



FEATURE: BUILDING A NEW FOUNDATION FOR GROWTH

CONTENTS

Overseas Operations	28
Real Estate Business	29
Remodeling Business	30

FEATURE: BUILDING A NEW FOUNDATION FOR GROWTH

With Japan's population already in decline, we can expect that the number of new housing starts will enter on a falling trend (see the Market Data section on page 8). On the basis of this trend, we may assume that the business environment will become even more severe for the Group's Timber and Building Materials Business and Housing Business. At the same time, however, it presents new and exciting challenges and opportunities as demand shifts from quantity to quality.

Steady growth is forecast over the medium and long terms in the remodeling market. We can also expect new housing-related needs to emerge accompanying the diversification of lifestyles and the advent of an aging society. Turning our attention to overseas, we find that there are still markets with considerable growth potential.

In light of the above situation, the Sumitomo Forestry Group will concentrate investments in the three business segments it has earmarked for priority growth: Overseas Operations, the Real Estate Business, and the Remodeling Business. The Group's Overseas Operations entails the manufacture and sale of wooden building materials and the sale of detached housing. The Real Estate Business focuses on such activities as spec homes, real estate development, and real estate brokerage. The Remodeling Business transforms housing built by the Company, as well as those built by other construction firms.

OVERSEAS OPERATIONS

Gaining a Firm Foothold Overseas through Steady Results

Our Overseas Operations encompass four business categories: manufacturing, housing, forestry, and distribution.

The manufacturing business which is core to the overseas operations, produces building materials centering on wood-based board in Pacific Rim countries.

We have recently expanded our overseas housing business by adding Australia to the three countries where we

already have businesses: the United States, South Korea, and China. We launched our housing business in the United States in 2003 when we began selling spec homes. Since then, we have gradually grown our business and established a base that sells around 100 units annually. Despite a fall in sales in fiscal 2007 stemming from a sudden deterioration in the U.S. housing market, we recently launched our "Cascadia Project." Under this project, we plan to develop homes for the wealthy in a

Sumitomo Forestry the First Japanese Company to Enter the Australian Housing Market

In April 2008, Sumitomo Forestry established Henley-SFC Housing Pty Ltd., a joint venture company with Henley Properties Group, which currently has the fifth largest share of the Australian residential housing market. Henley-SFC Housing has begun developing spec homes on 11 lots with an average land area of 600 square meters in Melton, near the city of Melbourne.

The Australian population is expected to increase through immigration and, coupled with that nation's strong economy, Sumitomo Forestry expects that the Australian housing market will continue to expand. Moreover, since most homes in Australia are made from wood using the two-by-four method, we will take full advantage of our technological strengths and know-how in production, materials, and design acquired from experience in the Japanese and North American markets. In addition, Henley-SFC Housing will be able to procure materials from manufacturing and processing bases located in both Australia and New Zealand. With manufacturing, distribution, and housing activities in this region, the Sumitomo Forestry Group is well poised to generate synergies. We believe we have an extremely promising future in this market.



The site in Melton, Victoria where spec homes are scheduled for construction. Sumitomo Forestry subsidiary Alpine MDF Industries Pty Ltd. is also located in the state of Victoria, and will supply MDF (Medium Density Fiberboard) for the project.

suburb of Seattle where we see strong long-term demand for such housing. We intend to build a solid foothold for careful business expansion while keeping a close watch on trends in the U.S. housing market.

In the forestry business, a sector in which the importance of forest resources is growing worldwide, we will increase forest land area under management by securing highly profitable forests. In this context, we take into consideration such factors as the local situation and access to areas where timber is consumed. We will also further develop an environmental business by harnessing our know-how in forestry management, which includes our forestation consultancy business and clean development mechanism (CDM) business.

REAL ESTATE BUSINESS

Different Generations Living Together

In our real estate business, we have built a framework that positions us well to develop a variety of anticipated real estate-related services.

Our real estate business is made up of five entities. They are the Real Estate Solution Business Division, which offers proposals for the effective use of real estate and engages in real estate sales; the Property Development Business Division, which provides detached spec homes; Sumitomo Forestry Home Services Co., Ltd., which undertakes real estate distribution and brokerage; Sun Step Co., Ltd., which manages rental property; and Sumirin Life Assist Co., Ltd., which is engaged in businesses related to the elderly and nursing care.

