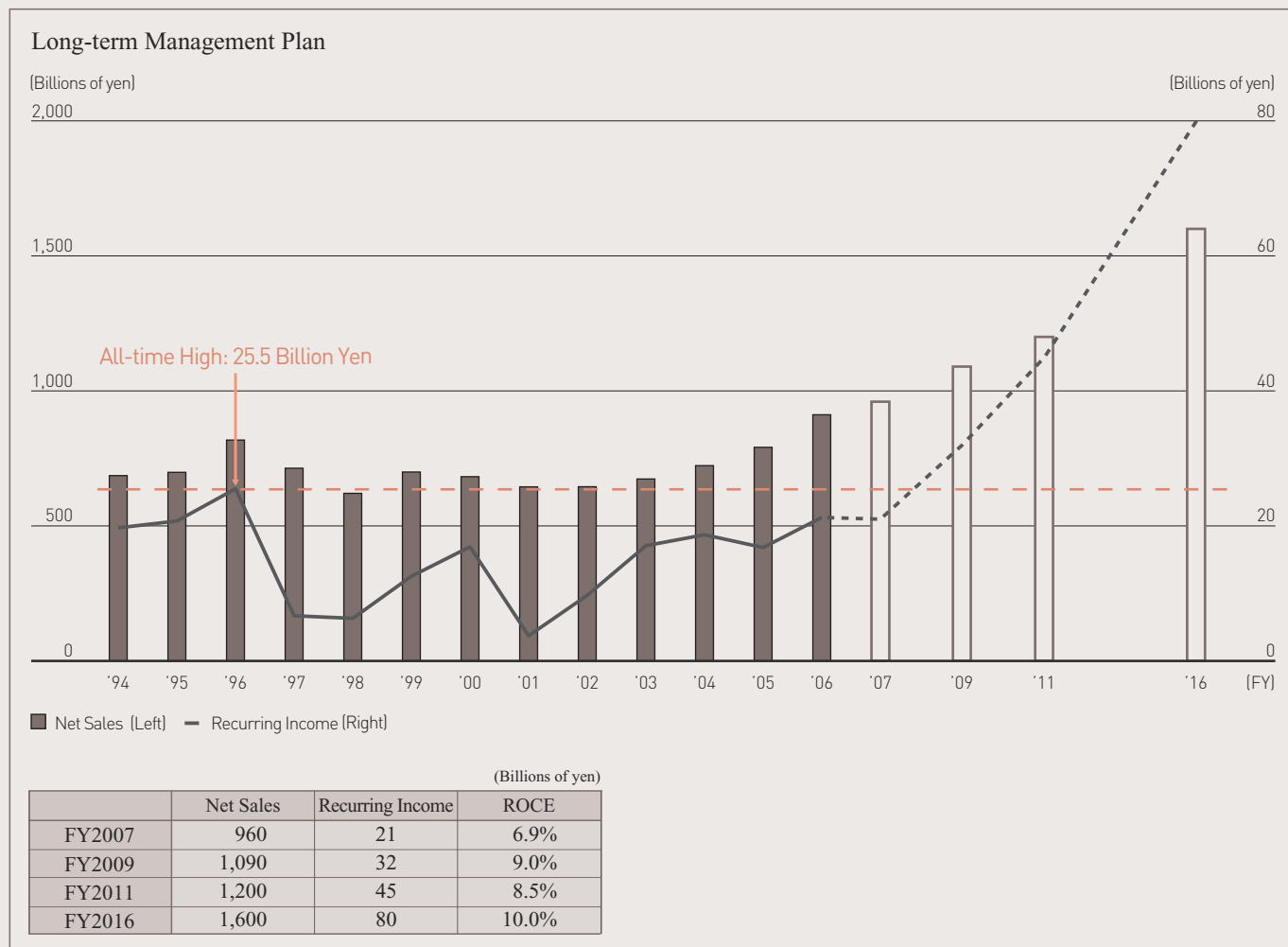


# FEATURE: LONG-TERM MANAGEMENT PLAN

In fiscal 2007, the Sumitomo Forestry Group launched the long-term management plan “Project SPEED”<sup>\*\*</sup> with detailed guidelines for a strategy to attain specific performance targets in fiscal 2016. We are currently aiming to achieve the targets for the first three-year period to fiscal 2009.



**\*The Meaning of “Project SPEED”**

**SPEED** denotes the swiftness with which we expect the plan to be implemented and produce results.

It serves as an acronym for:

“Strong Passion Enables us to become an Excellent company by implementing Detailed strategy.”

### PERSPECTIVE ON THE FUTURE BUSINESS ENVIRONMENT

- In the domestic housing market, which has the greatest influence our Group results, the core owner-occupied housing market segment is expected to shrink gradually as the country undergoes a trend of decline in population and the number of households.
- The remodeling market is likely to expand as the stock of housing grows and housing structure durability improves. Business opportunities are also likely to increase in the real estate industry as new methods of offering value-added services and products emerge.
- We believe the global economy will remain healthy as the BRICs economies continue to rapidly expand and those of the United States and the European Union remain strong. We expect environmental issues to heighten demand for environmentally sound raw resources leading to growing global demand and increasingly diverse use for timber and construction materials.

## BACKGROUND OF THE LONG-TERM MANAGEMENT PLAN

Creating a Business Structure with Diverse Income Sources  
The Sumitomo Forestry Group's operations began with the forestry and timber business and have expanded outward to encompass a diverse range of business related to wood and housing. As we stand now, our income sources are strongly focused in our custom-built detached wooden housing and our distribution and manufacturing of timber and building materials businesses. Expanding the Group's income will require that we develop synergy effects among our current businesses and diversify income sources to create a business structure capable of producing and sustaining increased income flow.

After full consideration of the current and future conditions in our operating environment (the perspective described above), in fiscal 2007 we created our long-term management plan Project SPEED. This plan sets out a detailed guideline for the ongoing strengthening of our current core income businesses — the New Custom-Built Housing Business and the Distribution and Manufacturing of Timber and Building Materials Business — and allocating the income they produce as well as human resources and other management resources to concentrated investment in our priority growth businesses — the Overseas operations, Real Estate, and Remodeling businesses — to promptly create the new profit-earning operations that will become the future pillars of the Sumitomo Forestry Group.

## INCOME PLAN

### ROCE to Monitor Profitability Progress Toward ¥80 Billion in Recurring Income

In expanding our business scale and raising profitability by making aggressive investment, it is essential that we have a reliable management indicator capable of regularly monitoring our status

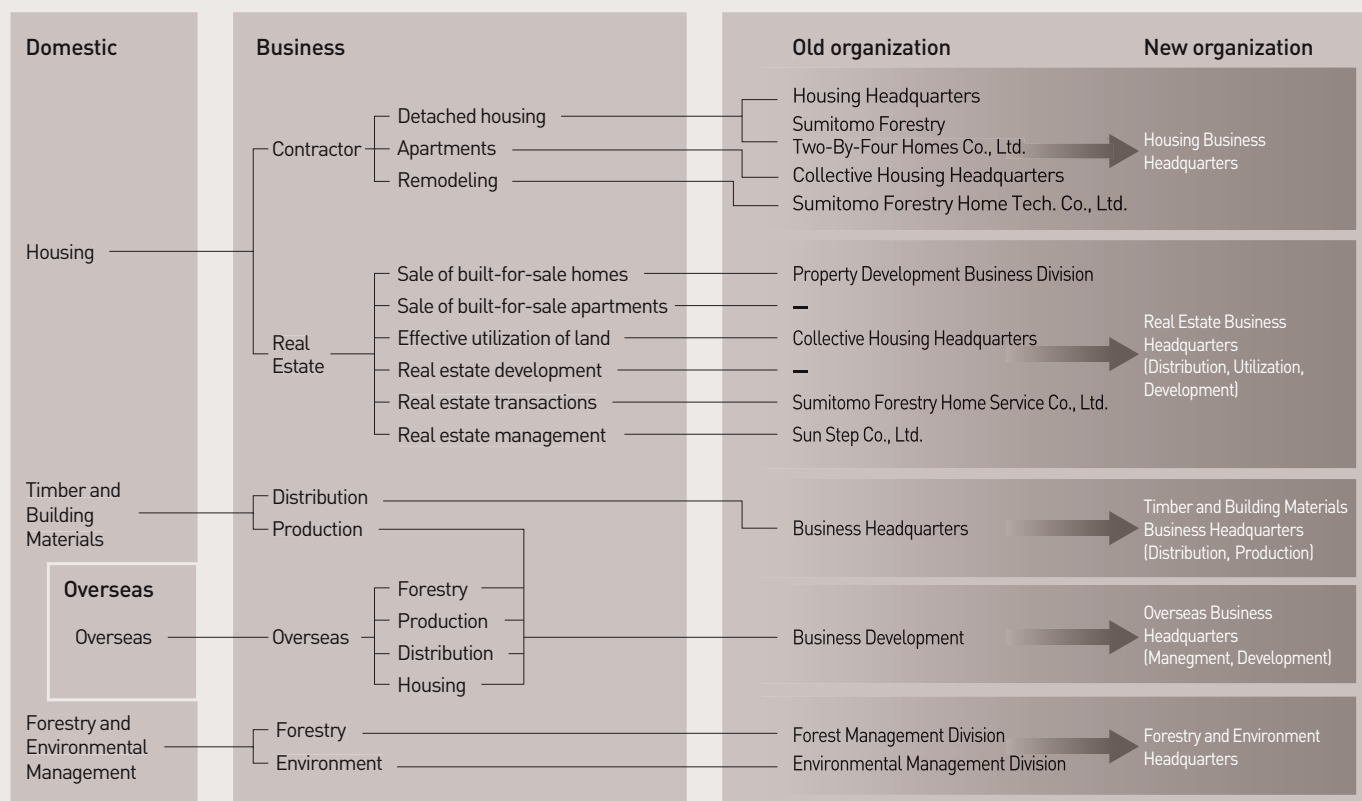
and progress. Therefore, return on capital employed (ROCE), an in-house developed management indicator, has been recently adopted and operating, administrative and executive departments are working together to monitor the effectiveness and profit-producing performance of our investments.