The real estate business will focus on land development,

based on the concept of different generations living together, while harnessing the brand power of the detached custom-built housing business. Specifically, this strategy entails the development of communities and retail facilities that match the lifestyles and life stages of all people, from the elderly to children. Besides offering interiors for apartments that make ample use of wood, we will also make effective use of eco-friendly technologies so that our products blend in with the surrounding streetscapes. In this way, we will promote a fresh approach to property development that combines the unique strengths of the Group and differentiates us from our competitors.

However, the huge level of investment at stake in the real estate business requires cautious and well-timed initiatives. To this end, we will keep a discerning eye on real estate values, make appropriate judgments on balancing risks and returns without being influenced by transitory market conditions, and focus on carefully selected properties.

Progress in the Real Estate Business

Project	Outline
Shizuoka project (Investment: ¥4.6 billion)	Sports facilities and a private pay nursing home in operation Development incorporating collective housing for the elderly
Office Building (Investment: ¥1.5 billion)	Construction of an office building in Saitama New Urban Center
Nagoya Port PFI	Development of headquarters and other buildings for the Nagoya Port Authority Design and construction of headquarters beginning in April 2008
Detached spec homes business (Property development business)	Projects currently under way in Saitama, Kanagawa, Chiba, Aichi, and Fukuoka prefectures
Condominiums business	3 sites in Kanagawa Prefecture and 1 site in Aichi Prefecture (3 are joint-venture projects)

Shizuoka Aoi-no-Mori Project

"Shizuoka Aoi-no-Mori" is our first project since entering the large-scale real estate development business. This large project, located at the Shizuoka site of Sumitomo Forestry Crest Co., Ltd., will incorporate a private pay nursing home, as well as sports facilities, a medical center, a nursing care facility, rental apartments for the elderly, rental apartments, detached homes, and a park. Based on the three concepts of "health," "nursing care" and "medical care," the aim of the project is to create a safe environment where different generations, from children to the elderly, can live together. Shizuoka Aoi-no-Mori will serve as a model for other projects that the Company plans to implement in other parts of Japan.



The development site is 24,172 square meters. Including the development of spec homes in an adjoining district, it is an ideal location where young families and the elderly can live together.

Remodeling of 80-year-old House



Before



After

REMODELING BUSINESS

Remodeling Based on Extensive Knowledge of Wood

A number of factors give us reason to believe that there is ample growth potential in the remodeling market. Not only is there demand for the remodeling and long-term maintenance of housing stock built since the 1970s, but new demand is emerging to maintain the quality of housing stock as set out in the government's "200 Year Housing Vision."

According to a housing and land survey conducted by the Ministry of Internal Affairs and Communications in 2003, there were a total of 24,490,000 wooden houses in Japan. The most common type of building among these are houses built using the wooden post-and-beam construction method*, in which the Sumitomo Forestry Group has amassed technologies over many years. The Group applies its extensive knowledge of wood to reinforce houses to make them earthquake resistant. We also have a variety of patented technologies, including those for replacing structural elements that are aesthetically pleasing and increasing windows without weakening wall strength. The "portal frame shear wall" and "glass block shear wall," which form part of the Sumirin REP method of earthquake-resistant remodeling technology, were assessed by the Japan Building Disaster Prevention Association. By employing such proprietary earthquake resistant, energy-saving, and universal design technologies, we can offer customers remodeling proposals that transform their homes into long-lasting, safe, and comfortable living spaces.

Approximately 80% of staff employed by our remodeling subsidiary Sumitomo Forestry Home Tech possesses

first-class or second-class architect qualifications. Consequently, the Company is able to provide expert services for remodeling projects, including the construction of large extensions which involves structural alterations. As professionals with specialist knowledge of the wooden post-and-beam construction method, they are able to meet demand for remodeling for not only housing built by our company, but for buildings constructed by other firms. Indeed, Sumitomo Forestry Home Tech posted net sales of ¥26.6 billion in fiscal 2007, of which remodeling of buildings constructed by other companies accounted for 77%.

The remodeling business is expanding its activities to include apartments as well as detached homes, and will increase both the number of staff and sales offices. In this business, we are targeting sales of ¥29.0 billion in fiscal 2009.

* A traditional Japanese construction method that uses wooden posts and beams as structural members to build a wooden frame.

Our Remodeling Business