We have set three sets of net sales and recurring income targets to benchmark our progress to our 10-year objectives for fiscal 2016. In fiscal 2009, the end of the first three-year period, we are aiming for net sales of ¥1,090 billion and recurring income of ¥32 billion. After five years, fiscal 2011, we are targeting net sales of ¥1,200 billion and recurring income of ¥45 billion. Finally, in fiscal 2016 at the end of the 10-year plan, we intend to achieve net sales of ¥1,600 billion and recurring income of ¥80 billion. As we expand our business, we will also work to raise ROCE from the 7.4% in fiscal 2006 by establishing an operating structure capable of sustaining ROCE of 10% or higher.

For our strategic investment plan, to bring out new revenue sources, based on the assumption that we will continue to maintain a healthy financial standing and using free cash flow as our resource we will focus investment on the Timber and Building Materials Business, Overseas Operations, and Real Estate Business. In the Timber and Building Materials Business we will strengthen investment in and alliances with building materials and manufacturing companies as well as distribution companies. In Overseas Operations we will build a new factory, purchase forest land, and expand the housing business. In the Real Estate Business we will purchase real estate and invest in developers, real estate management firms, brokers, and service providers targeting the elderly. With these investments we are aiming for active strategic growth.

ROCE:  $\text{business income}^* / (\text{interest-bearing debt} + \text{shareholders' equity})$   
 $^* \text{business income: } (\text{operating income} + \text{interest, dividends and other income}) \times (1 - \text{the effective tax rate})$

## Reorganization



## STRATEGIES AND TARGETS FOR EACH BUSINESS DIVISION

### Core Businesses

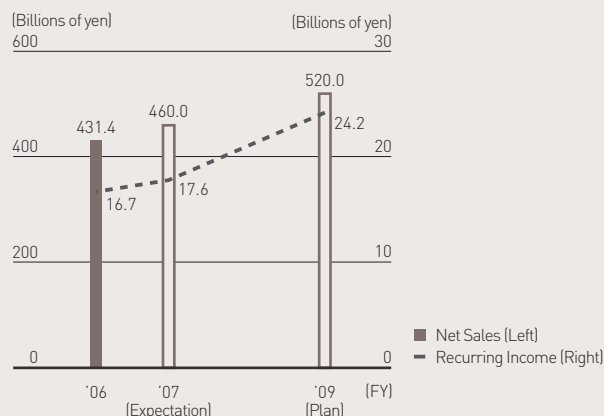
#### 1) New Custom-Built Housing Business

The core strategy of the Housing Business is to create a business structure for higher profits. The strategy goes beyond increasing orders by expanding the business scope and enhancing our staff, it calls for raising the overall operating efficiency of the organization as a whole. Specifically we aim to differentiate the distinct features of our products by emphasizing our strength in home design and the appeal of wood materials to a focused customer target in the mid and high-end housing markets in urban areas. Measures will include further raising product quality and integrating marketing and design operations to enhance the competitiveness of the sales division. We will also continue developing our regional operations to establish deeper ties to local areas focusing on model home exhibits that closely reflect specific local features.

In addition, in fiscal 2007 we radically modified the organizational structure enabling the division to become a total housing operation for custom-built detached housing, wooden apartment buildings,

remodeling, and all housing-related contract construction businesses. One key change is the establishment of wooden apartment sales centers within detached housing sales offices, which is greatly expanding our customer information gathering capabilities. Without increasing staff numbers more than necessary, the setup allows for faster response to customer inquiries concerning whether to rebuild or remodel and provides a palette of apartments and other housing outside of detached housing for sales staff to show. We aim to leverage this organizational structure change to expand the overall earnings of the Housing Business.

#### New Custom-Built Housing Business



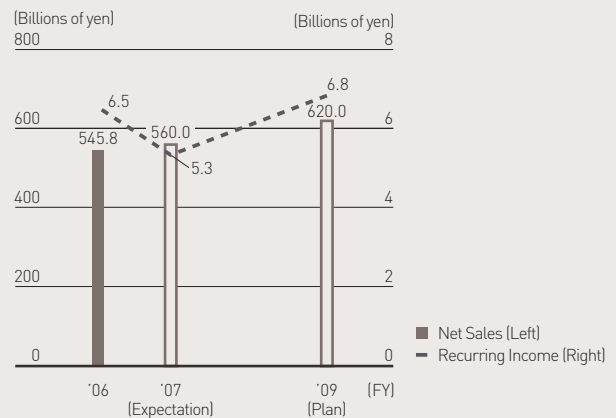
### 2) Distribution and Manufacturing of Timber and Building Materials Business

The Distribution of Timber and Building Materials Business has become the top timber and building materials operation in Japan in terms of timber transaction volume after Ataka Kenzai joined the Sumitomo Forestry Group in 2005. However, while we intend to maintain our leading position in the segment, we anticipate increasing industry restructuring activity as the domestic timber materials market shrinks in tandem with the housing market. To prepare for these changes in the business environment, we are advancing two main strategies.

The first strategy is to strengthen our business through alliances with other companies. Using these alliances we are further establishing and strengthening a housing business value chain encompassing all upstream and downstream processes and operations by leveraging our unparalleled strength in overseas procurement, information gathering via our business scale, wood materials technology, and our ability to offer solutions products in addition to sales of “goods”. The goal is to become a one-stop supplier, including via alliances with outside parties, of housing materials from raw materials to final products. The

integration of Ataka Kenzai vastly widened our business capabilities in the midstream area, and we aim to focus on strengthening and expanding the vertical aspects of our business structure. The second strategy is to revise and enhance our trading company capabilities. We plan to expand our management scope beyond strictly the commission-based business and into the investment field as we aim to establish a diverse income structure from both investment and commission operations.

Distribution and Manufacturing of Timber and Building Materials Business



### Priority Growth Businesses

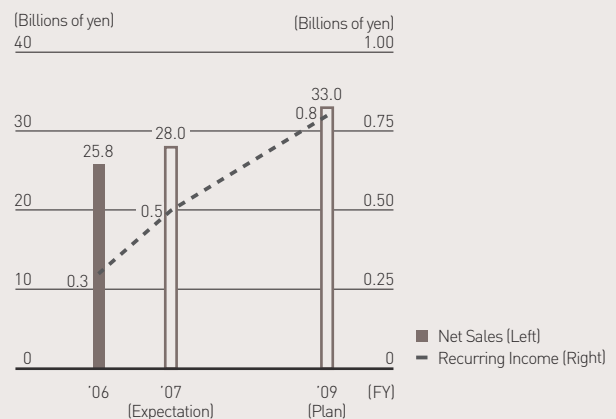
#### 3) Remodeling Business

The long-term management plan designates the remodeling business as a priority growth business and places it under the aegis of the Housing Business to formulate an unhindered complementary relationship with the custom-built detached housing business. We are implementing two key strategies to advance this business.

The first strategy is to approach past housing clients. Our client base has reached roughly 200,000, and changing lifestyles and diversifying needs are core drivers of remodeling demand. We consider our satisfied clients to be a prime source of demand for a variety of services ranging from remodeling to selling existing homes and providing new homes. We will strengthen our strategy of offerings to maintain and enhance the asset value of homes, centering on the remodeling business. Specifically, we will increase the number of opportunities for contact with our customers through our program of scheduled inspections 10 years after construction, along with other activities. In addition to the increased order volume in the remodeling business, this will enhance our ability to improve customer satisfaction and enable us to meet all housing-related needs via Groupwide efforts. Through this we will develop new businesses and to be introduced to new customers.

reforming older private homes and buildings on small lots, as well as remodeling larger structures. Ministry of Internal Affairs and Communications data shows that of the 26 million existing detached houses in Japan, over 90% were built using wood, the conventional construction method. Some 11.5 million of these were built before the adoption of the Earthquake Resistance Building Standards of 1981 and are considered potentially unsafe in the case of an earthquake. We are leveraging the many connection points with our customers by using our infrastructure in the new custom-built detached housing market to aggressively promote our brand competitiveness, leading design capabilities, and cutting-edge earthquake reinforcement construction technology to be at the forefront of the market as the need to rebuild or remodel these homes grows each year.

Remodeling Business



The second key strategy is to attract general customers from outside our customer base. As Japan’s leading custom-built detached wooden house builder in the remodeling segment, we have also made a strong showing in developing and marketing our leading capabilities in projects that require high technical expertise such as

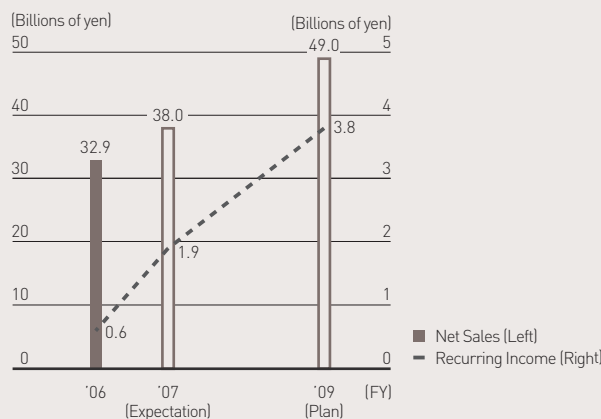
#### 4) Overseas Operations

We continue to improve the profit performance of our overseas operations while aggressively investing in four new business areas to optimize our capabilities in the current business environment.

First, in the overseas forestry business, we will establish a secure source of raw materials and invest in commercial forestry development to increase our presence in tree-based materials industries, which are expected to grow. Second, in the overseas manufacturing business, we plan to increase our overall production capacity by expanding our existing factories for medium-density fiberboard (MDF), particle board, and other wood-based products while also constructing new plants to maximize utilization of raw wood materials from timber plantations. The factory expansion and construction is planned to take place in Oceania and Indonesia as well as other strategic regions offering timber resources. Third, we plan to strengthen our overseas distribution operations by expanding our overseas sales networks, focusing on Singapore, Dalian (China) and other parts of Asian regions undergoing rapid economic growth, as well as expanding our distribution network in the United States and

Oceania. Forth, in the Housing Business, we plan to continue expanding the US business, whose business foundation is being strengthened and has posted home sales of 100 units annually after its first five years of operation in the mid to high-end housing range. We are also looking into starting operations in Korea and China, where living environment needs are increasing, as well as in other countries.

#### Overseas Operations



#### 5) Real Estate Business

We will advance an aggressive plan to extend our real estate business operation beyond our current operations as a landholding asset manager to include the real estate development business encompassing land acquisition for the construction and sale of rental units, condominiums, nursing homes, and other structures. Taking a different approach than in the past, we have gathered all of our real estate functions into a dedicated real estate division.

The first step in this process will be to expand and diversify the scope of our real estate business activities and offer clients an expanded palette of value-added products for residential and urban communities, including built-for-sale housing, rental apartments, condominiums, and nursing homes. As part of this, in our non-wood structures, such as rental condominiums, while improving the profitability of these operations by introducing technological upgrades to reduce production costs, we plan to shift the real estate development activities to business areas that can provide more substantial and stable revenue sources. Sumitomo Forestry Home Service Co., Ltd., which carries out real estate sales, will play a major role in our development plans for the real estate business. Through strengthening sales agency functions and widening its office network outward from its core in the Tokyo, Osaka and Nagoya metropolitan areas, the business will increase its area specific property data collection ability and work closely with other

internal divisions to bring out synergies. The property development business, which was launched last fiscal year and constructs built-for-sale detached houses, has been steadily expanding its land acquisition activities over the last year. To quicken the development of this business, we are focusing efforts including actively incorporating outside expertise.

The real estate we purchase will bring a certain amount of risk and financial burden. Mindful of the axiom of “no risk, no reward”, we plan aggressive investment linked with the utilization of brokerage and real estate management functions within the Group, and linked with clear exit strategies.

#### Real Estate Business

